
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular, or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sinopec Kantons Holdings Limited, 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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司) *

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

- (1) Continuing connected transactions and discloseable transaction regarding
renewal of the Existing Continuing Connected Transactions; and
(2) Connected transaction and major transaction regarding
the construction of the Batam Oil Storage Tanks and Oil Terminal**

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



A letter from the Board is set out on pages 9 to 34 of this Circular.

A letter from the Independent Board Committee containing its recommendation in respect of the renewal of the Existing Continuing Connected Transactions, and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement is set out on pages 35 to 36 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 37 to 62 of this Circular.

A notice convening the SGM to be held at Salon Rooms 2-3, 5/F., Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on Friday, 13 December 2013 at 10:00 a.m. and at any adjournment thereof is set out on pages 71 to 74 of this Circular. Whether or not you are able to attend the SGM in person, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form to the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible, and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof (as the case may be). 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.

* For identification purpose only

CONTENT

	<i>Page</i>
Definitions	1
Letter from the Board	9
Letter from the Independent Board Committee	35
Letter from the Independent Financial Adviser	37
Appendix I – Financial Information of the Group	63
Appendix II – General Information	65
Notice of Special General Meeting.	71

DEFINITIONS

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

“2010 SGM”	the special general meeting of the Company held on 6 December 2010
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Batam Construction Project Framework Master Agreement”	the agreement dated 29 October 2013 entered into between Sinomart and Sinopec Engineering in respect of the connected transaction and major transaction as disclosed in paragraph headed “III. Connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal” under the section headed “Letter from the Board” of this Circular
“Batam Oil Storage Tanks and Oil Terminal”	the Batam Oil Storage Tanks and Oil Terminal Complex, including its oil tanker handling, oil unloading, storage and pipeline transmission facilities for oil products including crude oil, fuel oil, diesel, gasoline and aviation fuel, to be developed and constructed as part of the Batam Project
“Batam Project”	an approximately 2,600,000 cubic meter crude oil and petroleum products storage and oil blending complex, and the supporting quay and port facilities, and a navigation channel dredging construction in the West Point Maritime Industrial Park, Batam Island, Indonesia to be developed, constructed, owned, managed and operated by PT. West Point, a non-wholly owned subsidiary of the Company, including the Batam Oil Storage Tanks and Oil Terminal
“Board”	the board of Directors
“Business Day”	any day (excluding Saturdays) on which commercial banks generally are open for business in Hong Kong
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“Century Bright”	Sinopec Century Bright Capital Investment Limited (中石化盛駿國際投資有限公司), a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of Sinopec Group Company
“Circular”	this circular

DEFINITIONS

“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, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company, including the independent non-executive directors of the Company
“EMIS”	Energy Market Information System
“EPC Contract”	the engineering, procurement and construction contract to be entered into by Sinomart and Sinopec Engineering after the Batam Construction Project Framework Master Agreement becomes effective, whereby among other things, Sinopec Engineering will act as the main contractor and be responsible for the procurement of equipment and materials, construction and project management for the Batam Oil Storage Tanks and Oil Terminal
“EPC Contractor”	Sinopec Engineering, the proposed contractor under the EPC Contract
“Existing Century Bright Financial Services Framework Master Agreement”	the financial services agreement entered into between the Company and Century Bright on 15 November 2010 in respect of continuing connected transactions between the Company and Century Bright for the three financial years ending 31 December 2013
“Existing Continuing Connected Transactions”	collectively, the non-exempt continuing connected transactions including, the services and facilities in relation to the Huizhou Jetty, the crude oil supply and sourcing and petroleum products trading, the deposit services and settlement and similar services, the intra group financial services and vessel chartering services in accordance with the Existing Framework Master Agreements, details of which are set out in paragraph headed “II. Continuing connected transactions and discloseable transaction regarding renewal of the Existing Continuing Connected Transactions” under section headed “Letter from the Board” of this Circular

DEFINITIONS

“Existing Framework Master Agreements”	collectively, the Existing Sinopec Guangzhou Branch Framework Master Agreement, the Existing Unipet Framework Master Agreement, the Existing Century Bright Financial Services Framework Master Agreement, the Existing Sinopec Finance Financial Services Framework Master Agreement and the Existing Unipet Vessel Charter Framework Master Agreement
“Existing Sinopec Finance Financial Services Framework Master Agreement”	the financial services agreement entered into between Sinopec Finance and Huade on 15 November 2010 in respect of continuing connected transactions between Sinopec Finance and Huade for the three financial years ending 31 December 2013
“Existing Sinopec Guangzhou Branch Framework Master Agreement”	the agreement dated 15 November 2010 entered into between the Company and Sinopec Guangzhou Branch in respect of continuing connected transactions between the Company and Sinopec Guangzhou Branch for the three financial years ending 31 December 2013
“Existing Unipet Framework Master Agreement”	the agreement dated 15 November 2010 entered into between the Company and Unipet in respect of continuing connected transactions between the Company and Unipet for the three financial years ending 31 December 2013
“Existing Unipet Vessel Charter Framework Master Agreement”	the agreement dated 15 November 2010 entered into between the Company and Unipet in respect of continuing connected transactions between the Company and Unipet for the three financial years ending 31 December 2013
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huade”	惠州市大亞灣華德石化有限公司 (Hua De Petrochemical Company Limited*), a company established under the laws of the PRC with limited liability. Huade is a wholly owned subsidiary of Kantons International Investment Limited, which in turn is a wholly owned subsidiary of the Company
“Huade Group”	Huade and its subsidiaries

DEFINITIONS

“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”	Quam Capital Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity and the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders in respect of the renewal of the Existing Continuing Connected Transactions for the three financial years ending 31 December 2016 (together with the annual caps), and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement and the transactions contemplated thereunder
“Independent Shareholders”	holder of shares in the Company other than Sinopec Group Company, Sinopec Corp., Unipet, Sinopec Finance, Century Bright, Sinopec Engineering and their respective associates
“Latest Practicable Date”	13 November 2013
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Century Bright Financial Services Framework Master Agreement”	the financial services agreement entered into between the Company and Century Bright on 29 October 2013 in respect of continuing connected transaction, details of which are set out in paragraph headed “II. Continuing connected transactions and discloseable transaction regarding renewal of the Existing Continuing Connected Transactions” under section headed “Letter from the Board” of this Circular for the three financial years ending 31 December 2016

DEFINITIONS

“New Framework Master Agreements”	collectively, the New Sinopec Guangzhou Branch Framework Master Agreement, the New Unipet Framework Master Agreement, the New Sinopec Finance Financial Services Framework Master Agreement, the New Century Bright Financial Services Framework Master Agreement and the New Unipet Vessel Charter Framework Master Agreement
“New Sinopec Finance Financial Services Framework Master Agreement”	the financial services agreement entered into between Sinopec Finance and Huade on 29 October 2013 in respect of the continuing connected transactions as disclosed in paragraph headed “II. Continuing connected transactions and discloseable transaction regarding renewal of the Existing Continuing Connected Transactions” under section headed “Letter from the Board” of this Circular for the three financial years ending 31 December 2016
“New Sinopec Guangzhou Branch Framework Master Agreement”	the agreement dated 29 October 2013 entered into between Huade and Sinopec Guangzhou Branch in respect of the continuing connected transactions as disclosed in paragraph headed “II. Continuing connected transactions and discloseable transaction regarding renewal of the Existing Continuing Connected Transactions” under section headed “Letter from the Board” of this Circular for the three financial years ending 31 December 2016
“New Unipet Framework Master Agreement”	the agreement dated 29 October 2013 entered into between the Company and Unipet in respect of continuing connected transactions as disclosed in paragraph headed “II. Continuing connected transactions and discloseable transaction regarding renewal of the Existing Continuing Connected Transactions” under section headed “Letter from the Board” of this Circular for the three financial years ending 31 December 2016
“New Unipet Vessel Charter Framework Master Agreement”	the agreement dated 29 October 2013 entered into between Sinomart and Unipet in respect of the continuing connected transactions as disclosed in paragraph headed “II. Continuing Connected transactions and discloseable transaction regarding the renewal of Existing Continuing Connected Transactions” under section headed “Letter from the Board” of this Circular for the three financial years ending 31 December 2016

DEFINITIONS

“PBOC”	People’s Bank of China (中國人民銀行)
“Platts”	Platts is a leading global provider of energy and metals information
“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
“PT. West Point”	PT. West Point Terminal, a private limited liability company incorporated and existing under the laws of Indonesia and Sinomart is interested in 95% of the equity interest in PT. West Point
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting to be convened and held at Salon Rooms 2-3, 5/F., Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on Friday, 13 December 2013 at 10:00 a.m. for the purpose of considering, and if thought fit, passing ordinary resolutions regarding the renewal of the Existing Continuing Connected Transactions, and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement and all matters contemplated thereunder
“Share(s)”	the ordinary share(s) of the Company with a nominal value of HK\$0.10 each
“Shareholder(s)”	the holder(s) of the Share(s)
“Sinomart”	Sinomart KTS Development Limited (經貿冠德發展有限公司), a company incorporated under the laws of Hong Kong with limited liability and a wholly owned subsidiary of the Company

DEFINITIONS

“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, as disclosed in paragraph headed “VI. Information on the Company and the Sinopec Group” under the section headed “Letter from the Board” of this Circular
“Sinopec Engineering”	Sinopec Engineering (Group) Company Limited (中石化煉化工程(集團)股份有限公司)(stock code: 2386), a joint stock limited liability company incorporated under the laws of the PRC, the shares of which are listed on the main board of the Stock Exchange
“Sinopec Finance”	Sinopec Finance Company Limited, a limited liability company organised in the PRC in July 1988
“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 73.38% 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 60.33% in the issued share capital of the Company)
“Sinopec Guangzhou Branch”	中國石油化工股份有限公司廣州分公司 (China Petroleum & Chemical Corporation Guangzhou Branch), a branch of Sinopec Corp.
“SKI”	Sinopec Kantons International Limited, a company incorporated with limited liability in the British Virgin Islands, being the controlling Shareholder of the Company
“State”	the government of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“subsidiary”	has the meaning ascribed to it under the Listing Rules
“Unipet”	中國國際石油化工有限公司 (China International United Petroleum and Chemicals Co. Ltd.), a company established under the laws of the PRC with limited liability, as disclosed in paragraph headed “VI. Information on the Company and the Sinopec Group” under the section headed “Letter from the Board” of this Circular
“Unipet Group”	Unipet, its subsidiaries and its associated companies and affiliates
“US\$”	U.S. dollars, the lawful currency of the United States of America
“%”	per cent.

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

Translation of US\$ into HK\$ is based on the approximate exchange rate of US\$1.00 to HK\$7.78 and translation of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.267 for information purposes only. Such translations should not be construed as representations that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

LETTER FROM THE BOARD



SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司) *

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

Executive Directors:

Mr. Dai Zhao Ming (*Chairman*)
Mr. Zhu Zeng Qing (*Deputy Chairman*)
Mr. Zhu Jian Min
Mr. Tan Ke Fei
Mr. Zhou Feng
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:

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

18 November 2013

To the Shareholders

Dear Sir or Madam

- (1) Continuing connected transactions and discloseable transaction regarding renewal of the Existing Continuing Connected Transactions; and**
(2) Connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal

I. INTRODUCTION

Reference is made to the announcement of the Company dated 29 October 2013 in respect of, among other things, the renewal of the Existing Continuing Connected Transactions, and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement. The entering into of the Batam Construction Project Framework Master Agreement constitutes a connected transaction and major transaction of the Company under the Listing Rules.

* For identification purpose only

LETTER FROM THE BOARD

The purpose of this Circular is to provide you with, among other things, (i) further information in respect of the renewal of the Existing Continuing Connected Transactions and the Batam Construction Project Framework Master Agreement; (ii) the letter of recommendation thereon from the Independent Board Committee; (iii) the letter of advice thereon from the Independent Financial Adviser; and (iv) the notice of the SGM.

II. CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTION REGARDING RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS

References are made to the announcements of the Company dated 20 March 2009 and 15 November 2010, and circular of the Company dated 18 November 2010, in relation to, among others, the Existing Continuing Connected Transactions.

The Existing Continuing Connected Transactions were approved by the Independent Shareholders in the 2010 SGM, where such approval will expire on 31 December 2013. Having considered that the Existing Continuing Connected Transactions will continue after 31 December 2013, the Company will enter into the New Framework Master Agreements for renewal of the Existing Continuing Connected Transactions and to replace the Existing Framework Master Agreements.

1. Crude Oil Jetty Services

On 29 October 2013, Huade entered into the New Sinopec Guangzhou Branch Framework Master Agreement with Sinopec Guangzhou Branch in order to regulate, among others, the provision of crude oil jetty services between Huade and Sinopec Guangzhou Branch and to replace the Existing Sinopec Guangzhou Branch Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Sinopec Guangzhou Branch Framework Master Agreement will commence from 1 January 2014 for a term of three years up to 31 December 2016.

Relationship with the connected parties

Sinopec Guangzhou Branch is a branch at Sinopec Corp., and Sinopec Corp. indirectly wholly owns SKI, the controlling Shareholder of the Company.

Nature of transaction

The Group has provided under the Existing Sinopec Guangzhou Branch Framework Master Agreement and will continue to provide under the New Sinopec Guangzhou Branch Framework Master Agreement, the following services and facilities to Sinopec Guangzhou Branch through the Huizhou Jetty:

- (i) jetty and related services concerning the unloading of crude oil from oil tankers and dockage;
- (ii) crude oil storage and related services concerning the storage of crude oil in oil tank and oil tank handling; and

LETTER FROM THE BOARD

- (iii) the transmission of crude oil and related services concerning the transmission of crude oil from the Huizhou Jetty to Sinopec Guangzhou Branch's refinery complex in Guangzhou.

Pricing basis

Pursuant to the New Sinopec Guangzhou Branch Framework Master Agreement, Huade will enter into crude oil jetty service agreements with Sinopec Guangzhou Branch, by which the parties will negotiate with reference to, among other factors, laws 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 New Sinopec Guangzhou Branch Framework Master Agreement, the service fees payable by Sinopec Guangzhou Group to Huade, will include:

- (i) in respect of jetty and related services concerning the unloading of crude oil from oil tankers and dockage, charged on the State-prescribed prices, being regulated and standardised by the Ministry of Transports of the PRC and on the basis of government-approved prices, being approved by the Guangdong Price Bureau;
- (ii) in respect of crude oil storage and related services concerning the storage of crude oil in oil tank and oil tank handling, charged on the basis of government-approved prices, being approved by the Guangdong Price Bureau; and
- (iii) in respect of the transmission of crude oil and related services concerning the transmission of crude oil from the Huizhou Jetty to Sinopec Guangzhou Branch's refinery complex in Guangzhou, charged 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.

LETTER FROM THE BOARD

Historical amounts

The aggregate amounts received by the Group in respect of these continuing connected transactions were approximately HK\$584 million and HK\$597 million for the two years ended 31 December 2012, and approximately HK\$256 million for the six months ended 30 June 2013.

Annual caps

As approved in the 2010 SGM, the annual caps for these transactions are HK\$750 million, HK\$800 million and HK\$850 million for each of the three financial years ending 31 December 2013 respectively. The Company estimates that the aggregate transaction amounts will be within the maximum revised annual caps of HK\$850 million, HK\$850 million and HK\$850 million for the three financial years ending 31 December 2016 respectively.

In arriving at the revised annual caps, 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) in the light of the demand for petroleum products in the PRC market, Sinopec Group is expected to import more crude oil and thus will consume more crude oil jetty services and its facilities; and (iv) given the nature of mutual reliance of the supply and consumption of the services and facilities by Sinopec Group in relation to the Huizhou Jetty, it is in the interest of the Group to capture such demands in the volume and quantity of this business.

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

Reasons for the transactions

The existing Huizhou Jetty and crude oil storage facilities of Huade are close to Sinopec Guangzhou Branch with a crude oil pipeline connected between Huade and Sinopec Guangzhou Branch, which is convenient for Huade to provide crude oil jetty unloading and storage service to Sinopec Guangzhou Branch. Sinopec Guangzhou Branch is also the most important customer of Huade.

Currently, the business income of Huade is mostly attributable from Sinopec Guangzhou Branch. The provision of crude oil jetty unloading and storage service to Sinopec Guangzhou Branch creates economic benefits for Huade and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

2. Crude oil trading business

On 29 October 2013, the Company and Unipet entered into the New Unipet Framework Master Agreement to regulate the crude oil trading business, and to replace the Existing Unipet Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Unipet Framework Master Agreement will cover all trading business in respect of crude oil supply and sourcing with the Group and Unipet Group, for a term of three years, commencing on 1 January 2014 and ending on 31 December 2016.

Relationship with the connected parties

Unipet owns the entire issued share capital of SKI, the controlling Shareholder of the Company.

(A) Crude oil supply

Nature of the transactions

The Group has supplied and will continue to supply crude oil to the Unipet Group.

Pricing basis

Under the New Unipet Framework Master Agreement, the Group will enter into separate written supply agreements within the term of the New Unipet Framework Master Agreement 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. As in line with the Existing Unipet Framework Master Agreement, under 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. Crude oil is an internationally traded commodity, the prices of which are readily available and transparent. There are a number of benchmark prices which serve as reference points for trading of crude oil. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

Historical amounts

The aggregate amounts received by the Group in respect of these continuing connected transactions were approximately HK\$18,800 million and HK\$20,900 million for the two years ended 31 December 2012 respectively, and approximately HK\$12,600 million for the six months ended 30 June 2013.

LETTER FROM THE BOARD

Annual caps

As approved in the 2010 SGM, the annual caps of these transactions for each of the three financial years ending 31 December 2013 are HK\$19,000 million, HK\$21,000 million and HK\$23,400 million respectively. The Company estimates that the aggregate amounts received by the Group in respect of these transactions shall not exceed HK\$30,000 million, HK\$35,000 million and HK\$42,000 million for each of the three financial years ending 31 December 2016 respectively.

The increase in the annual caps is determined after considering (a) the historical amounts of the 2011 and 2012 financial years (which were approximately HK\$18,800 million and HK\$20,900 million) and of the first six months of 2013 (which was approximately HK\$12,600 million); (b) the high volatility in both the international and the PRC market price of crude oil and petroleum products; (c) the anticipated increasing demand of petroleum products and crude oil by the crude oil refineries in the PRC; (d) the spot price and the anticipated price of crude oil for the next three years; and (e) the anticipated oil supply business of the Group for the next three years.

The payment terms of these transactions will be determined by the parties on a transaction-by-transaction basis, in accordance with market norms and on normal commercial terms, and with reference to the specifications and requirements of different oil cargos being traded in different transactions, including type, quantity, transportation and shipping terms. Given the nature of these trading transactions, payment terms will have to be agreed upon by the parties on a transaction-by-transaction basis.

Reasons for the transactions

Crude oil trading is one of the traditional businesses of the Group. The development of crude oil trading helps to expand the scale of operations of the Group.

Due to foreign trade laws and regulations of the PRC, the Group cannot supply crude oil and petroleum 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 and petroleum product import trading rights in the PRC, such as, Unipetec.

The supply of crude oil creates economic benefits for the Group and is in the interests of the Group and the Shareholders as a whole.

LETTER FROM THE BOARD

(B) Crude oil sourcing

Nature of the transactions

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

Pricing basis

Under the New Unipet Framework Master Agreement, as in line with the Existing Unipet Framework Master Agreement, the Group will enter into separate written sourcing agreements within the term of the New Unipet Framework Master Agreement with members of the Unipet Group for the sourcing of crude oil on a transaction-by-transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements. The prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. Crude oil is an internationally traded commodity, the prices of which are readily available and transparent. There are a number of benchmark prices which serve as reference points for trading of crude oil. The parties can access such pricing information from various sources, including the EMI energy market information resource operated by Platts.

Historical amounts

The aggregate amounts paid by the Group in respect of these continuing connected transactions were approximately HK\$338 million and HK\$831 million for the two years ended 31 December 2012 respectively, and approximately HK\$194 million for the six months ended 30 June 2013.

Annual caps

As approved in the 2010 SGM, the annual caps of these transactions for each of the three financial years ending 31 December 2013 are HK\$19,000 million, HK\$21,000 million and HK\$23,400 million respectively. The Company estimates that the aggregate amounts paid by the Group in respect of these transactions shall not exceed HK\$1,140 million, HK\$1,140 million and HK\$1,200 million for each of the three financial years ending 31 December 2016 respectively.

The Group wishes to utilise the collective bargaining power of the Sinopec Group, which will be beneficial to the Group. In arriving at the aforesaid revised annual caps, the Directors have taken into account the following factors, including the high volatility in both the international and the PRC market price of crude oil and petroleum products, and the demand of petroleum products and crude oil by the crude oil refineries in the PRC.

LETTER FROM THE BOARD

The payment terms of these transactions will be determined by the parties on a transaction-by-transaction basis, in accordance with market norms and on normal commercial terms, and with reference to the specifications and requirements of different oil cargos being traded in different transactions, including type, quantity, transportation and shipping terms. Given the nature of these trading transactions, payment terms will have to be agreed upon by the parties on a transaction-by-transaction basis.

Reasons for the transactions

Crude oil trading is one of the traditional businesses of the Group. The development of crude oil trading helps to expand the scale of operations of the Group.

The Group sources crude oil from the enterprises which possess crude oil and petroleum products import trading rights in the PRC, such as Unipet. This enables the Group to leverage on its centralized sourcing platform and reduces the cost of crude oil sourcing.

Huade, a subsidiary of the Group with the crude oil bonded business qualification permitted by the PRC government, can successfully commence the crude oil bonded business by sourcing and supplying crude oil, which helps the Group to obtain the crude oil bonded business qualification permitted by the PRC government.

The sourcing of crude oil and development of crude oil bonded business creates economic benefits for the Group and are in the interests of the Group and the Shareholders as a whole.

3. New Sinopec Finance Financial Services Framework Master Agreement

On 29 October 2013, Huade entered into the New Sinopec Finance Financial Services Framework Master Agreement with Sinopec Finance for the provision of intra group financial services by Sinopec Finance to Huade Group. Conditional upon the Independent Shareholders' approval in the SGM, the New Sinopec Finance Financial Services Framework Master Agreement will commence from 1 January 2014 for a term of three years up to 31 December 2016 to replace the Existing Sinopec Finance Financial Services Framework Master Agreement.

Relationship with the connected parties

Sinopec Finance is owned as to 51% equity interest by Sinopec Group Company and 49% equity interest by Sinopec Corp.. Sinopec Group Company is the controlling shareholder of Sinopec Corp. which in turn indirectly wholly owns SKI, the controlling Shareholder of the Company.

LETTER FROM THE BOARD

Nature of the transactions

The intra group financial services to be provided by Sinopec Finance to the Huade Group within the PRC include loan services, deposit services, conducting entrusted loans, conducting bill acceptance and discount services, and conducting transfer and relevant settlement services and planning of settlement scheme. Sinopec Finance has agreed to provide financial services other than those aforesaid services to the Huade Group at Huade's request or instruction provided that Sinopec Finance has obtained the relevant approval from the CBRC.

Pricing basis

Sinopec Finance has undertaken to adhere to the principles below in providing the aforementioned financial services to the Huade Group within the PRC:

- (i) the interest rate for the Huade Group's deposits with Sinopec Finance shall be fixed as the deposit interest rate as announced by the PBOC from time to time; and in compliance with the laws and regulations, shall be no lower than the interest rate for deposits offered by other independent commercial banks in the PRC;
- (ii) the interest rate for loans granted to the Huade Group by Sinopec Finance shall be the base lending rate as announced by the PBOC from time to time; and in compliance with the laws and regulations, may lower the interest rate to a certain percentage and shall not be higher than the interest rate for loans offered by other independent commercial banks in the PRC;
- (iii) the rate for discount services shall be the rate as announced by PBOC from time to time and with reference to the market situation and shall not be higher than the discount rate offered by other independent commercial banks in the PRC;
- (iv) the service fees for entrusted loans shall not be higher than the fee offered by other independent commercial banks in the PRC; and
- (v) the service charges for the transfer and relevant settlement services and planning of settlement scheme shall be free of charge. However, if any service charges relating to such transfer and relevant settlement services have been imposed by independent commercial banks on Sinopec Finance, Huade Group will then be charged the same by Sinopec Finance.

LETTER FROM THE BOARD

Capital risk control measures

- (a) In accordance with the PRC laws and regulations, Sinopec Finance will ensure the safe and stable operation of fund management information system, which has undergone the security test in respect of connection to the online commercial banking and has reached the national security standards for commercial banks.
- (b) Sinopec Finance will ensure its compliance with the risk monitoring indicators for financial institutions issued by the CBRC and in accordance with the PRC laws and regulations.
- (c) In accordance with the PRC laws and regulations, Sinopec Finance will allow Huade to check the status of its deposits with Sinopec Finance each business day to enable Huade to monitor and ensure that the maximum outstanding balance at any time (including any interest accrued therefrom) for Huade Group's deposits with Sinopec Finance does not exceed the relevant upper limit at any time.
- (d) If there is a breach of laws or regulations, Sinopec Finance should inform immediately Huade and to ascertain the procedure and plan to ratify and mitigate the situation.
- (e) The annual financial statements of Sinopec Finance will be provided to Huade upon request.

The Directors (including the independent non-executive Directors) consider that the above capital risk control measures are adequate to cover the risks involved in depositing funds with Sinopec Finance.

Historical amounts

The historical amounts of the maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by the Huade Group with Sinopec Finance for the two years ended 31 December 2012 were approximately RMB3 million (approximately HK\$3.8 million) and RMB2 million (approximately HK\$2.5 million) respectively, and approximately RMB65 million (approximately HK\$82.4 million) for the six months ended 30 June 2013.

Annual caps

Deposit services

As approved in the 2010 SGM, the annual caps of these transactions are RMB500 million (approximately HK\$633.5 million), RMB500 million (approximately HK\$633.5 million) and RMB500 million (approximately HK\$633.5 million) for each of the three financial years ending 31 December 2013 respectively.

LETTER FROM THE BOARD

The Company estimates that the proposed caps for the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Huade Group with Sinopec Finance are RMB500 million (approximately HK\$633.5 million), RMB500 million (approximately HK\$633.5 million) and RMB500 million (approximately HK\$633.5 million) for each of the three financial years ending 31 December 2016 respectively, in arriving at the aforesaid caps, the future business expansion, the expected increase of business volume, the expected increase of cash flow movement of the Huade Group and the following factors have been considered by Huade:

- (1) In order to strengthen the centralised management of funds and monitor the use of funds, the Sinopec Group will utilise the “funding pool” platform with the assistance of Sinopec Finance. Such platform amasses the funds of the Sinopec Group (including the Group) and enables loans to be granted within the Sinopec Group by capitalising on the leeway arising from the difference in the time for receipt and payment of funds of the members of the Sinopec Group, with an aim to support the development of the Sinopec Group and the Group;
- (2) Sinopec Finance is under the supervision of CBRC and it has been maintaining satisfactory operating results and financial position with good risks control and well-regulated management in the past three years. The safety standards of its settlement system reach the standards of domestic commercial banks. The collaboration between Huade Group and Sinopec Finance reduces finance costs, increase interest income of deposits, lower settlement costs and control risks;
- (3) There will be interest income from the deposits of the Huade Group with Sinopec Finance at a rate equal to or not less favourable than those offered by other independent commercial banks in the PRC;
- (4) In respect of the Huade Group’s funds settlement business at Sinopec Finance, settlement expenses will be undertaken by Sinopec Finance while the Huade Group has no obligations to pay for the settlement expenses to Sinopec Finance, save if other independent commercial banks charge Sinopec Finance for such fees, Sinopec Finance will charge Huade Group the same accordingly;
- (5) Sinopec Finance undertakes that the major shareholder shall not appropriate Huade Group’s funds; and
- (6) Given the future development and needs of the Huade Group, the Board plans to increase the deposits placed by the Huade Group with Sinopec Finance for the three financial years ending 31 December 2016.

LETTER FROM THE BOARD

Loan services and conducting bill acceptance and discount services

In view of the loan services provided by Sinopec Finance to the Huade Group are on normal commercial terms which are similar to or even more favourable than those offered from independent third parties for comparable services in the PRC, and that no security over the assets of the Group will be granted in respect of the loan services, the loan services are exempt under Rule 14A.65(4) of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements. As such, no cap has been set for such services. The Directors (including the independent non-executive Directors) consider that the loan services provided under the New Sinopec Finance Financial Services Framework Master Agreement are fair and reasonable and in the interest in the Shareholders as a whole.

Entrustment loans and other services

Apart from the deposit services and the loan services, the other services which may be provided by Sinopec Finance to the Huade Group are entrustment loans and other financial services which will be on normal commercial terms and on terms similar to or even more favourable than those offered by independent third parties for comparable services in the PRC.

The Company expects that each of the percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the total fees payable by Huade to Sinopec Finance in respect of entrustment loans and other financial services will fall within the de minimis threshold as stipulated under Rule 14A.31(2) of the Listing Rules. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules if the transaction amounts of the other financial services to be provided by Sinopec Finance to the Huade Group under the New Sinopec Finance Financial Services Framework Master Agreement exceed the relevant threshold.

Reasons for the transactions

1. The interest rates on loans and deposits to be offered by Sinopec Finance to the Huade Group will be equal to or no less favourable than those offered by other independent commercial banks in the PRC.
2. Sinopec Finance is regulated by the PBOC and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities.
3. It is beneficial for the settlement operations for the members of the Sinopec Group, strengthening the Group's capital management and control in order to mitigate and avert operating risks.

LETTER FROM THE BOARD

4. It will reduce the time of capital in transit for the Huade Group. It will also accelerate the turnover of cash flow and reduce transaction costs and expenses, thereby further enhancing the quality and efficiency of capital utilisation.
5. This also provides diversified financial services in broader areas for the Huade Group, which is in line with the interests of the Company and the Shareholders. The financial services provided by Sinopec Finance are in line with market norms and are on normal commercial terms, with reference to arrangements with other independent commercial banks in the PRC.
6. Pursuant to the relevant regulations of the PBOC and the CBRC, the customers of Sinopec Finance are limited to entities within Sinopec Group and its subsidiaries, thereby reducing the risks that Sinopec Finance may otherwise be exposed to if its customers include other entities unrelated to Sinopec Group.

4. New Century Bright Financial Services Framework Master Agreement

On 29 October 2013, the Company and Century Bright entered into the New Century Bright Financial Services Framework Master Agreement, for the provision of deposit services and settlement and similar services to the Group, and to replace the Existing Century Bright Financial Services Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Century Bright Financial Services Framework Master Agreement will commence from 1 January 2014 for a term of three years up to 31 December 2016. Given the expansion of the business of the Group, the management of the Company would like to revise the existing annual caps thereunder for three financial years ending 31 December 2016.

Relationship with the connected parties

Century Bright is a wholly owned subsidiary of Sinopec Group Company, being the controlling shareholder of Sinopec Corp., which in turn indirectly wholly owns SKI, the controlling Shareholder of the Company.

Nature of the transactions

Century Bright will provide deposit services and settlement and similar services to the Company's subsidiaries outside the PRC.

Pricing basis

In respect of deposit services, Century Bright will pay the Group interest accrued on the deposits calculated according to the depository interest rate as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time. Such interest rate shall be (i) equal to or higher than the interest rate offered by Century Bright to Sinopec Group

LETTER FROM THE BOARD

Company, Sinopec Corp. and other members of Sinopec Group in similar deposit arrangements; and (ii) equal to or higher than the interest rate as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time.

In respect of settlement and similar services, the Group will pay Century Bright according to the settlement and similar charges as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time. Such settlement and similar services charges shall be (i) equal to or lower than the settlement and similar services charges offered by Century Bright to Sinopec Group Company, Sinopec Corp. and other members of Sinopec Group in similar settlement services arrangements; and (ii) equal to or lower than the settlement and similar services charges as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time for settlement and similar services provided by Century Bright.

Historical amounts

The historical amounts of the maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright for the two years ended 31 December 2012 were approximately HK\$149 million and HK\$79 million respectively and approximately HK\$31 million for the six months ended 30 June 2013.

Annual caps

As approved in the 2010 SGM, the annual caps of these transactions are HK\$150 million, HK\$150 million and HK\$150 million for each of the three financial years ending 31 December 2013 respectively. The Company estimates that the proposed revised annual caps for the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright are HK\$500 million, HK\$500 million and HK\$500 million for each of the three financial years ending 31 December 2016 respectively.

In arriving at the aforesaid revised annual caps, the Directors have taken into account the following factors, including the expansion of business of the Group in the last financial year, the anticipated increase in the Group's cash flow movements, the anticipated increase in the business volume of the Group, the financial control and treasure management of the Group, and the requirement to settle accounts receivables from the members units of Sinopec Group or any third party through the deposit accounts of the Group with Century Bright.

LETTER FROM THE BOARD

Following the completion of the acquisition of Zhan Jiang Port Petrochemical Jetty Co. in October 2011 and the completion of the acquisition of 50% each of the equity interest of Ningbo Shihua Crude Oil Terminal Co. Ltd., Qingdao Shihua Crude Oil Terminal Co. Ltd., Tianjin Port Shihua Crude Oil Terminal Co. Ltd., Rizhao Shihua Crude Oil Terminal Co. Ltd., and 90% of the equity interest of Tangshan Caofeidian Shihua Crude Oil Terminal Co. Ltd. in October 2012, and the completion of the acquisition of 50% equity interest in Vesta Terminals B.V. in Europe in April 2013, the abovementioned companies will distribute dividends to the Group in the future, and it is in the interests of the Company to increase the above caps to satisfy the expected increase of cash flow movements of the Group. Further, the Group requires more financial needs and operations and the management of the Company considers that it is necessary to increase the caps for the transactions under the New Century Bright Financial Services Framework Master Agreement.

Reasons for the transactions

The Directors are of the view that the Group would be benefited from entering into the New Century Bright Financial Services Framework Master Agreement for the reasons that: (i) the interest rates on loans and deposits to be offered by Century Bright to the Group will be equal to or no less favourable than those offered by commercial banks in Hong Kong; (ii) it reduces the time of capital transit for the Group, and also accelerates the turnover of cash flow and reduces transaction costs and expenses, thereby further enhances the quality and efficiency of capital utilisation; and (iii) it provides diversified financial services in broader areas for the Group, which is in line with the interest of the Company and the Shareholders as a whole.

5. New Unipec Vessel Charter Framework Master Agreement

On 29 October 2013, Sinomart and Unipec entered into the New Unipec Vessel Charter Framework Master Agreement in relation to the provision of vessel chartering services to Unipec, and to replace the Existing Unipec Vessel Charter Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Unipec Vessel Charter Framework Master Agreement will commence from 1 January 2014 for a term of three years up to 31 December 2016.

Nature of the transactions

The Group will provide vessel charter services to Unipec under the New Unipec Vessel Charter Framework Master Agreement, and pursuant to which vessels chartering are to be done on a transaction-by-transaction basis. Vessels are chartered by the Group from independent third party vessel owners under long term agreements. The vessels will then be sub-chartered to the Unipec Group for the purpose of, among others, being used as crude oil transportation and/or as floating oil storage facilities.

LETTER FROM THE BOARD

Pricing basis

Under the New Unipec Vessel Charter Framework Master Agreement, the Group will enter into separate vessel charter contracts within the terms and conditions of the New Unipec Vessel Charter Framework Master Agreement with members of the Unipec Group for the provision of vessel charter services on a transaction-by-transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements. Under the New Unipec Vessel Charter Framework Master Agreement, the charter hire, related fees and payment will be based on the prevailing market charter hire, related fees and payment of vessel charter contracts (which are determined with reference to the pricing indexes set out in market research reports and the prices are readily available and transparent) on a transaction-by-transaction basis and are to be agreed between the parties on an arm's length basis through negotiations. The pricing indexes serve as reference points for the charter hire, related fees and payment of vessel charter contracts.

Historical amounts

The historical amounts of charter hire, related fees and payment received by the Group in relation to charter services to Unipec Group under the Existing Unipec Vessel Charter Framework Master Agreement for the two years ended 31 December 2012 were approximately US\$36 million (approximately HK\$280.1 million) and US\$54 million (approximately HK\$420.1 million) respectively and approximately US\$22 million (approximately HK\$171.2 million) for the six months ended 30 June 2013.

Annual caps

It is estimated that the aggregate amounts to be received by the Group in respect of these transactions under New Unipec Vessel Charter Framework Master Agreement shall not exceed US\$107 million (approximately HK\$832.5 million), US\$120 million (approximately HK\$933.6 million) and US\$133 million (approximately HK\$1,034.7 million) for each of the three financial years ending 31 December 2016 respectively.

In arriving at the revised annual caps, the following factors have been taken into account: (i) the continuous global demand for vessel chartering services; (ii) the expected annual demand of Unipec Group in terms of crude oil shipping services in the next three years; and (iii) the average expected crude oil shipping charter hire and related fees in the next few years by reference to the prevailing global shipping market.

LETTER FROM THE BOARD

Reasons for the transactions

The Group aims to become a first-class international crude oil and petrochemical products storage and logistic company. In order to accumulate and consolidate operating experiences in the shipping business and provide the Company with edges before commencing its liquefied natural gas shipping business, the Company has leased three vessels through long-term contracts in the open shipping market since the beginning of 2011. Currently, the long-term leases for the three vessels have not expired. Before the expiry of the said leases for the vessels, the Company is required to continue to lease those three vessels and continues to develop and operate its vessel chartering business.

Unipet, one of the largest crude oil traders in the PRC, is responsible for importing crude oil for Sinopec Group and needs chartering of vessels for the relevant logistics. The Group is relying on Unipet and subleases and subcharters its vessels to Unipet which is beneficial for capturing relevant business opportunities.

As there is a huge and steady demand of crude oil shipping for Unipet every year, subleasing the vessels to Unipet can help to stabilize the vessels shipping service, optimise the vessels shipping lanes, increase the utilisation of vessels and enhance the economic benefits and efficiency.

Caps of the Existing Continuing Connected Transactions

As at the Latest Practicable Date, none of the caps in relation to the Existing Continuing Connected Transactions that were approved and revised by the Independent Shareholders in the 2010 SGM for the financial year ending 31 December 2013 has been exceeded.

III. CONNECTED TRANSACTION AND MAJOR TRANSACTION REGARDING THE CONSTRUCTION OF THE BATAM OIL STORAGE TANKS AND OIL TERMINAL

Reference is made to the announcement of the Company dated 9 October 2012 in respect of the acquisition of 95% equity interest of PT. West Point by Sinomart. PT. West Point will commence its construction of a 2.6 million cubic meter crude oil and petroleum products storage and other ancillary facilities, and the supporting quay and port facilities for the Batam Project. Sinomart intends to invite Sinopec Engineering to participate in a bidding for the construction project of the Batam Oil Storage Tanks and Oil Terminal. It is expected that the bidding process will be completed by the end of 2013.

Reference is also made to the prospectus of Sinopec Engineering dated 10 May 2013, whereby Sinopec Engineering entered into an engineering and construction services framework agreement with Sinopec Group Company on 19 December 2012 (the “**Engineering and Construction Services Framework Agreement**”). Pursuant to the Engineering and Construction Services Framework Agreement, Sinopec Engineering will provide the following engineering and construction services to the Sinopec Group Company

LETTER FROM THE BOARD

and/or its associates: engineering consulting (solution research, project proposal, feasibility study and early stage project consulting); project management; project supervision; contracting; engineering design; construction; testing and inspection and repair services; equipment manufacturing services; procurement services and equipment leasing; technology licensing, technology transfer and engineering technology services; labor supply service; and other engineering supporting services.

The Batam Construction Project Framework Master Agreement is entered into based on the principal terms of the Engineering and Construction Services Framework Agreement, and the Batam Construction Project Framework Master Agreement must be in compliance with the terms of the Engineering and Construction Services Framework Agreement (including but not limited to the annual caps, pricing policy, contract period, etc.).

Batam Construction Project Framework Master Agreement

On 29 October 2013, Sinomart entered into the Batam Construction Project Framework Master Agreement with Sinopec Engineering for, among other things, the general contracting of engineering, procurement, construction and project arrangements of the construction work for the Batam Oil Storage Tanks and Oil Terminal. Conditional upon the successful bid by Sinopec Engineering and the Independent Shareholders' approval in the SGM, the Batam Construction Project Framework Master Agreement will commence from 1 January 2014.

The construction of the Batam Oil Storage Tanks and Oil Terminal will involve construction of a 2.6-million cubic meter crude oil and petroleum products storage and other ancillary facilities, and the supporting quay and port facilities. The construction of the Batam Oil Storage Tanks and Oil Terminal is expected to be completed in or around December 2015.

The Batam Construction Project Framework Master Agreement will take effect on conditions that: (i) the completion of the Group's tendering procedure in respect of the construction work for the Batam Oil Storage Tanks and Oil Terminal by 31 December 2013 and upon the successful bid by Sinopec Engineering; (ii) the Company obtaining the Independent Shareholders' approval in accordance with the Listing Rules; and (iii) the fulfillment of the relevant requirements of the Listing Rules in respect of the Batam Construction Project Framework Master Agreement by Sinopec Engineering. Upon the Batam Construction Project Framework Master Agreement coming into effect, Sinomart will enter into the EPC Contract with Sinopec Engineering as the EPC Contractor.

Sinomart may waive condition (i) above at its absolute discretion. The waiver is to provide flexibility in situations where the Group decides not to award the EPC Contract by tender.

The engagement by Sinomart of Sinopec Engineering in connection with the construction of the Batam Oil Storage Tanks and Oil Terminal, upon the successful bid by Sinopec Engineering, constitutes a connected transaction and major transaction of the Company.

LETTER FROM THE BOARD

Relationship with the connected parties

Sinopec Engineering is a subsidiary of Sinopec Group Company, being the controlling shareholder of Sinopec Corp., and Sinopec Corp. indirect wholly owns SKI, the controlling Shareholder of the Company.

Nature of transaction

Sinomart intends to invite Sinopec Engineering to participate in a bidding for the Group's construction work at the Batam Oil Storage Tanks and Oil Terminal. In this connection, on 29 October 2013, Sinomart entered into the Batam Construction Project Framework Master Agreement, whereby the parties agreed that, upon the successful bid, Sinopec Engineering will provide the following services to the Group:

- (i) as the EPC Contractor, Sinopec Engineering will be responsible for the design, procurement of equipment and raw materials, construction and project arrangements;
- (ii) Sinomart and/or its subsidiaries will enter into various other contracts and agreements with Sinopec Engineering and its subsidiaries, pursuant to which the parties will negotiate with reference to, among other factors, laws 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;
- (iii) Sinopec Engineering will provide the services based on technical standards set out by Sinomart, including design, procurement, construction, management, construction, contracting, project coordination, supervision and project testing;
- (iv) upon completion of the Batam Project, Sinopec Engineering will coordinate the project work and carry out preliminary testing in accordance with the rules set out by Sinomart;
- (v) Sinopec Engineering will provide maintenance services after Sinomart completes the testing and inspection of the Batam Project. The warranty period will be stipulated in the relevant contract(s) and there will be differences among the applicable warranty period for different sections of the Batam Project; and
- (vi) Sinopec Engineering will provide any other services setting out under the Engineering and Construction Services Framework Agreement which may be applicable to the Batam Project.

Pursuant to the Batam Construction Project Framework Master Agreement, upon the successful bid, Sinomart and its subsidiaries will enter into the EPC Contract and other contracts and agreements with Sinopec Engineering and its subsidiaries, by which the parties will negotiate with reference to, among other factors, laws 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 (including but not limited to the requirements, quality and payment methods in respect of the technical standards, design,

LETTER FROM THE BOARD

procurement, construction, management, implementation, subcontracting, project management, project supervision and project testing, other terms and requirements under the Engineering and Construction Services Framework Agreement, and any other terms).

Pricing basis

Pursuant to the Batam Construction Project Framework Master Agreement, Sinopec Engineering may tender for the Group's construction works as EPC Contractor for the Batam Oil Storage Tanks and Oil Terminal in accordance with the tendering procedure of the Group from time to time. If the Group decides not to select qualified general contractors for the construction work by tender and decides to engage Sinopec Engineering in the construction work, the total contract sum to be awarded by the Group to Sinopec Engineering shall be the fair market price for the relevant service (to be determined by the parties after negotiation) on normal commercial terms or the terms offered to Sinomart shall be on terms no less favourable than those entered into by Sinopec Engineering and independent third parties for comparable services.

Cap

With reference to a feasibility study report for the Batam Oil Storage Tanks and Oil Terminal Project, the Group estimates that the maximum service fees payable under the Batam Construction Project Framework Master Agreement will not exceed US\$738 million (approximately HK\$5,741.6 million).

The Group will settle the service fees in cash through internal resources and project financing.

Reasons for the transaction

In order to develop positioning strategy of the Company and become a first-class international storage and logistics company, the Group acquired 95% equity interests in PT. West Point and intends to develop the Batam Project through PT. West Point.

Sinopec Engineering is a leading oil refining, petrochemical and new coal chemical engineering company in the PRC. Being members of Sinopec Group Company, the corporate culture of Sinopec Engineering and the Company is relatively similar. Sinopec Engineering's participation in the construction project bidding will facilitate the communication between the project owners and the construction units which is also beneficial to and gives efficiency to the construction project management and coordination.

Sinopec Engineering possesses extensive experiences in oil refining and chemical engineering. The Group intends to invite Sinopec Engineering to participate in the construction project bidding for the Batam Oil Storage Tanks and Oil Terminal, which will help to meet the progress requirements of construction projects and ensure the project will come into operation on schedule as well as safeguard the quality of construction projects.

LETTER FROM THE BOARD

As Sinopec Engineering adopts advanced international project management models and construction procedures, the invitation of Sinopec Engineering to participate in the construction project bidding can strengthen the confidence of the project finance lenders regarding the completion of the project in a timely manner and is also beneficial to arrangement of project financing.

The entering into of the Batam Construction Project Framework Master Agreement can provide the Group an option for the construction of the Batam Oil Storage Tanks and Oil Terminal. Having considered the experience of Sinopec Engineering in oil refining, petrochemical and chemical engineering, the Directors are of the view that the entering into of the Batam Construction Project Framework Master Agreement is in the interests of the Company and the Shareholders as a whole.

IV. LISTING RULES IMPLICATIONS

Under the Listing Rules, for so long as Sinopec Group Company remains a substantial shareholder of the Company for the purposes of the Listing Rules, and Sinopec Group Company holds not less than 30% of Sinopec Corp., Unipet, Sinopec Finance, Century Bright, Sinopec Engineering and other relevant branches and members of the Sinopec Group Company, the transactions contemplated under each of the Existing Continuing Connected Transactions constitute continuing connected transactions of the Company, and the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement constitutes a connected transaction and major transaction of the Company under the Listing Rules.

With respect to the renewal of the Existing Continuing Connected Transactions, since the value of each of the caps of the Existing Continuing Connected Transactions as disclosed in paragraph headed “II. Continuing connected transactions and discloseable transaction regarding renewal of the Existing Continuing Connected Transactions” in this section, are more than 5% of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules, pursuant to Rule 14A.35 of the Listing Rules, these transactions and agreements are subject to the reporting, announcement and Independent Shareholders’ approval requirements as set out in Rules 14A.45 to 14A.48 of the Listing Rules. Sinopec Group Company and its associates shall abstain from voting at the SGM. The Company will also disclose the relevant details in the next published annual report and accounts of the Company in accordance with the relevant requirements as set out in Rule 14A.45 of the Listing Rules.

The applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transaction under the Batam Construction Project Framework Master Agreement as disclosed in paragraph headed “III. Connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal” in this section, are more than 5%, and therefore the Batam Construction Project Framework Master Agreement is subject to the reporting, announcement and Independent Shareholders’ approval requirements as set out in Rules 14A.45 to 14A.48 of the Listing Rules. Sinopec Group Company and its associates shall abstain from voting at the SGM. The Company will also disclose the relevant details in the next published annual report and accounts of the Company in accordance with the relevant requirements as set out in Rule 14A.45 of the Listing Rules. Further, the maximum service fees of US\$738 million (approximately HK\$5,741.6 million)

LETTER FROM THE BOARD

under the Batam Construction Project Framework Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, as the applicable percentage ratios under Rule 14.07 of the Listing Rules are more than 25% but less than 100%.

In addition, under the New Sinopec Finance Financial Services Framework Master Agreement, the loan services and entrusted loan services and other services (apart from the deposit services) to be provided by Sinopec Finance to the Huade Group constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are on normal commercial terms which are similar to or even more favourable than those offered by independent third parties for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of such services, such services are exempt under Rule 14A.65(4) of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

With respect to the deposit services under the New Century Bright Financial Services Framework Master Agreement, as the annual amounts of the transactions will be aggregated with those under the New Sinopec Finance Financial Services Framework Master Agreement, the applicable percentage ratios for such aggregated annual amounts are more than 5% and therefore are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules. Regarding the settlement services thereunder, the aggregate fees and charges payable by the Group to Century Bright will not be, on an annual basis, more than the de minimis threshold of 0.1% calculated under Rule 14A.31(2) of the Listing Rules during the term of the New Century Bright Financial Services Framework Master Agreement. As such, the settlement services thereunder are exempt under Rule 14A.33 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

Further, as the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the aggregate annual amounts of the transactions under the New Sinopec Finance Financial Services Framework Master Agreement and the New Century Bright Financial Services Framework Master Agreement are more than 5% but less than 25%, the entering into of the two financial services framework master agreements also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

V. THE DIRECTORS' VIEW

The Directors (other than the independent non-executive Directors who will express their views after considering the advice from the Independent Financial Adviser as set out in the Letter from the Independent Financial Adviser contained in this Circular) are of the opinion that the New Framework Master Agreements for the renewal of the Existing Continuing Connected Transactions and the Batam Construction Project Framework Master Agreement are entered into and carried out in the ordinary and usual course of business of the Group on an arm's length basis and on normal commercial terms, are fair and reasonable and in the interest of the Shareholders as a whole.

LETTER FROM THE BOARD

VI. 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 include the trading of crude oil and oil products, the operation of crude oil and oil products terminals and their ancillary facilities, provision of logistics services including storage, logistics, transportation and terminal services, investment and building of vessels, and the distribution of oil and oil products and international logistics agency services.

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.

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.

Unipec is a company established under the laws of the PRC with limited liability, which 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.

Sinopec Finance is duly established in the PRC as a non-banking financial institution in 1988. Sinopec Finance is regulated by the PBOC and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities. As at the Latest Practicable Date, Sinopec Corp. is interested in 49% of the equity interest of Sinopec Finance and Sinopec Group Company is interested in 51% of the equity interest of Sinopec Finance. The principal business of Sinopec Finance includes the provision of, among others, deposit services, loan services, entrusted loan services and entrusted investment services.

Century Bright is a limited liability company incorporated in Hong Kong. It is a wholly owned subsidiary of Sinopec Group Company. The principal activities of Century Bright include providing settlement and similar services and taking deposits from members of the Sinopec Group outside PRC, and conducting intra group loan transactions. Century Bright is a money lender registered under the Money Lenders Ordinance (Cap. 163) in Hong Kong.

Sinopec Engineering provides services for oil refining and petrochemical and chemical engineering industries. It offers project management contracting, technology research and development, EPC contracting, design, procurement, construction, commissioning, and maintenance and operation services. In addition, it has expertise in the construction and management of large-scale refinery, petrochemical and chemical plants and lifting and

LETTER FROM THE BOARD

transportation of large equipment, installation of large storage tanks. Sinopec Engineering (stock code: 2386) is listed on the main board of the Stock Exchange and is a non-wholly owned subsidiary of Sinopec Group Company.

VII. GENERAL

Sinopec Group Company is holding approximately 73.38% of the entire issued share capital of Sinopec Corp.. Sinopec Corp. is holding the entire issued share capital of Unipet and the indirect controlling shareholder which is indirectly holding approximately 60.33% of the entire issued share capital of the Company. Pursuant to the Listing Rules, the renewal of the Existing Continuing Connected Transactions constitute continuing connected transactions of the Company, and the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement constitutes a connected transaction and major transaction of the Company and are subject to the Independent Shareholders' approval requirements under the Listing Rules. Sinopec Group Company, Sinopec Corp., Unipet, Sinopec Finance, Century Bright, Sinopec Engineering and their associates will abstain from voting in the SGM to approve the renewal of the Existing Continuing Connected Transactions under the New Framework Master Agreements and the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement.

The executive Directors, including Mr. Dai Zhao Ming, Mr. Zhu Zhen Qing, Mr. Zhu Jian Min, Mr. Tan Ke Fei and Mr. Zhou Feng, abstained from voting on the relevant resolutions in the Board meeting to approve each of the transactions contemplated in this Circular because of their other executive posts within the Sinopec Group.

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 renewal of the Existing Continuing Connected Transactions, all of which are for the three financial years ending 31 December 2016 and the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement, to recommend to the Independent Shareholders how to vote in the SGM, and to advise the Independent Shareholders on these transactions and agreements.

Quam 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 renewal of the Existing Continuing Connected Transactions for the three financial years ending 31 December 2016 (together with the annual caps), and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement and the transactions contemplated thereunder. A letter from the Independent Financial Adviser is set out on pages 37 to 62 of this Circular.

LETTER FROM THE BOARD

VIII. SPECIAL GENERAL MEETING

A SGM will be convened and held at Salon Rooms 2-3, 5/F., Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on Friday, 13 December 2013 at 10:00 a.m. for the purpose of considering, and if thought fit, passing ordinary resolutions regarding the renewal of the Existing Continuing Connected Transactions, and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement and all matters contemplated thereunder. The notice of the SGM is set out on pages 71 to 74 of this Circular.

Sinopec Group Company, Sinopec Corp., Unipet, Sinopec Finance, Century Bright, Sinopec Engineering and their respective associates will abstain from voting in the SGM.

A form of proxy for use by the Shareholders in connection with the SGM is enclosed herewith. Whether or not you are able to attend the SGM in person, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form to the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible, and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof (as the case may be). 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.

IX. RECOMMENDATION

The Board (including the Independent Board Committee) is of the opinion that the renewal of the Existing Continuing Connected Transactions (together with the annual caps), all of which are for the three financial years ending 31 December 2016, and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement and all matters contemplated therein are in the best interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Accordingly, the Board (including the Independent Board Committee) recommends you to vote in favour of the ordinary resolutions set out in the notice of the SGM for the approval of the renewal of the Existing Continuing Connected Transactions, all of which are for the three financial years ending 31 December 2016, and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement.

LETTER FROM THE BOARD

X. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
Sinopec Kantons Holdings Limited
Dai Zhao Ming
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司) *

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

18 November 2013

To the Independent Shareholders

Dear Sir or Madam,

**(1) Continuing connected transactions and discloseable transaction regarding
renewal of the Existing Continuing Connected Transactions; and
(2) Connected transaction and major transaction regarding
the construction of the Batam Oil Storage Tanks and Oil Terminal**

We have been appointed as the Independent Board Committee to advise you in connection with the renewal of the Existing Continuing Connected Transactions, all of which are for the three financial years ending 31 December 2016, and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement, details of which are set out in the Letter from the Board contained in this Circular issued by the Company to its Shareholders, of which this letter forms part. Terms defined in this Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

Having considered the New Framework Master Agreements for the renewal of the Existing Continuing Connected Transactions, all of which are for the three financial years ending 31 December 2016, and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement, and the advice and opinion of the Independent Financial Adviser in relation thereto as set out on pages 37 to 62 of this Circular, we are of the opinion that the renewal of the Existing Continuing Connected Transactions (together with the annual caps) for the three financial years ending 31 December 2016, and connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement are entered into and carried out in the ordinary and usual course of business of the Group on an arm's length basis and on normal commercial terms, are in the best interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We therefore recommend you to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the renewal of the Existing Continuing Connected Transactions, all of which are for the three financial years ending 31 December 2016, and the connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal under the Batam Construction Project Framework Master Agreement.

Yours faithfully,

For and on behalf of

The Independent Board Committee of
Sinopec Kantons Holdings Limited

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Quam Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the New Framework Master Agreements, the Batam Construction Project Framework Master Agreement and the transactions contemplated thereunder.



Quam Capital Limited
A Member of The Quam Group

18 November 2013

*To the Independent Board Committee and
the Independent Shareholders*

Sinopec Kantons Holdings Limited
34/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

Dear Sir or Madam,

- (1) Continuing connected transactions and discloseable transaction regarding renewal of the Existing Continuing Connected Transactions; and
(2) Connected transaction and major transaction regarding the construction of the Batam Oil Storage Tanks and Oil Terminal**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Framework Master Agreements, the Batam Construction Project Framework Master Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to its shareholders dated 18 November 2013 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

The Existing Continuing Connected Transactions for the period from 1 January 2011 to 31 December 2013 were approved by the Independent Shareholders in the 2010 SGM. As the Existing Continuing Connected Transactions will continue after 31 December 2013, on 29 October 2013, the New Framework Master Agreements were entered into between the Group and the relevant members of the Sinopec Group for a term from 1 January 2014 to 31 December 2016. As Sinopec Group Company, through Sinopec Corp., is a controlling Shareholder, and the relevant members of Sinopec Group, being the parties to the respective New Framework Master Agreements, are associates of Sinopec Group Company, the transactions contemplated under the New Framework Master Agreements constitute

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

continuing connected transactions of the Company and are subject to reporting announcement and Independent Shareholders' approval requirements under the Listing Rules. Further, as the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the aggregate annual amounts of the transactions under the New Sinopec Finance Financial Services Framework Master Agreement and the New Century Bright Financial Services Framework Master Agreement are more than 5% but less than 25%, the entering into of the two financial services framework master agreements also constitutes discloseable transactions for the Company under Chapter 14 of the Listing Rules.

On 29 October 2013, Sinomart, a wholly-owned subsidiary of the Company, entered into the Batam Construction Project Framework Master Agreement with Sinopec Engineering for, among other things, general contracting of engineering, procurement, construction and project arrangements of the construction work for the Batam Oil Storage Tanks and Oil Terminal. Sinopec Engineering is a subsidiary of Sinopec Group Company. Accordingly, Sinopec Engineering is a connected person of the Company and the transactions contemplated under the Batam Construction Project Framework Master Agreement constitute a connected transaction of the Company. As the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions contemplated under the Batam Construction Project Framework Master Agreement are more than 5%, the Batam Construction Project Framework Master Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. In addition, as the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are more than 25% but are less than 100%, the transactions contemplated under the Batam Construction Project Framework Master Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

Mr. Wong Po Yan, Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark, all being the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the New Framework Master Agreements (together with the proposed annual caps) and the Batam Construction Project Framework Master Agreement are entered into in the ordinary and usual course of business of the Group on normal commercial terms, are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and to advise the Independent Shareholders as to whether to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the New Framework Master Agreements, the Batam Construction Project Framework Master Agreement and the transactions contemplated thereunder. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

In formulating our recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Company and its advisers; (iii) the opinions expressed by and the representations of the Directors and management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects at the date thereof and may be relied upon. We have no reason to doubt the truth, accuracy and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

completeness of such information and representations provided to us by the management of the Group, the Directors and the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations regarding the Group, the New Framework Master Agreement and the Batam Construction Project Framework Master Agreement and the transactions contemplated thereunder (including the proposed annual caps) provided to us by the Company and/or the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the SGM.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the New Framework Master Agreements and the Batam Construction Project Framework Master Agreement, we have taken into consideration of the following factors and reasons:

(I) RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in the trading of crude oil and oil products, the operation of crude oil and oil products terminals and their ancillary facilities, provision of logistics services including storage, logistics, transportation and terminal services, investment and building of vessels, and the distribution of oil and oil products and international logistics agency services.

The Existing Continuing Connected Transactions for the period from 1 January 2011 to 31 December 2013 were approved by the Independent Shareholders in the 2010 SGM. As the Existing Continuing Connected Transactions will continue after 31 December 2013, on 29 October 2013, the New Framework Master Agreements were entered into for a term from 1 January 2014 to 31 December 2016 for the renewal of the Existing Continuing Connected Transactions.

1. New Sinopec Guangzhou Branch Framework Master Agreement

1.1 Background and reasons for the entering into the New Sinopec Guangzhou Branch Framework Master Agreement

Sinopec Guangzhou Branch is a branch of Sinopec Corp. 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 (i) exploring for and developing, producing and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

trading crude oil and natural gas; (ii) processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; and (iii) producing, distributing and trading chemical products.

On 29 October 2013, Huade, a wholly-owned subsidiary of the Company, and Sinopec Guangzhou Branch entered into the New Sinopec Guangzhou Branch Framework Master Agreement for the provision of the following crude oil jetty services by the Group to Sinopec Guangzhou Branch through Huizhou Jetty:

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

The provision of crude oil jetty services is one of the major business of the Group, and according to the management of the Company, the Group has provided the crude oil jetty services to Sinopec Guangzhou Branch for over 10 years and Sinopec Guangzhou Branch is the largest customer of the Group in respect of its crude oil jetty services business. We are further advised by the Company that, due to the availability of the pipeline for direct transmission of crude oil from the Huizhou Jetty to Sinopec Guangzhou Branch's refinery complex in Guangzhou and the quality of the jetty and other services provided by the Group, the Group has maintained long term and stable relationship with the Sinopec Guangzhou Branch and generated stable income stream for the provision of crude oil jetty services to the Sinopec Guangzhou Branch. The Company expects the continuous business relationship with Sinopec Guangzhou Branch can be maintained and Sinopec Guangzhou Branch will continue be the major customer of the Group in respect of its business of provision of crude oil jetty services.

Having considered (i) that the transactions between the Group and Sinopec Guangzhou Branch in respect of the crude oil jetty services are revenue in nature; (ii) the long term and stable business relationship with Sinopec Guangzhou Branch; (iii) that the provision of crude oil jetty services is one of the major business of the Group and Sinopec Guangzhou Branch is the largest customer of the Group in respect of its crude oil jetty services business; (iv) that the entering into of the New Sinopec Guangzhou Branch Framework Master Agreement enables the Group to continue providing the crude oil jetty services to Sinopec Guangzhou Branch and in turn, generate stable income to the Group, we are of the view that the entering into of the New Sinopec Guangzhou Branch Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.2 Principal terms of the New Sinopec Guangzhou Branch Framework Master Agreement

Pursuant to New Sinopec Guangzhou Branch Framework Master Agreement, the service fees payable by Sinopec Guangzhou Branch to Huade will include:

- (i) in respect of jetty and related services concerning the unloading of crude oil from oil tankers and dockage, charged on the State-prescribed prices, being regulated and standardised by the Ministry of Transports of the PRC and on the basis of government-approved prices, being approved by the Guangdong Price Bureau;
- (ii) in respect of crude oil storage and related services concerning the storage of crude oil in oil tank and oil tank handling, charged on the basis of government-approved prices, being approved by the Guangdong Price Bureau; and
- (iii) in respect of the transmission of crude oil and related services concerning the transmission of crude oil from the Huizhou Jetty to Sinopec Guangzhou Branch's refinery complex in Guangzhou, charged 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 (i) the fair market price for the relevant service (to be determined by the parties after consultation); or (ii) 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 payment terms of the transactions between the Sinopec Guangzhou Branch and the Group in respect of the crude oil jetty services will be determined by the parties on a transaction-by-transaction basis, in accordance with market norms and on normal commercial terms, and with reference to prescriptions by and approvals of the PRC government. Pursuant to the New Sinopec Guangzhou Branch Framework Master Agreement, Huade will enter into crude oil jetty service agreements with Sinopec Guangzhou Branch to set out the detailed terms and provisions according to, among other factors, laws and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness.

We have reviewed (i) the documents issued by the relevant PRC authorities in respect of the State-prescribed prices on unloading of crude oil from oil tankers and dockage, the government-approved prices on storage of crude oil in oil tank, and the State-prescribed prices on the transmission of crude oil; and (ii) the sample copies of agreements and invoices for the transactions between the Sinopec Guangzhou Branch and the Group in respect of the provision of crude oil

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

jetty services by the Group to the Sinopec Guangzhou Branch for the two years ended 31 December 2012 and six months ended 30 June 2013 (the “**Review Period**”). We note from those sample copies of agreements and invoices that the crude oil jetty services have been charged according to the State-prescribed prices or the government-approved prices (as the case may be) as regulated by the relevant PRC authorities and the credit terms were consistent with the credit terms of 30 to 90 days as set out in the annual report of the Company for the year ended 31 December 2012 (the “**2012 Annual Report**”).

Based on the above, in particular, the services fee payable will be charged in accordance with State-prescribed prices or government-approved prices (as the case may be), we are of the view that the terms of the New Sinopec Guangzhou Branch Framework Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

1.3 Annual caps

Below sets out the historical transactions amounts and the proposed annual caps under the New Sinopec Guangzhou Branch Framework Master Agreement:

Historical transaction amounts (HK\$' million)			Proposed annual caps (HK\$' million)		
For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
2011	2012	2013	2014	2015	2016
584	597	256	850	850	850

In determining the proposed annual caps for the three years ending 31 December 2016 for the transactions contemplated under the New Sinopec Guangzhou Branch Framework Master Agreement, the Company has taken into accounts (i) the historical figures of the transactions; (ii) the State-prescribed prices and the government approved prices for these services; (iii) in light of the demand for petroleum products in the PRC market, Sinopec Group is expected to import more crude oil and thus will consume more crude oil jetty services and its facilities; and (iv) given the nature of mutual reliance of the supply and consumption of the services and facilities by Sinopec Group in relation to the Huizhou Jetty, it is in the interest of the Group to capture such demands in the volume and quantity of this business.

We have discussed with the management of the Company the basis and assumptions underlying the determination of the proposed annual caps and understand that the calculation of the proposed caps are based on the historical figures of transactions with certain buffer reserved for the potential increase in demand from Sinopec Group and the expectation of the appreciation of Renminbi against Hong Kong dollar, and assuming the State-prescribed prices and the government approved prices will remain stable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In assessing the fairness and reasonableness of the proposed annual caps, we have reviewed the relevant documents issued by the relevant PRC authorities in respect of the State-prescribed prices on unloading of crude oil from oil tankers and dockage and the government-approved prices on storage of crude oil in oil tank and note that the State-prescribed prices and the government approved prices were stable for the past years.

We have also reviewed the historical transaction amount between the Group and Sinopec Guangzhou Branch in respect of crude oil jetty services and discussed with the Company the historical trends. We understand that, due to the availability of the pipeline for direct transmission of crude oil from the Huizhou Jetty to Sinopec Guangzhou Branch's refinery complex in Guangzhou and the quality of the jetty and other services provided by the Group, the Group has maintained long term and stable relationship with the Sinopec Guangzhou Branch and generated stable income stream for the provision crude oil jetty services to the Sinopec Guangzhou Branch. According to the interim report of the Company for the six months ended 30 June 2013, the provision of the crude oil jetty services to Sinopec Guangzhou Branch for the six months ended 30 June 2013 was decreased as a result of the planned maintenance carried out by Sinopec Guangzhou Branch, and as advised by the Company, such maintenance has been completed and it is expected that the provision of crude oil jetty services to Sinopec Guangzhou Branch will continue to be stable.

According to the data from the National Bureau of Statistics of China, the annual consumption of crude oil in the PRC was increasing from approximately 527 million tonnes of standard coal equivalent in 2007 to 647 million tonnes standard coal equivalent in 2011, representing a compound annual growth rate of approximately 5.3%. According to the annual average central parity of Renminbi against Hong Kong dollar, Renminbi has appreciated 5.0%, 2.0% and 1.7% against Hong Kong dollar in 2011, 2012 and 2013 (up to the Latest Practicable Date) respectively.

Having considered (i) the increasing trend for the annual consumption of crude oil in the PRC; (ii) the historical appreciation of Renminbi against Hong Kong dollar; and (iii) the fact that crude oil jetty services is one of the major operations of the Group and most of the revenue of this segment was generated from the transactions with Sinopec Guangzhou Branch, we concur with the management of the Company that it is reasonable and beneficial to the Group to reserve certain buffer in the annual caps to capture the increase in demand from Sinopec Guangzhou Branch to generate income in a timely manner and cater for the expected appreciation of Renminbi against Hong Kong dollar.

Based on the above, we are of the view that the annual caps for the three years ending 31 December 2016 are fair and reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. New Unipec Framework Master Agreement

2.1 Background and reasons for the entering into the New Unipec Framework Master Agreement

Unipec is a company established under the laws of the PRC with limited liability, which 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.

On 29 October 2013, the Company and Unipec entered into the New Unipec Framework Master Agreement for the trading activities in respect of crude oil supply and sourcing between the Group and Unipec Group.

Trading of crude oil is one of the major operations of the Group and, according to the management of the Company, Unipec Group is the only customer of the Group for the supply of crude oil due to the fact that the Group cannot supply crude oil and petroleum products to, or enter into written agreements with, its end users in the PRC directly pursuant to foreign trade laws and regulation of the PRC. Accordingly, the Group enters into written contracts with Unipec which have crude oil and petroleum product import trading rights in the PRC.

The Group also sources crude oil from Unipec Group. The crude oil trading business with Unipec Group can facilitate the crude oil bonded business (i.e. the storage of crude oil and related services) of the Group so as to maintain the crude oil bonded business qualification permitted by the PRC government.

We understand from the Company that the Group has supplied to and sourced from the Unipec Group crude oil for over 10 years and having considered the long term and satisfactory business relationship with Unipec Group, the Group expects the continuous business relationship with Unipec can be maintained.

Having considered (i) the supply of crude oil to Unipec Group is essential to the operations of the crude oil trading business of the Group; (ii) the economic benefits for crude oil trading with Unipec Group; and (iii) the long term and stable business relationship with Unipec Group, we are of the view that the entering into of the New Unipec Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2.2 Principal terms of the New Unipec Framework Master Agreement

Pursuant to the New Unipec Framework Master Agreement, the prices payable for (i) the supply of crude oil by the Group to the members of the Unipec; and (ii) the sourcing of crude oil by the Group from the members of the Unipec are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The payment terms will be determined by the parties on a transaction-by-transaction basis, in accordance with market norms and on normal commercial terms, and with reference to the specifications and requirements of different oil cargos being traded in different transactions, including type, quantity, transportation and shipping terms. Pursuant to the New Unipet Framework Master Agreement, the Group will enter into separate written agreements within the term of the New Unipet Framework Master Agreement with members of the Unipet Group on a transaction-by-transaction basis for (i) the supply of crude oil to the members of the Unipet Group; and (ii) the sourcing of crude oil from members of the Unipet Group. 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.

As advised by the Company, during the Review Period, Unipet Group is the only customer of the Group in respect of the supply of crude oil and thus, there was no transaction with independent third parties which is comparable to the trading of crude oil with Unipet Group. Accordingly, we have reviewed sample copies of agreements and invoices with Unipet Group in respect of the trading of crude oil for the Review Period and note that (i) the prices were charged based on the negotiation between the parties to the agreements with reference to the international market prices and included the storage cost (which was charged with reference to the government approved prices) and other related cost such as freight charges and insurance; and (ii) the credit terms were consistent with the credit terms of 30 to 90 days as set out in the 2012 Annual Report.

Based on the above, we are of the view that the terms of the New Unipet Framework Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2.3 Annual caps

Below sets out the historical transactions amounts and the proposed annual caps under the New Unipet Framework Master Agreement:

	Historical transaction amounts (HK\$' million)			Proposed annual caps (HK\$' million)		
	For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
	2011	2012	2013	2014	2015	2016
Crude oil supply	18,800	20,900	12,600	30,000	35,000	42,000
Crude oil sourcing	338	831	194	1,140	1,140	1,200

In respect of the crude oil supply, the increase in the annual caps is determined after considering (i) the historical amounts of the 2011 and 2012 financial years and of the first six months of 2013; (ii) the high volatility in both the international and the PRC market price of crude oil and petroleum products; (iii) the anticipated increasing demand of petroleum products and crude oil by the crude oil refineries in the PRC; (iv) the spot price and the anticipated price of crude oil for the next three years; and (v) the anticipated oil supply business of the Group for the next three years.

In respect of the crude oil sourcing, the annual caps are determined based on the factors which include the high volatility in both the international and the PRC market price of crude oil and petroleum products, and the demand of petroleum products and crude oil by the crude oil refineries in the PRC.

In assessing the fairness and reasonableness of the annual caps for the sourcing of crude oil, we have made reference to the historical crude oil spot price according to the data from the Bloomberg as follows:



Source: Bloomberg

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the historical price of crude oil was volatile. Based on the data from Bloomberg, crude oil spot price rocketed from approximately US\$94.5 per barrel on 1 January 2008 to approximately US\$145.9 per barrel on 3 July 2008 and plummeted to approximately US\$33.8 per barrel on 24 December 2008. The crude oil spot price then bounced back in 2009 and 2010, and hovered within the range of US\$89 per barrel to US\$128 per barrel from 2011 and up to the latest available data from Bloomberg.

According to the data from the National Bureau of Statistics of China, the annual consumption of crude oil in the PRC was increasing from approximately 527 million tonnes of standard coal equivalent in 2007 to 647 million tonnes standard coal equivalent in 2011, representing a compound annual growth rate of approximately 5.3%.

We have also reviewed the historical transaction amounts and note that

- i. in respect of the crude oil supply, the historical transaction amount for the year ended 31 December 2012 and the annualised historical transaction amount for the six months ended 30 June 2013 represented an increase of approximately 11.2% and 20.6% as compared to that of the prior year respectively, which is in line with the increase in proposed annual caps for the years ending 31 December 2016, being approximately 19.0%, 16.7% and 20.0%, as compared to that of the prior year (or the annualised amount for the six months ended 30 June 2013) respectively; and
- ii. in respect of the crude oil sourcing, the historical transaction amount for the year ended 31 December 2012 represented approximately 2.5 times of the historical transaction amount for the year ended 31 December 2011, and the annualised historical transaction amount for the six months ended 30 June 2013 represented a decrease of approximately 53.3% as compared to that for the year ended 31 December 2012. Having considered the historical transaction amount was volatile, we are of the view that the proposed annual caps for two years ending 31 December 2014 and 2015, which represent approximately 2.9 times of the annualised historical transaction amount for the six months ended 30 June 2013 is fair and reasonable.

Having considered the volatility of the market price of crude oil, the increasing trend of the annual consumption of crude oil in the PRC and the historical transaction amount, we are of the view that the proposed annual caps of the crude oil supply and sourcing for the three years ending 31 December 2016 are fair and reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. New Sinopec Finance Financial Services Framework Master Agreement

3.1 Background and reasons for the entering into the New Sinopec Finance Financial Services Framework Master Agreement

On 29 October 2013, Huade and Sinopec Finance entered into the New Sinopec Finance Financial Services Framework Master Agreement for the provision of intra group financial services by Sinopec Finance to Huade Group.

The intra group financial services to be provided by Sinopec Finance to the Huade Group in the PRC include loan services, deposit services, conducting entrusted loans, conducting bill acceptance and discount services, and conducting transfer and relevant settlement services and planning of settlement scheme. Sinopec Finance has agreed to provide financial services other than those aforesaid services to the Huade Group at Huade's request or instruction provided that Sinopec Finance has obtained the relevant approval from the CBRC.

Sinopec Finance, owned as to 49% and 51% by Sinopec Corp. and Sinopec Group Company respectively, is duly established in the PRC as a non-banking financial institution in 1988 and principally engaged in the provision of, among others, deposit services, loan services, entrusted loan services and entrusted investment services. Sinopec Finance is regulated by the PBOC and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities. Sinopec Finance is subject to the risk monitoring indicators under the Measures for the Administration of the Finance Companies of Enterprise Groups 《企業集團財務公司管理辦法》 (the “**CBRC Measures**”) promulgated by the CBRC, which includes, among others, (i) the capital adequacy ratio; (ii) the level of borrowings; (iii) the level of outstanding guarantees provided; and (iv) certain assets to capital ratios. Pursuant to the CBRC Measures, Sinopec Group Company has also provided an undertaking to CBRC that Sinopec Group Company will, when Sinopec Finance facing difficulties in meeting its payment obligations, increase its capital as required to solve such payment difficulties.

As at 31 December 2012 and 30 June 2013, Sinopec Finance had total assets of approximately RMB124.5 billion and RMB119.8 billion respectively, shareholders' equity of approximately RMB15.8 billion and RMB15.9 billion respectively, registered capital of RMB10 billion and RMB10 billion respectively, and the capital adequacy ratio of approximately 26.8% and 24.28% respectively.

As set out in the Letter from the Board, the customers of Sinopec Finance are limited to entities within Sinopec Group and its subsidiaries pursuant to relevant regulations of the PBOC and the CBRC, thereby reducing the risks that Sinopec Finance may otherwise be exposed to if its customers include other entities unrelated to Sinopec Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the management of the Company that the purpose of setting up Sinopec Finance is to, among other things, facilitate handling of the corporate funding and related financial activities of member companies within the Sinopec Group, such as providing the settlement platform for the member companies within Sinopec Group and granting loans to member companies of the Sinopec Group from the pool of funds in the accounts maintained by Sinopec Finance. As such, the depositing fund of the Huade Group with Sinopec Finance may expose to, among others, the credit risks of other members of the Sinopec Group which was granted with loans from Sinopec Finance and the possible material adverse change in the financial conditions of Sinopec Finance. In addition, Sinopec Finance, being a finance company of an enterprise group, is subject to different measures and standards promulgated by the CBRC with the commercial banks in the PRC. Having considered (i) Sinopec Finance is regulated by the PBOC and the CBRC (in particular, is subject to certain risk monitoring indicators under CBRC Measures) and is backed by the undertaking provided by the Sinopec Group Company; and (ii) the deposit services with Sinopec Finance provide the Group an alternative but do not preclude the Group from using the services of other commercial banks, we are of the view that the risks involved in depositing funds with the Sinopec Finance is acceptable.

As further advised by the Company, the Huade Group maintains the deposits account with Sinopec Finance mainly for cash deposits and clearing the settlement of payments with other members of Sinopec Group in the PRC and, pursuant to the New Sinopec Finance Financial Services Framework Master Agreement, the deposit rates offered by Sinopec Finance to the Huade Group should be no lower than the interest rate for deposits offered by other independent commercial banks in the PRC. As the customers of Sinopec Finance is limited to member companies within Sinopec Group and the fact that Sinopec Guangzhou Branch, the major customer of the Group, also maintains the account in Sinopec Finance, this centralised cash management function would reduce the time of capital in transit and accelerate the turnover of cashflow, thereby enhancing the quality and efficiency of capital utilisation. This centralised platform also enables loans to be granted within the Sinopec Group, which reduce the need of the members of the Sinopec Group (including the Group) for external financing and thereby reducing interest cost and other administrative procedures and time.

Having considered (i) the capital management benefits of the Group by utilising the financial services provided by Sinopec Finance; (ii) that Sinopec Finance is regulated by the PBOC and the CBRC and is backed by the undertaking provided by the Sinopec Group; (iii) that the customers of Sinopec Finance are limited to entities within Sinopec Group and its subsidiaries pursuant to relevant regulations of the PBOC and the CBRC, which limited the risks exposed; and (iv) the deposit services with Sinopec Finance provide the Group an alternative but do not preclude the Group from using the services of other commercial banks, we are of the view that the entering into of the New Sinopec Finance Financial Services Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3.2 *Principal terms of the New Sinopec Finance Financial Services Framework Master Agreement*

Pursuant to the New Sinopec Finance Financial Services Framework Master Agreement, Sinopec Finance has undertaken to adhere the following principles in respect of the financial services to be provided by Sinopec Finance to the Huade Group within the PRC:

Type of services	Basis of determining the fees or rate charged
Deposits services	– fixed as the deposit interest rate as announced by the PBOC from time to time; and – no lower than the interest rate for deposits offered by other independent commercial banks in the PRC and in compliance with laws and regulations
Loans services	– base lending rate as announced by the PBOC from time to time; and – no higher than the interest rate for loans offered by other independent commercial banks in the PRC
Discount services	– the rate as announced by PBOC from time to time and with reference to the market situation; and – no higher than the discount rate offered by other independent commercial banks in the PRC
Entrusted loans	– no higher than the fee offered by other independent commercial banks in the PRC
Transfer and relevant settlement services	– free of charge; or – amount of service charges relating to such transfer and relevant settlement services have been imposed by independent commercial banks on Sinopec Finance

As set out in the Letter from the Board, the provision of loans services contemplated under the New Sinopec Finance Financial Framework Master Agreement are exempt under Rule 14A.65(4) of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and the provision of entrusted loans and other financial services are exempt under the Rule 14A.31(2) of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

We have reviewed the deposit interest rate offering by Sinopec Finance to the Huade Group and note that it is consistent with the policy and interest rate as announced by the PBOC.

Based the above, and having considered that the fees/rates charged should be no less favourable than those offered by independent commercial banks in the PRC, we consider the terms of the New Sinopec Finance Financial Services Framework Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

3.3 Annual caps

Below sets out the historical maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by the Huade Group with Sinopec Finance and the proposed annual caps under the New Sinopec Finance Financial Services Framework Master Agreement:

Historical maximum outstanding balance for the deposits (RMB' million)			Proposed annual caps (RMB' million)		
For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
2011	2012	2013	2014	2015	2016
3	2	65	500	500	500

We have discussed with the management of the Company the basis and assumptions underlying the determination of the proposed annual caps and understand that, having considered the benefits of using the financial services provided by Sinopec Finance as discussed above, the Company plans to increase the utilisation of the settlement platform of Sinopec Finance to settle payments with other members of the Sinopec Group in the PRC and will gradually transfer their deposits funds to Sinopec Finance without affecting the relationships with other commercial banks in the PRC. As advised by the Company, payments received by Huade Group in the PRC are mainly generated from the provision of the crude oil jetty services to Sinopec Guangzhou Branch. We note that the historical transaction amount of the Group with Sinopec Group in respect of the crude oil jetty services amounted to approximately HK\$597 million for the year ended 31 December 2012, which is comparable to the proposed annual caps of RMB500 million (equivalent to approximately HK\$633.5 million). We also note from the interim report of the Company for the six months ended 30 June 2013 that the deposits of the Group at state-controlled banks in the PRC of approximately HK\$1,764 million as at 30 June 2013 represented approximately

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2.8 times the proposed maximum deposits to be placed at Sinopec Finance and thus, we are of the view that the transfer of deposits funds to Sinopec Finance up to the proposed annual cap of RMB500 million (equivalent to approximately HK\$633.5 million) may not have material impact on the relationship between the Group and other commercial banks in the PRC while at the same time increase the capital management flexibility of the Group.

Based on the above, we are of the view that the proposed annual caps are fair and reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

4. New Century Bright Financial Services Framework Master Agreement

4.1 Background and reasons for the entering into the New Century Bright Financial Services Framework Master Agreement

On 29 October 2013, the Company and Century Bright entered into the New Century Bright Financial Services Framework Master Agreement for the provision of deposit services and settlement and similar services by Century Bright to the members of the Group outside the PRC.

Century Bright is a limited liability company incorporated in Hong Kong. It is a wholly-owned subsidiary of Sinopec Group Company. The principal activities of Century Bright include providing settlement and similar services and taking deposits from members of the Sinopec Group outside the PRC, and conducting intra group loan transactions. Century Bright is a money lender registered under the Money Lender Ordinance (Cap. 163) in Hong Kong.

As at 31 December 2012 and 30 June 2013, Century Bright had total assets of approximately US\$23.9 billion and US\$33.9 billion respectively, and net assets of approximately US\$1.9 billion and US\$2.0 billion, respectively.

As advised by the management of the Company, the customers of Century Bright are limited to entities within Sinopec Group and its subsidiaries, which limits the operating risks of Century Bright, thereby reducing the risks that Century Bright may otherwise be exposed to if its customers include other entities unrelated to Sinopec Group.

We understand from the management of the Company that the purpose of setting up Century Bright is to, among other things, facilitate handling of the corporate funding and related financial activities of member companies within Sinopec Group outside PRC, such as providing the settlement platform for the member companies within Sinopec Group and granting loans to member companies of the Sinopec Group from the pool of funds in the accounts maintained by Century Bright. As such, the depositing fund of the Group with Century Bright may expose to, among others, the credit risks of other members of the Sinopec Group which was granted with loans from Century Bright and the possible material adverse change in the financial conditions of Century Bright. In

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

addition, Century Bright, being a money lender registered under the Money Lender Ordinance, is subject to different ordinances and standards with the commercial banks or other authorised institutions in Hong Kong. Having considered (i) Century Bright is a money lender registered under the Money Lender Ordinance (Cap. 163) in Hong Kong and is wholly-owned by Sinopec Group Company, a sizable corporation in the PRC; (ii) the Group can request from Century Bright for the provision of financial statements so as to monitor its financial position; and (iii) the deposit services with Century Bright provide the Group an alternative but do not preclude the Group from using the services of other commercial banks, we are of the view that the risks involved in depositing funds with the Century Bright is acceptable.

According to the management of the Company, the Group maintains the deposits account with Century Bright mainly for cash deposits (including dividends distributed from the subsidiaries of the Group) and clearing the settlement of payments with other members of Sinopec Group outside the PRC and, pursuant to the New Century Bright Financial Services Framework Master Agreement, the deposit rates offered by Century Bright to the Group should be equal to or higher than the interest rate as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time. As the customers of Century Bright is limited to member companies within Sinopec Group and the fact that Unipecc Group, the major customer of the Group, also maintains the account in Century Bright, this centralised cash management function would reduce the time of capital in transit and accelerate the turnover of cashflow, thereby enhancing the quality and efficiency of capital utilisation.

Having considered (i) the capital management benefits of the Group by utilising the financial services provided by Century Bright; (ii) that Century Bright is a money lender registered under the Money Lender Ordinance (Cap. 163) in Hong Kong and is wholly-owned by Sinopec Group Company, a sizable corporation in the PRC; (iii) that the customers of Century Bright are limited to entities within Sinopec Group and its subsidiaries, which limited the risks exposed; and (iv) the deposit services with Century Bright provide the Group an alternative but do not preclude the Group from using the services of other commercial banks, we are of the view that the entering into of the New Century Bright Financial Services Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4.2 *Principal terms of the New Century Bright Financial Services Framework Master Agreement*

Set out below are the basis of the interest rates or relevant service fees offered by Century Bright to the Group pursuant to the New Century Bright Financial Services Framework Master Agreement:

Type of services	Basis of determining the fees or rate charged
Deposit services	– equal to or higher than the interest rate offered by Century Bright to Sinopec Group Company, Sinopec Corp. and other members of Sinopec Group in similar deposit arrangement; and – equal to or higher than the interest rate as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited, collectively, the “Reference Banks”) from time to time
Settlement and similar services	– equal to or lower than the settlement and similar services charges offered by Century Bright to Sinopec Group Company, Sinopec Corp. and other members of Sinopec Group in similar settlement services arrangement; and – equal to or lower than the settlement and similar services charges as announced by independent commercial banks in Hong Kong (such as the Reference Banks) from time to time

We have reviewed the deposit interest rates offered and settlement fees charged by Century Bright to the Group and the deposit interest rates offered and settlement fees charged by the Reference Banks as set out at their websites and note that the deposit interest rates offered by Century Bright to the Group is equal to or higher than those offered by the Reference Banks and the settlement fees charged by Century Bright to the Group is equal to or lower than those charged by the Reference Banks.

Based the above, we consider the terms of the New Century Bright Financial Services Framework Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4.3 Annual caps

Below sets out the historical maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright and the proposed annual caps under the New Century Bright Financial Services Framework Master Agreement:

Historical maximum outstanding balance for the deposits (HK\$' million)			Proposed annual caps (HK\$' million)		
For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
2011	2012	2013	2014	2015	2016
149	79	31	500	500	500

In determining the proposed annual caps for the three years ending 31 December 2016 for the transactions contemplated under the New Century Bright Financial Services Framework Master Agreement, the Company has taken into accounts factors including expansion of business of the Group in the last financial year, the anticipated increase in the Group's cashflow movements, the anticipated increasing business volume of the Group, the financial control and treasure management of the Group, and the requirement to settle account receivables from the members units of Sinopec Group or any third party through the deposit accounts of the Group with Century Bright.

We note that the Group has completed certain acquisitions in the recent years, which includes (i) 50% equity interest in each of four crude oil terminal joint ventures in the PRC; (ii) 90% equity interest in one crude oil terminal joint venture in the PRC; (iii) 95% equity interest in PT. West Point Terminal, a company established to develop, construct, own, manage and operate the Batam Project; (iv) 50% in Vesta Terminals B.V., a company operating bulk liquid storage terminals in Europe; and (v) 50% equity interest in Fujairah Oil Terminal FZC, a company established to develop an oil storage project in United Arab Emirates.

We have further discussed with the management of the Company in respect of the increase in the proposed annual caps as compared to the historical maximum outstanding balance for the deposits and understand that such increase is proposed to cater for the expected increase in cash flow movements as a result of the dividends expected to be distributed from the aforesaid companies recently acquired. We note from the interim report of the Company for the six months ended 30 June 2013 that the investment returns from joint ventures of the Group was amounted to approximately HK\$165.9 million for the six months ended 30 June 2013.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the historical maximum deposits balance and the business expansion of the Group, we are of the view that the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

5. New Unipet Vessel Charter Framework Master Agreement

5.1 Background and reasons for the entering into the New Unipet Vessel Charter Framework Master Agreement

On 29 October 2013, Sinomart, a wholly-owned subsidiary of the Company, and Unipet entered into the New Unipet Vessel Charter Framework Master Agreement for the provision of vessel chartering services to Unipet.

Unipet is one of the largest crude oil traders in the PRC with a huge and steady demand for crude oil shipping services. To capture this business opportunities with Unipet Group, the Group has provided vessel chartering services to Unipet Group since 2011.

With an aim to become a first-class international crude oil and petrochemical products storage and logistic company and in order to accumulate and consolidate operating experiences in the shipping business, the Group commenced its vessel chartering business in 2011 by providing (i) vessels chartering for crude oil transportation; and (ii) floating oil storage facilities for oil tankers. The vessel chartering services of the Group are provided by sub-chartering the vessels chartered by the Group from the independent third party vessel owners.

Since the beginning of 2011, the Group has leased three vessels through long term contracts (the “**Vessel Leasing Contracts**”) in the open shipping market and such contracts have not been expired as at the Latest Practicable Date. As advised by the management of the Company, monthly fixed charter fee are charged pursuant to the Vessel Leasing Contracts, and loss may incur if the utilisation rate of the vessels leased by the Group is low and when the oil tankers spot market rate is lower than the charter rate pursuant to the Vessels Leasing Contracts. The provision of the vessel chartering services to Unipet Group can increase the utilisation rate of the vessels leased by the Group under the Vessel Leasing Contracts, and enables the Group to accumulate its experience in shipping industry.

Having considered (i) the transactions contemplated under the New Unipet Vessel Charter Framework Master Agreement are revenue in nature; (ii) Unipet is one of the largest crude oil traders in the PRC with a huge and steady demand for crude oil shipping services; and (iii) the provision of vessel chartering services to Unipet Group enables the Group to accumulate its experience in shipping industry and increase the utilisation rate of the vessels leased by the Group, we are of the view that the entering into of the New Unipet Vessel Charter Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5.2 *Principal terms of the New Unipet Vessel Charter Framework Master Agreement*

Pursuant to the New Unipet Vessel Charter Framework Master Agreement, the Group will enter into separate vessel charter contracts within the terms of the New Unipet Vessel Charter Framework Master Agreement with members of the Unipet Group for the provision of vessel chartering services on a transaction-by-transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade custom and the principle of fairness and will conclude the detailed terms and provisions in contracts and the agreements. The charter hire, related fees and payment will be based on the prevailing market charter hire, related fees and payment of vessel charter contracts (which are to be determined with reference to the price indexes set out in market research reports) on a transaction-by-transaction basis and are to be agreed between the parties on arm's length negotiation. The pricing indexes serve as reference points for the charter hire, related fees and payment of vessel charter contracts.

We have reviewed, for the Review Period, the sample copies of agreements and invoices for the transactions between the Unipet Group and the Group in respect of the vessel chartering and compared the freight rates offered by the Group to the available prevailing market rates according to Bloomberg. Based on the reviews, we note that the rates charged by the Group to the Unipet Group were comparable to the available prevailing market rates.

Based on the above, we are of the view that the terms of the New Unipet Vessel Charter Framework Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

5.3 *Annual caps*

Below sets out the historical transactions amounts and the proposed annual caps under the New Unipet Vessel Charter Framework Master Agreement:

Historical transaction amounts (US\$' million)			Proposed annual caps (US\$' million)		
For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
2011	2012	2013	2014	2015	2016
36	54	22	107	120	133

In determining the proposed annual caps for the three years ending 31 December 2016 for the transactions contemplated under the New Unipet Vessel Charter Framework Master Agreement, the Company has taken into accounts (i) the continuous global demand for vessel chartering services; (ii) the expected annual demand of Unipet Group in terms of crude oil shipping services in the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

next three years; and (iii) the average expected crude oil shipping charter hire and related fees in the next few years by reference to the prevailing global shipping market.

As further discussed with the management of the Company and we understand that the annual caps are calculated with reference to the expected transaction volume and the expected freight fees for the three years ending 31 December 2016. We note that the expected transaction volumes for the three years ending 31 December 2016 are the same and represent an increase of approximately 45.5% as compared to that for the year ended 31 December 2012. Such increase is comparable to the historical transaction volume growth for the year ended 31 December 2012. We further note that the freight fees used for determining the annual caps for the three years ending 31 December 2016 is higher than the average historical freight fees but within the range of the historical freight fees offered by the Group to Unipet Group in respect of vessel chartering services for the two years ended 31 December 2012 and the six months ended 30 June 2013. Having considered the proposed annual caps represent the expected maximum transaction amount between the Group and Unipet Group in respect of the vessel chartering services, we are of the view that the proposed annual caps are fair and reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

(II) MAJOR AND CONNECTED TRANSACTION REGARDING THE CONSTRUCTION OF THE BATAM OIL STORAGE TANKS AND OIL TERMINAL

Background and reasons for the entering into the Batam Construction Project Framework Agreement

Sinomart, a wholly-owned subsidiary of the Company, acquired PT. West Point in March 2013. PT. West Point is a private limited liability company incorporated and existing under the laws of Indonesia. The business purpose of PT. West Point is to develop, construct, own, manage and operate the Batam Project (i.e. an approximately 2,600,000 cubic meter crude oil and petroleum products storage and oil blending complex, and the supporting quay and port facilities, and a navigation channel dredging construction in the West Point Maritime Industrial Park, Batam Island, Indonesia).

PT. West Point will commence its construction of a 2.6 million cubic meter crude oil and petroleum products storage and other ancillary facilities, and the supporting quay and port facilities for Batam Project, and according to the management of the Company, such construction intends to be carried out by engaging a qualified contractor by way of tendering. Qualified contractors will be invited to submit tenders and, in accordance with the tendering procedure of the Group, a committee (which comprises of members who have no conflict of interest with the invited contractors) will be established to assist in the tendering and the contract awarding assessment process. After taking into account the advice of the committee, the board of directors of P.T. West Point will discuss and confirm which bidder will be awarded the construction works and submit the result to the board of commissioners for approval.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Sinomart intends to invite Sinopec Engineering, a connected person of the Company, to participate in a bidding for the construction project of Batam Oil Storage Tanks and Oil Terminal. As such, on 29 October 2013, Sinomart and Sinopec Engineering entered into the Batam Construction Project Framework Master Agreement, whereby the parties agreed that, upon the successful bid, Sinopec Engineering will provide the following services to the Group:

- (i) as the EPC Contractor, Sinopec Engineering will be responsible for the design, procurement of equipment and raw materials, construction and project arrangements;
- (ii) Sinomart and/or its subsidiaries will enter into various other contracts and agreements with Sinopec Engineering and its subsidiaries, pursuant to which the parties will negotiate with reference to, among other factors, laws 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;
- (iii) Sinopec Engineering will provide the services based on technical standards set out by Sinomart, including design, procurement, construction, management, construction, contracting, project coordination, supervision and project testing;
- (iv) upon completion of the Batam Project, Sinopec Engineering will coordinate the project work and carry out preliminary testing in accordance with the rules set out by Sinomart;
- (v) Sinopec Engineering will provide maintenance services after Sinomart completes the testing and inspection of the Batam Project. The warranty period will be stipulated in the relevant contract(s) and there will be differences among the applicable warranty period for different sections of the Batam Project; and
- (vi) Sinopec Engineering will provide any other services setting out under the Engineering and Construction Services Framework Agreement which may be applicable to the Batam Project.

The Batam Construction Project Framework Master Agreement will take effect on conditions that, among other things, the completion of the Group's tendering procedure in respect of the construction work for the Batam Oil Storage Tanks and Oil Terminal by 31 December 2013 and upon successful bid by Sinopec Engineering. Sinomart may waive such condition at its absolute discretion, and such waiver is to provide flexibility in situations where the Group decides not to award the EPC Contract by tender.

Sinopec Engineering is an oil refining, petrochemical and new coal chemical engineering company in the PRC providing services of licensing, engineering, consulting, engineering, procurement and construction (EPC) contracting, construction and equipment manufacturing to clients in a broad range of industries including oil

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation, environmental engineering and utilities.

According to the prospectus of Sinopec Engineering dated 10 May 2013 (the “**Sinopec Engineering Prospectus**”), the EPC contracting services of Sinopec Engineering cover all processes of a project including consulting, engineering, project management, procurement, construction, equipment manufacturing and overhaul and maintenance. It is also stated in the Sinopec Engineering Prospectus that Sinopec Engineering has provided the EPC services for over ten years, and have undertaken projects for a large number of oil refineries and petrochemical plants in the PRC and served as a general contractor for a number of large-scale oil refining and petrochemical projects in overseas markets, including Singapore, Kazakhstan and Saudi Arabia. Sinopec Engineering also completed a number of petroleum storage projects.

Having considered (i), the business development of PT. West Point; (ii) the relevant background and experience of Sinopec Engineering; and (iii) that the entering into of the Batam Construction Project Framework Master Agreement can provide the Group a wider selection of qualified contractors for the construction of Batam Oil Storage Tanks and Oil Terminal, we are of the view that the entering into the Batam Construction Project Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole.

Principal terms of the Batam Construction Project Framework Agreement

According to the Sinopec Engineering Prospectus, Sinopec Engineering entered into an engineering and construction services framework agreement with Sinopec Group Company on 19 December 2012 (the “**Engineering and Construction Services Framework Agreement**”), pursuant to which Sinopec Engineering will provide engineering and construction services to the Sinopec Group Company and/or its associates. The Batam Construction Project Framework Master Agreement is entered into based on the principal terms of the Engineering and Construction Services Framework Agreement, and the Batam Construction Project Framework Master Agreement must be in compliance with the terms of the Engineering and Construction Services Framework Agreement (including but not limited to the annual caps, pricing policy, contract period, etc.).

Pursuant to the Batam Construction Project Framework Master Agreement, upon successful bid, the Company and its subsidiaries will enter into the EPC Contract and other contracts and agreements with Sinopec Engineering and its subsidiaries by which the parties will negotiate with reference to, among other factors, laws 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 (including but not limited to the requirements, quality and payment method in respect of the technical standards, design, procurement, construction, management,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

implementation, subcontracting, project management, project supervision and project testing, other terms and requirements under the Engineering and Construction Services Framework Agreement, and any other terms).

We have reviewed the Sinopec Engineering Prospectus and note that (i) the Engineering and Construction Services Framework Agreement is valid for a term of three years commencing on the listing date of the Sinopec Engineering (i.e. 23 May 2013); (ii) the pricing of the services provided under the Engineering and Construction Services Framework Agreement shall be determined in accordance with the principles of, in ascending order, (a) government-prescribed price and government-guided price; (b) tender and bidding price; (c) market price; and (d) agreed price; and (iii) the annual caps for the transactions under the Engineering and Construction Services Framework Agreement are RMB21 billion, RMB24 billion and RMB27.6 billion for the three years ending 31 December 2015.

Pursuant to the Batam Construction Project Framework Master Agreement, Sinopec Engineering may tender for the Group's construction works as EPC Contractor for the Batam Oil Storage Tanks and Oil Terminal in accordance with the tendering procedure of the Group from time to time. If the Group decides not to select qualified general contractors for the construction work by tender for the Batam Oil Storage Tanks and Oil Terminal by tender and decides to engage Sinopec Engineering in the construction work, the total contract sum to be awarded by the Group to Sinopec Engineering shall be the fair market price for the relevant service (to be determined by the parties after negotiation) on normal commercial terms or the terms offered to Sinomart shall be on terms no less favourable than those entered into by Sinopec Engineering and independent third parties for comparable services.

As set out in the Letter from the Board, the maximum service fees payable under the Batam Construction Project Framework Master Agreement will not exceed US\$738 million (equivalent to approximately HK\$5,741.6 million), which is determined with reference to a feasibility study report. We have reviewed the feasibility study report and note that such service fees of US\$738 million is the estimated total investment cost for the construction of Batam Oil Storage Tanks and Oil Terminal and is calculated based on the relevant costs which includes, among others, the material costs, equipment costs, construction costs and instalments fees for the oil tanks, berths and other ancillary facilities for the Batam Project. We understand from the Company that such estimated investment cost as set out in the feasibility study report is the expected maximum service fees payable for the construction of Batam Oil Storage Tanks and Oil Terminal and the final contract sum to be awarded for the construction works for the Batam Oil Storage Tanks and Oil Terminal will be determined by way of tendering or based on the arms length negotiation between the Group and Sinopec Engineering in case the Group decides not to select qualified general contractors for the construction work by tender and decides to engage Sinopec Engineering in the construction work.

Having considered that tendering procedures are required for awarding the construction works for the Batam Oil Storage Tanks and Oil Terminal, and in case where contract is awarded to Sinopec Engineering without going through the tendering procedures, the contract is to be entered into based on normal commercial terms along

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the basis of market price, we are of the view that the terms of the Batam Construction Project Framework Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we are of the view that (i) the entering into of the New Framework Master Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and that the terms of the New Framework Master Agreements are normal commercial terms, and together with the proposed annual caps, are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Batam Construction Project Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole, and that the terms of the Batam Construction Project Framework Agreement are normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the New Framework Master Agreements (together with the proposed annual caps) and the Batam Construction Project Framework Master Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
Managing Director

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2010, 2011 and 2012 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.sinopec.com.hk>):

- annual report of the Company for the year ended 31 December 2012 dated 22 March 2013 and published on 27 March 2013 (pages 32-102);
- annual report of the Company for the year ended 31 December 2011 dated 21 February 2012 and published on 28 February 2012 (pages 28-92); and
- annual report of the Company for the year ended 31 December 2010 dated 22 March 2011 and published on 31 March 2011 (pages 23-86).

2. INDEBTEDNESS

As at the close of business on 30 September 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had no outstanding unguaranteed and unsecured borrowings.

As at 30 September 2013, unguaranteed and unsecured loan facilities amounting to approximately USD500 million (approximately HK\$3,900 million) was provided by a fellow subsidiary.

Save as aforesaid above, at the close of business on 30 September 2013, the Group did not have any outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits or hire purchase commitments, or any guarantees or any contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 30 September 2013.

3. WORKING CAPITAL

Taking into account the financial resources available to the Group, including the internally generated funds and the available financing facilities, the Directors of the Company are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this Circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5. FINANCIAL EFFECT OF ENTERING INTO THE BATAM CONSTRUCTION PROJECT FRAMEWORK MASTER AGREEMENT ON THE COMPANY

Upon the successful bid, the Batam Construction Project Framework Master Agreement is intended to be funded by the Group's internal resources and the available financing facilities. Accordingly, the construction work of the Batam Oil Storage Tanks and Oil Terminal will increase the Group's fixed assets and liabilities and may increase the debt-to-equity ratio, while it will decrease the current assets. The Directors do not expect that the construction works for the Batam Oil Storage Tanks and Oil Terminal will have material financial effect on the Group's earnings.

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. DISCLOSURE OF INTERESTS**Directors' interests and short positions**

As at the Latest Practicable Date, none of the Directors and the chief executives of the Company or any of their spouses or children under eighteen years of age has any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules.

Directors' and expert's interests in any asset acquired, disposed or leased

As at the Latest Practicable Date, none of the Directors or expert (as referred to below) has any material interest, direct or indirect, in any asset which, since 31 December 2012, 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

As at the Latest Practicable Date, none of the Directors has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one (1) year without the payment of compensation, other than normal statutory obligations.

Directors' interest in contracts and arrangements

No contracts or arrangements of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest subsisted as at the Latest Practicable Date.

Competing interest

Mr. Dai Zhao Ming, Mr. Zhu Zeng Qing, Mr. Zhu Jian Min, Mr. Tan Ke Fei and Mr. Zhou Feng, being executive Directors of the Company, are also directors of SKI, the controlling Shareholder of the Company, abstained from voting on the relevant resolutions in the Board meeting to approve each of the transactions contemplated in this Circular.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective associates had any interest, direct or indirect, in a business which competes or may compete with the business of the Group.

3. SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at the Latest Practicable Date, Shareholders who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions), or which were entered in the register of interests required to be kept by the Company under section 336 of the SFO were as follows:

Name of interested party	Number of shares	Percentage of shareholding (%)
Sinopec Kantons International Limited	1,500,000,000	60.33

Note: The entire issued share capital of Sinopec Kantons International Limited is held by Unipec. The controlling interest in the registered capital of Unipec is ultimately held by Sinopec Group Company.

Save as disclosed above, the Company has not been notified by any person who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions), or which were entered in the register of interests required to be kept by the Company under section 336 of the SFO.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group 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.

5. EXPERT AND CONSENT

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

Name	Qualification
Quam Capital Limited	A licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity

Quam Capital Limited has given and has not withdrawn its written consent to the issue of this Circular with the inclusion therein of its letter and the reference to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Quam Capital Limited had no interest, direct or indirect, 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.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the placing and subscription agreement dated 3 May 2013 entered into between SKI, the Company, Merrill Lynch Far East Limited, J.P. Morgan Securities plc, and Nomura International (Hong Kong) Limited in relation to the placing of existing shares and subscription of 412,500,000 shares at the placing price of HK\$6.50 each under general mandate;
- (b) the equity subscription agreement dated 28 December 2012 entered into between Sinomart, Concord Energy Oil Terminal (Hong Kong) Limited (“**Concord HK**”), Concord Energy Pte Ltd (“**Concord Energy**”), the Company, Fujairah Oil Terminal FZC (“**FOT**”) and international banks and commercial banks which are independent third parties named therein, pursuant to which Sinomart and Concord HK as shareholders of FOT shall make certain equity contributions to FOT of an aggregate amount of US\$50,859,474.59 each in relation to a project consisting of 1,155,000 cubic metre capacity petroleum crude and product storage terminal with ancillary facilities being developed by FOT in the Emirate of Fujairah;
- (c) the capital increase agreement dated 20 December 2012 entered into between Sinomart and 青島港(集團)有限公司 (Qingdao Port (Group) Company Limited*) (“**Qingdao Port Group**”) in order to make the capital increase in 青島實華原油碼頭有限公司 (Qingdao Shihua Crude Oil Terminal Company Limited*) (“**Qingdao Shihua**”) by Sinomart and Qingdao Port Group in an amount of RMB400 million each to increase the registered capital of Qingdao Shihua from RMB200 million to RMB1,000 million;
- (d) the sale and purchase agreement dated 15 October 2012 entered into between Sinomart (as purchaser), the Company (as purchaser’s guarantor), Mercuria Energy Asset Management B.V. (as vendor) and Mercuria Energy Group Limited (as vendor’s guarantor), in respect of the acquisition of 50% equity interest in Vesta Terminals B.V. at the consideration of Euro 128.6 million;
- (e) the share purchase agreement dated 9 October 2012 entered into between Sinomart as purchaser, and PT. Batam Sentralindo (“**PBS**”) and Mas Capital Trust (“**MCT**”) (each as vendor) in relation to the acquisition of 95% equity interest in PT. West Point at the total consideration of Rp.4,750,000,000;
- (f) the underwriting agreement dated 21 February 2012 entered into between the Company and Merrill Lynch Far East Limited as the underwriter in relation to the issue of 1,036,830,000 new ordinary share(s) of HK\$0.1 each in the share capital of the Company (the “**Rights Share(s)**”) by the Company by way of a rights issue on the basis of up to one (1) Rights Share for every one (1) existing share held on 1 March 2012 at the subscription price of HK\$3.37 per Rights Share;

- (g) the sale and purchase agreement dated 9 January 2012 entered into between Sinomart as purchaser and Concord HK as vendor in respect of the acquisition of 50% of the issued share capital of FOT at the consideration of US\$25,050,000 (and, as applicable, 1% of the issued share capital of FOT at the consideration of US\$9,001,000 as control shares);
- (h) the Tangshan Caofeidian Shihua acquisition agreement dated 3 December 2011 entered into between Sinomart as purchaser and Sinopec Corp. as vendor in respect of the acquisition of 90% equity interest in 唐山曹妃甸實華原油碼頭有限公司 (Tangshan Caofeidian Shihua Crude Oil Terminal Company Limited*) at the consideration of RMB273,308,900;
- (i) the Rizhao Shihua acquisition agreement dated 3 December 2011 entered into between Sinomart as purchaser and Sinopec Corp. as vendor in respect of the acquisition of 50% equity interest in 日照實華原油碼頭有限公司 (Rizhao Shihua Crude Oil Terminal Company Limited*) at the consideration of RMB427,869,300;
- (j) the Tianjin Port Shihua acquisition agreement dated 3 December 2011 entered into between Sinomart as purchaser and Sinopec Corp. as vendor in respect of the acquisition of 50% equity interest in 天津港實華原油碼頭有限公司 (Tianjin Port Shihua Crude Oil Terminal Company Limited*) at the consideration of RMB349,546,800;
- (k) the Qingdao Shihua acquisition agreement dated 3 December 2011 entered into between Sinomart as purchaser and Sinopec Corp. as vendor in respect of the acquisition of 50% equity interest in 青島實華原油碼頭有限公司 (Qingdao Shihua Crude Oil Terminal Company Limited*) at the consideration of RMB585,797,600; and
- (l) the Ningbo Shihua acquisition agreement dated 3 December 2011 entered into between Sinomart as purchaser and Sinopec Corp. as vendor in respect of the acquisition of 50% equity interest in 寧波實華原油碼頭有限公司 (Ningbo Shihua Crude Oil Terminal Company Limited) at the consideration of RMB173,284,700.

* for identification purposes only.

7. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Mr. Li Wen Ping and Mr. Lai Yang Chau, Eugene (practicing solicitor).
- (b) The principal place of business of the Company in Hong Kong is 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, 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 the form of proxy prevail over the Chinese translation in the case of discrepancy.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 2703, 27/F, The Center, 99 Queen's Road Central, Hong Kong during normal business hours from the date of this Circular up to and including 13 December 2013:

- (a) the Bye-Laws of the Company;
- (b) the New Sinopec Guangzhou Branch Framework Master Agreement;
- (c) the New Unipet Framework Master Agreement;
- (d) the New Sinopec Finance Financial Services Framework Master Agreement;
- (e) the New Century Bright Financial Services Framework Master Agreement;
- (f) the New Unipet Vessel Charter Framework Master Agreement;
- (g) the Batam Construction Project Framework Master Agreement;
- (h) the material contracts referred to in section 6 of this appendix;
- (i) the annual reports of the Company, which includes the audited consolidated financial statements of the Group for the two financial years ending 31 December 2011 and 2012;
- (j) the letter from Quam Capital Limited as the Independent Financial Adviser as set out on pages 37 to 62 in this Circular;
- (k) the written consent from Quam Capital Limited referred to in section 5 of this appendix;
- (l) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out on pages 35 to 36 in this Circular; and
- (m) this Circular.

NOTICE OF SPECIAL GENERAL MEETING



SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司) *

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Sinopec Kantons Holdings Limited (the “Company”) will be held at Salon Rooms 2-3, 5/F., Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on Friday, 13 December 2013 at 10:00 a.m. and at any adjournment thereof for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the Company’s entering into of the New Sinopec Guangzhou Branch Framework Master Agreement (as defined in the circular of the Company dated 18 November 2013 (the “Circular”)) be and is hereby approved;
- (b) the proposed annual caps for the crude oil jetty services under the New Sinopec Guangzhou Branch Framework Master Agreement (as set out in the Circular) for each of the three financial years ending 31 December 2016 be and are hereby approved; and
- (c) any Director be and is hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the New Sinopec Guangzhou Branch Framework Master Agreement with such changes as the Directors may consider necessary, desirable or expedient.”

2. “**THAT**

- (a) the Company’s entering into of the New Unipet Framework Master Agreement (as defined in the Circular) be and is hereby approved;
- (b) the proposed annual caps for the crude oil supply and sourcing under the New Unipet Framework Master Agreement (as set out in the Circular) for each of the three financial years ending 31 December 2016 be and are hereby approved; and

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (c) any Director be and is hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the New Unipet Framework Master Agreement with such changes as the Directors may consider necessary, desirable or expedient.”

3. **“THAT**

- (a) the Company’s entering into of the New Sinopec Finance Financial Services Framework Master Agreement (as defined in the Circular) be and is hereby approved;
- (b) the proposed annual caps for the intra group financial services under the New Sinopec Finance Financial Services Framework Master Agreement (as set out in the Circular) for each of the three financial years ending 31 December 2016 be and are hereby approved; and
- (c) any Director be and is hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the New Sinopec Finance Financial Services Framework Master Agreement with such changes as the Directors may consider necessary, desirable or expedient.”

4. **“THAT**

- (a) the Company’s entering into of the New Century Bright Financial Services Framework Master Agreement (as defined in the Circular) be and is hereby approved;
- (b) the proposed annual caps for the deposit services and settlement and similar services under the New Century Bright Financial Services Framework Master Agreement (as set out in the Circular) for each of the three financial years ending 31 December 2016 be and are hereby approved; and
- (c) any Director be and is hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the New Century Bright Financial Services Framework Master Agreement with such changes as the Directors may consider necessary, desirable or expedient.”

5. **“THAT**

- (a) the Company’s entering into of the New Unipet Vessel Charter Framework Master Agreement (as defined in the Circular) be and is hereby approved;

NOTICE OF SPECIAL GENERAL MEETING

- (b) the proposed annual caps for the vessel chartering services under the New Unipac Vessel Charter Framework Master Agreement (as set out in the Circular) for each of the three financial years ending 31 December 2016 be and are hereby approved; and
- (c) any Director be and is hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the New Unipac Vessel Charter Framework Master Agreement with such changes as the Directors may consider necessary, desirable or expedient.”

6. “**THAT**

- (a) the Company’s entering into of the Batam Construction Project Framework Master Agreement (as defined in the Circular) be and is hereby approved; and
- (b) any Director be and is hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the Batam Construction Project Framework Master Agreement with such changes as the Directors may consider necessary, desirable or expedient.”

By Order of the Board of
Sinopec Kantons Holdings Limited
Dai Zhao Ming
Chairman

Hong Kong, 18 November 2013

Principal office:
34/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. Any member entitled to attend and vote at the meeting (or any adjournment thereof) convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him/her in accordance with the provisions of the Bye-laws of the Company. A proxy need not be a member of the Company.
2. The resolutions proposed at the SGM will be voted by way of poll.
3. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible, and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting thereof (as the case may be).

As at the date of this notice, the Board of Directors comprises of the following:

Executive Directors:

Mr. Dai Zhao Ming (*Chairman*)
Mr. Zhu Zeng Qing (*Deputy Chairman*)
Mr. Zhu Jian Min
Mr. Tan Ke Fei
Mr. Zhou Feng
Mr. Ye Zhi Jun (*Managing Director*)

Independent non-executive Directors:

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