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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 (the “Company”), you should at once hand this circular together with the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司) *

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION
TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN
SINOPEC YU JI PIPELINE COMPANY LIMITED**

AND

(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS

Financial Adviser

BofA Merrill Lynch

Independent Financial Adviser

to the Independent Board Committee and the Independent Shareholders



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 29 of this circular.

A letter from the Independent Board Committee is set out on pages 30 to 31 of this circular.

A letter from the Independent Financial Adviser containing the advice to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 63 of this circular.

A notice convening the SGM to be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 10 February 2015 at 10:00 a.m. and at any adjournment thereof is set out on pages N-1 to N-3 of this circular. Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, 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. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish.

* *For identification purpose only*

20 January 2015

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DEFINITIONS

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

“Acquisition”	:	the acquisition of the entire equity interest in Yu Ji Pipeline Company by Sinomart Development pursuant to the terms and conditions under the Acquisition Agreement and the transactions contemplated thereunder;
“Acquisition Agreement”	:	the acquisition agreement dated 30 December 2014 entered into between Sinopec Corp. and Sinomart Development in respect of the Acquisition;
“ASBE”	:	the Accounting Standards for Business Enterprises issued by Ministry of Finance of the PRC;
“associate(s)”	:	has the meaning ascribed to it in the Listing Rules;
“Board”	:	the board of Directors;
“CBRC”	:	China Banking Regulatory Commission (中國銀行業監督管理委員會);
“the Company”	:	Sinopec Kantons Holdings Limited, a limited liability company incorporated in Bermuda, the shares of which are listed on the Stock Exchange;
“Completion”	:	completion of the Acquisition in accordance with the Acquisition Agreement;
“Director(s)”	:	the director(s) of the Company;
“Enlarged Group”	:	the Group as enlarged by the Acquisition;
“Exempt Proposed Continuing Connected Transactions”	:	including the Services Outsourcing Framework Master Agreement and the Gas Storage Framework Master Lease Agreement;
“Financial Adviser”	:	Merrill Lynch (Asia Pacific) Limited;
“Gas Storage Framework Master Lease Agreement”	:	the gas storage framework master lease agreement dated 30 December 2014 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company in respect of leasing of certain gas storage facilities to Yu Ji Pipeline Company;
“Group”	:	the Company and its subsidiaries;
“HKFRS”	:	Hong Kong Financial Reporting Standards;

DEFINITIONS

- “Hong Kong” : the Hong Kong Special Administrative Region of the People’s Republic of China;
- “Huade” : Hua De Petrochemical Co., Ltd. (惠州市大亞灣華德石化有限公司), which is established under the laws of the PRC with limited liability, an indirect wholly-owned subsidiary of the Company;
- “Independent Board Committee” : an independent board committee of the Company constituted to consider the terms of the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions and to advise and make recommendations to the Independent Shareholders as to how to vote at the SGM on the ordinary resolution regarding the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions. Ms. Tam Wai Chu, Maria and Dr. Wong Yau Kar, David have been appointed by the Board to serve as members of the Independent Board Committee;
- “Independent Financial Adviser” or “Sommerley” : Sommerley Capital Limited, a licensed corporation under the SFO for carrying out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions;
- “Independent Shareholders” : Shareholders other than the controlling shareholders of the Company, namely SKI, Sinopec Group Company, Sinopec Corp., Unipecc and any of their respective associates;
- “Lands and Buildings Framework Master Lease Agreement” : lands and buildings framework master lease agreement dated 30 December 2014 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company in respect of leasing of certain parcels of lands and buildings in relation to Yulin-Jinan Pipeline Project;
- “Latest Practicable Date” : 14 January 2015, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;

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“Listing Rules”	:	the Rules Governing the Listing of Securities on the Stock Exchange;
“Natural Gas Transmission Services Framework Master Agreement”	:	natural gas transmission services framework master agreement dated 30 December 2014 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company in respect of provision of natural gas transmission services from Yu Ji Pipeline Company to its natural gas delivery point(s) designated by Sinopec Natural Gas Branch Company;
“Non-Exempt Proposed Continuing Connected Transactions”	:	the continuing transactions to be entered into by Yu Ji Pipeline Company with the connected parties of the Company, including Natural Gas Transmission Services Framework Master Agreement and the Yu Ji Pipeline Financial Services Framework Master Agreement;
“PBOC”	:	People’s Bank of China (中國人民銀行);
“PRC”	:	the People’s Republic of China, but for the purposes of this circular only, excluding Hong Kong, Macau and Taiwan;
“Proposed Continuing Connected Transactions”	:	the Non-Exempt Proposed Continuing Connected Transactions, the Exempt Proposed Continuing Connected Transactions and the Lands and Buildings Framework Master Lease Agreement and the financial assistances provided by Sinopec Corp. to Yu Ji Pipeline Company;
“Services Outsourcing Framework Master Agreement”	:	comprehensive services outsourcing framework master agreement dated 30 December 2014 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company in respect of provision of outsourcing services by Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company;
“SGM”	:	the special general meeting of the Company to be convened and held for the Independent Shareholders on 10 February 2015 to consider and approve (among other things), if thought fit, the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions;
“Share(s)”	:	the ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	:	person(s) whose name(s) appear on the register of members as registered holder(s) of Share(s);

DEFINITIONS

“Sinomart Development”		Sinomart KTS Development Limited (經貿冠德發展有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company;
“Sinopec Corp.”	:	中國石油化工股份有限公司 (China Petroleum & Chemical Corporation), a joint-stock limited liability company incorporated in the PRC, the shares of which are listed on the stock exchanges of Hong Kong (stock code: 386), Shanghai (stock code: 600028), New York (stock code: SNP) and London (stock code: SNP);
“Sinopec Group”	:	Sinopec Group Company and its subsidiaries;
“Sinopec Group Company”	:	中國石油化工集團公司 (China Petrochemical Corporation), a state-owned enterprise established under the laws of the PRC;
“Sinopec Natural Gas Branch Company”	:	中國石油化工股份有限公司天然氣分公司 (Sinopec Natural Gas Branch Company*), a branch of Sinopec Corp.;
“SKI”	:	Sinopec Kantons International Limited, a limited liability company incorporated in the British Virgin Islands and is the immediate controlling Shareholder of the Company;
“State”	:	the government of PRC;
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	:	shall have the meaning ascribed to that term in the Listing Rules;
“Unipec”	:	中國國際石油化工聯合有限公司 (China International United Petroleum and Chemicals Co. Ltd.), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of Sinopec Corp.;
“Valuation Date”	:	30 November 2014;
“Valuation Report”	:	the valuation report of the entire equity interest of Yu Ji Pipeline Company prepared by the Valuer;
“Valuer” or “ZhongHe Appraisal Co., Ltd.”	:	中和資產評估有限公司 (ZhongHe Appraisal Co., Ltd.*), an independent qualified PRC Valuer;
“Yu Ji Pipeline Company”	:	中石化榆濟管道有限責任公司 (Sinopec Yu Ji Pipeline Company Limited), a limited liability company incorporated in the PRC on 27 October 2014 owning the Yulin-Jinan Pipeline Project;

DEFINITIONS

“Yu Ji Pipeline Financial Services Framework Master Agreement”	:	the financial services framework master agreement dated 30 December 2014 entered into between Yu Ji Pipeline Company and Sinopec Finance in respect of provision of various financial services by Sinopec Finance;
“Yulin-Jinan Pipeline Project”	:	Yulin, Shaanxi Province to Jinan, Shandong Province Natural Gas Transmission Pipelines of about 944.93 km long, which pass through four provinces including Shaanxi Province, Shanxi Province, Henan Province and Shandong Province, the PRC, and the ancillary facilities;
“Zhan Jiang Port Petrochemical Terminal Co.”	:	湛江港石化碼頭有限責任公司 (Zhan Jiang Port Petrochemical Terminal Co., Ltd.*) (formerly known as Zhan Jiang Port Petrochemical Jetty Co., Ltd.*), a limited liability company incorporated in the PRC, which is held as to 50% by Sinomart Development, and 50% by 湛江港集團股份有限公司 (Zhan Jiang Port (Group) Co., Ltd.*), a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules);
“HK\$” or “HKD”	:	Hong Kong dollar(s), the lawful currency of Hong Kong;
“RMB”	:	Renminbi, the lawful currency of the PRC;
“bcm”	:	billion cubic metres;
“km”	:	kilometre(s); and
“%”	:	per cent.

In this circular, unless otherwise stated, amounts in Renminbi have been converted into Hong Kong dollars at the rate of RMB1 = HK\$1.25 for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted.

** The English names of the PRC entities referred to in this circular are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

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. Chen Bo (*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:

Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark
Dr. Wong Yau Kar, David

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Place of business in Hong Kong:

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

20 January 2015

To the Shareholders,

Dear Sir or Madam,

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION
TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN
SINOPEC YU JI PIPELINE COMPANY LIMITED
AND
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS**

I. INTRODUCTION

On 30 December 2014, the Board announced its Acquisition in respect of acquiring the entire equity interest in Yu Ji Pipeline Company from Sinopec Corp. and the Proposed Continuing Connected Transactions entered into between Yu Ji Pipeline Company and subsidiaries of Sinopec Corp. in relation to the continuing transactions upon Completion.

The purpose of this circular is to provide you with further information regarding the Acquisition and the Proposed Continuing Connected Transactions.

* For identification purpose only

LETTER FROM THE BOARD

II. THE ACQUISITION

A. The Acquisition Agreement

(a) **Date**

30 December 2014

(b) **Parties**

(i) Vendor: Sinopec Corp.

(ii) Purchaser: Sinomart Development

(c) **Assets to be acquired**

Pursuant to the Acquisition Agreement, Sinopec Corp. conditionally agreed to sell and Sinomart Development conditionally agreed to purchase the entire equity interest in Yu Ji Pipeline Company, which in turn owns Yulin-Jinan Pipeline Project.

(d) **Consideration**

The consideration payable by Sinomart Development for the Acquisition is RMB2,576,881,100. Pursuant to the Acquisition Agreement, the consideration will be paid in cash within 30 business days from the date of the conditions precedent of the Acquisition Agreement have been fulfilled.

The Directors (including the independent non-executive Directors, and members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) are of the view that the consideration for the Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Company intends to satisfy payment for the consideration by the internal resources of the Group and/or other equity/debt financing, as may be arranged by the Board. Up to the Latest Practicable Date, the Company has yet finalised any equity/debt financing plan, and the financing plan will be at the discretion of the Board upon taking consideration of various factors, such as the market conditions and the terms of financing from the financial institutions.

(e) **Basis of consideration**

The consideration for the Acquisition has been arrived at after arm's length negotiation between Sinomart Development and Sinopec Corp., and was determined based on the valuation of Yu Ji Pipeline Company as at the Valuation Date, being 30 November 2014, appraised by the Valuer, an independent firm of qualified PRC valuer (designated by the PRC government to conduct valuation of

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state-owned assets), including the income approach. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Valuer, namely ZhongHe Appraisal Co., Ltd., is independent and not connected with the Company, Sinopec Corp., the Financial Adviser, the auditors of the Company (namely PricewaterhouseCoopers), the reporting accountants of Yu Ji Pipeline Company (namely, Grant Thornton Hong Kong Limited), and their respective ultimate beneficial owners.

The Directors (including the independent non-executive Directors, and members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that it would be appropriate for the Company to use the income approach for valuation of the entire equity interests in Yu Ji Pipeline Company on the basis that (i) by adopting the income approach, the parties would have regard to factors, such as the future business potential and financial performance of Yu Ji Pipeline Company (subject to assumptions setting out in sub-paragraph headed “(f) valuation methodology and assumptions” below); and (ii) the income approach is in line with the applicable PRC laws and regulations in respect of valuation of PRC state-owned assets.

Yu Ji Pipeline Company was established by Sinopec Corp. on 27 October 2014 by way of injection of the assets and liabilities relating to the Yulin Jinan Pipeline Project which commenced operation in around October 2010. According to the audited financial statements of Yu Ji Pipeline Company prepared in accordance with Hong Kong Financial Reporting Standards, the net asset value of Yu Ji Pipeline Company as at 31 December 2013 and 30 November 2014 was approximately RMB1,291.26 million and RMB1,539.37 million respectively. The audited net profit before and after tax of Yu Ji Pipeline Company for the two years ended 31 December 2013 and the eleven months ended 30 November 2014 prepared in accordance with Hong Kong Financial Reporting Standards were as follows:

	Year ended 31 December		For the eleven months ended
	2012	2013	30 November
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
	(audited)	(audited)	(audited)
Net profit before tax	330.09	352.52	331.99
Net profit after tax	247.56	264.39	248.99

The Company understands that the original investment cost of the entire equity interest of Yu Ji Pipeline Company to Sinopec Corp. was approximately RMB1,466.81 million.

LETTER FROM THE BOARD

(f) Valuation methodology and assumptions

As at the Valuation Date, the business valuation of the entire equity interest of Yu Ji Pipeline Company as per the Valuation Report prepared by the Valuer was approximately RMB2,576.88 million. As at the Valuation Date, the audited net assets value of Yu Ji Pipeline Company as per the audited financial statements prepared in accordance with ASBE was RMB1,539.37 million.

The Valuation Report prepared by the Valuer has been reviewed by the Board to assist the determination of the consideration of the Acquisition. The business valuation of Yu Ji Pipeline Company prepared by the Valuer, for which the income approach has been used, constitutes profit forecast for the purpose of Rule 14.61 of the Listing Rules, and accordingly, the requirements under Rule 14.62 of the Listing Rules are applicable to the Acquisition. The Directors (including the independent non-executive Directors, and members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) are of the view that such business valuation of the entire equity interest of Yu Ji Pipeline Company has been prepared after due and careful enquiry.

The Valuation Report states that, in the course of conducting the valuation, the principal assumptions upon which the profit forecast for Yu Ji Pipeline Company has been made are as follows:

- (1) there is no material change in the existing national and local laws and regulations, systems and social, political and economic policies applicable to Yu Ji Pipeline Company during the course of its operation;
- (2) Yu Ji Pipeline Company will maintain its on-going operation which in line with its current mode of business operation;
- (3) there is no material change in the prevailing tax base and rates, bank loan interest rates and other policies on fees in the PRC;
- (4) there are no force majeure events or unforeseeable factors that result in significant adverse impact;
- (5) it is assumed that the technical team and senior managers of Yu Ji Pipeline Company remain relatively stable in the respective years, and there is no severe loss of core professional staff;
- (6) it is assumed that the current and future managers of Yu Ji Pipeline Company are responsible persons, and the management of Yu Ji Pipeline Company can steadily promote its development plan and the company can maintain a favorable operating environment;

LETTER FROM THE BOARD

- (7) the future operators of Yu Ji Pipeline Company obey the relevant laws and regulations, and there will be no major violations that may affect the development and earnings of Yu Ji Pipeline Company; and
- (8) it is assumed that the accounting policies used in the financial reports provided by Yu Ji Pipeline Company and the accounting policies, as well as accounting calculation used for earning-forecast, remain basically unchanged in material aspects.

The Company has engaged the reporting accountants of Yu Ji Pipeline Company, Grant Thornton Hong Kong Limited, to review the arithmetical calculations of the discounted future estimated cash flows on which the business valuation in respect of the appraisal of the fair value of the entire equity interest in Yu Ji Pipeline Company as at 30 November 2014 is based. The Financial Adviser has discussed the profit forecast with the Company. The letter from the reporting accountants of Yu Ji Pipeline Company, Grant Thornton Hong Kong Limited, and the letter from the Financial Adviser for the purpose of Rule 14.62 of the Listing Rules are included in this circular to be despatched to the Shareholders.

The Directors (including the independent non-executive Directors, and members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that the valuation of Yu Ji Pipeline Company, as of the Valuation Date is fair and reasonable.

Further information in relation to the Valuation Report

Reference is made to Appendix V headed “Valuation Report” to this circular, and the Valuer further reviewed and confirmed the following information:

- (1) In page V-16 under the heading “(2) Houses, buildings and structures: 1. Determination of the total cost of replacement”, with respect to the construction and installation engineering, upfront fees and cost of capital used to determine the total cost of replacement, the basis is that: (a) the construction and installation engineering cost is based on the construction volume from the audited information and the fixed construction and installation engineering costs in the relevant places as at the valuation date; (b) upfront fees are based on the fixed price standards of Sinopec Corp.; and (c) cost of capital is based on (major material expenses + construction and installation engineering expenses + upfront fees) x reasonable working days x interest rate / 2
- (2) In page V-16 under the heading “(2) Houses, buildings and structures: 2. Determination of newness rate: (2) Newness rate from sourcing approach”, the background of scoring standard used to determine the newness rate: the newness rate is derived from the evaluation standard in respect of the houses (building) structure, which evaluates, compares, scores and summarise the different components of the houses (building) structure. According to the

LETTER FROM THE BOARD

investigation based on Evaluation Standard of the Condition and Damage Level of Buildings, Basis of Reference for Surveying Present Condition of Housing and the Scoring and Correction Factor of Various Newness Rate, the main content of examination includes: newness rate by scoring approach = scores for the structure \times G + scores for renovation \times S + scores for equipment \times B (G: weight for structure; S: weight for renovation; B: weight for equipment)

- (3) In page V-22 under the heading “4. selection of discount rates”, the parameters used to determine the discount rate includes: (i) cost of equity capital is based on the calculation result from capital asset pricing model as set out in the Valuation Report, being 12.94%; (ii) cost of debt capital is based on the interest rate for long-term loans at the time point of the valuation date announced by Bank of China, being 6.00%; and (iii) rate of income tax is based on the tax rate applicable to the enterprise appraised, being 25%. Based on the aforesaid, the discount rate is 11.42%.
- (4) In respect of the sensitivity analysis, the Valuer confirmed that the major parameters for the valuation of the total equity interest of Yu Ji Pipeline Company are: (1) revenue, (2) costs and (3) discount rate. With respect of the revenue and costs, as advised by the Valuer, as the revenue is calculated based on the transmission capacity and the State-prescribed prices, and the natural gas production capacity from the natural gas field connected to the Yulin-Jinan Pipeline Project, the annual transmission capacity, and steady demand from its customer and the ultimate customers with stable cashflows, as well as the stable prices prescribed by the State government, the Valuer considers that it is unnecessary to prepare the sensitivity analysis on revenue growth; the costs are calculated based on the depreciation on fixed assets, electricity costs and gas storage rental etc. First, the depreciation is determined on the original cost of the fixed assets and the depreciation policy which is relatively accurate and such depreciation would not affect the cash flow of the company. Second, the electricity costs are mainly from the use of gas compression machinery with steady transmission capacity and standard specification and function, which the Valuer considers that the electricity costs will be steady. Third, the Valuer also considers that rental for gas storage is steady which based on the pricing of Gas Storage Framework Master Lease Agreement. The Valuer considers that as PRC remains the interest rate cutting cycle, the discount rate shall be between 10.82% and 11.42%. The table below shows sensitivity analysis on the fair market value of was made by varying the discount rate with revenue based on the final conclusion of the valuation.

LETTER FROM THE BOARD

Discount rate	Valuation (RMB)
11.42%	2,576,881,100
11.27%	2,639,262,900
11.12%	2,703,177,100
10.97%	2,768,294,300
10.82%	2,834,644,200

(g) Conditions precedent

The Acquisition Agreement will become effective upon the satisfaction of, among other things, the following conditions precedent:

- (i) the due execution by Sinopec Corp. and Sinomart Development of the Acquisition Agreement;
- (ii) the parties having completed their respective internal approval procedures in relation to the Acquisition and having obtained relevant approvals, including but not limited to the approval of the Independent Shareholders in respect of the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions at the SGM; and
- (iii) the parties having obtained the approvals from the approving authorities including the Ministry of Commerce of the PRC required in connection with the Acquisition Agreement.

Up to the Latest Practicable Date, the above condition (i) has been fulfilled. If any of the conditions is not fulfilled within 12 months from the date on which such resolution in respect of the Acquisition is approved by the Independent Shareholders at the SGM, the Acquisition Agreement and the transactions contemplated thereunder will be terminated simultaneously.

(h) Completion

The Completion shall take place on the date agreed by the parties. Upon the Completion, Yu Ji Pipeline Company will become a wholly-owned subsidiary of the Company and the assets, liabilities and the financial results of Yu Ji Pipeline Company will be consolidated into the consolidated financial statements of the Company.

B. REASONS FOR AND BENEFITS OF THE ACQUISITION

In order to continue to expand the operating scale and enhance profitability of the Group, the Group intends to acquire 100% equity interest in Yu Ji Pipeline Company from Sinopec Corp. The Board believes that the Acquisition is consistent with the development strategy of the Group, which can bring long-term strategic advantage to the Group, including but not limited to:

LETTER FROM THE BOARD

1. Benefit from long-term consumption demands of natural gas in the PRC

During the recent years, the stable economic development in the PRC and the attention paid to and continuous investment in environment protection by the government, has enhanced the rapid development of natural gas and met with rigid demand in the PRC.

In 2013, natural gas import volume in PRC reached approximately 53.0 bcm, representing a significant increase of 25% as compared to last year, and natural gas consumption volume for the whole year reached approximately 150.0 bcm, natural gas dependence has for the first time exceeded 30%, reaching approximately 31.6%. According to “12th Five-Year” plan of the PRC, it is expected that by 2015, the PRC will be the second largest natural gas consumption country, and by that time, the PRC’s natural gas production will reach approximately 176.0 bcm, with the consumption of over 230.0 bcm. Looking forward, the demand for natural gas in the PRC will still be at the stage of rapid development before 2030. According to “13th Five-Year” plan of the PRC and the forecast of International Energy Agency, it is expected that the demand for natural gas will be approximately 350.0 bcm by 2020, and will break through 392.0 bcm by 2030.

Yulin-Jinan Pipeline Project is responsible for the transmission of natural gas of Ordos Basin Daniudi Gas Field (鄂爾多斯盆地大牛地氣田), which represents an important asset of realising the Group’s deployment in natural gas transmission logistics sector so as to enable the Group to benefit from the fast-growing natural gas market in the PRC and the favorable development trend.

2. Satisfy the development strategy and positioning of the Group, which is beneficial to enhancing the competitive advantage of the Group’s core business

The development positioning of the Group is to become a first-class international petrochemical storage logistics company. In order to achieve such development, the Group actively develops and continues to integrate the construction and operating business of petrochemical storage and logistics facilities, by having completed the equity acquisition of the six (6) oil terminal companies, namely Zhan Jiang Port Petrochemical Terminal Co., Ltd.* (湛江港石化碼頭有限責任公司), Ningbo Shihua Crude Oil Terminal Co., Ltd.* (寧波實華原油碼頭有限公司), Qingdao Shihua Crude Oil Terminal Co., Ltd.* (青島實華原油碼頭有限公司), Tianjin Port Shihua Crude Oil Terminal Co., Ltd.* (天津港實華原油碼頭有限公司), Rizhao Shihua Crude Oil Terminal Co., Ltd.* (日照實華原油碼頭有限公司) and Tangshan Caofeidian Shihua Crude Oil Terminal Co., Ltd.* (唐山曹妃甸實華原油碼頭有限公司). The Group has initially developed the qualities of being an international first-class storage company.

The length of the pipeline of the Yulin-Jinan Pipeline Project in respect of the Acquisition is approximately 944.93 km, starting from Yulin, Shaanxi province in the west of the PRC, and ending at Shandong Qihe in the east, by passing through four provinces, namely Shaanxi, Shanxi, Henan and Shandong. The pipeline contains an

* For identification purpose only

LETTER FROM THE BOARD

annual designed capacity of 3 bcm, mainly for the purpose of transmitting natural gas of Ordos Basin Daniudi Gas Field (鄂爾多斯盆地大牛地氣田) of Sinopec Corp, to Shandong province in the east of the PRC. It is a key energy project and a key construction project recognized by the “11th Five-Year” plan of the PRC, and is also an important part of construction plan of natural gas transmission pipeline network of the PRC.

The Directors (including the independent non-executive Directors, and members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) believe that the Acquisition is beneficial to the Group’s optimisation of the layout of midstream infrastructures such as oil and gas storage and pipelines, so as to further enrich its strategic assets combination, to promote further diversification of the Group’s business and to speed up the development of professionalism of the Group. This will enhance the operation of natural gas storage and transportation and logistics volume of the Group, in order to upgrade the scale of crude oil and gas storage transportation business to a new level.

3. Further improve profitability of the Group

The Group currently owns an oil transmission pipeline with approximately 174 km long through its wholly-owned subsidiary, Huizhou Huade Petrochemical Co., Ltd.* (惠州華德石化有限公司). The current size of the Group’s pipeline assets is relatively small. Through acquiring the Yulin-Jinan Pipeline Project, it will further improve the size of pipeline transmission assets of the Group. Meanwhile, as the income of Yulin-Jinan Pipeline Project is attributable from the natural gas assets of which their price is subject to supervision and of which they contribute to stable cash flow, it will also benefit from the large-scale popularization of natural gas consumption and the continuous improvement in market share, which further enhance the profitability of the Group.

4. Establish platform for future development

Upon Completion, there will be a significant increase in the fixed assets, income and cash flow of the Group. While providing storage and logistic services of high quality and efficiency for the upper, middle and lower streams of business of Sinopec Group, the Group can create synergy with the upper, middle and lower streams of business of Sinopec Group by fully utilizing the Sinopec Group’s own demand and the advantages of its storage and logistics reasons. This will enable the Group to fulfil its strategic goal of becoming a leading oil and gas storage and logistics company in the future. Apart from the Acquisition, the Group currently has no plan to acquire other business or assets from Sinopec Group.

The Directors (including independent non-executive Directors, and members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) are of the view that the terms of the Acquisition under the Acquisition Agreement are fair and reasonable and in the interest of the Shareholders and the Group as a whole.

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C. FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Yu Ji Pipeline Company will become an indirect wholly-owned subsidiary of the Company and the financial information of Yu Ji Pipeline Company will be consolidated into the consolidated financial statements of the Group. After the Completion, the Enlarged Group will continue its business focusing on the trading of crude oil and petroleum products, the operation of crude oil terminals and its ancillary facilities as well as natural gas transmission services.

As disclosed in the unaudited consolidated statement of financial position of the Group as at 30 June 2014, the unaudited total assets and liabilities of the Group as at 30 June 2014 were approximately HK\$11,002.2 million and HK\$857.3 million, respectively, whereas as set out in Appendix I to this Circular, the unaudited pro forma total assets and pro forma total liabilities of the Enlarged Group as at 30 June 2014 following the Acquisition will be HK\$17,293.0 million and HK\$8,465.7 million.

The financial effects of the Acquisition on the Group are set out in Appendix I to this circular and as follows:

- (a) As of 30 June 2014, the consolidated total assets of the Group were approximately HK\$857.3 million. According to the unaudited pro forma financial information, the unaudited pro forma consolidated total assets of the Enlarged Group would have been increased to approximately HK\$17,293.0 million.
- (b) As of 30 June 2014, the consolidated total liabilities of the Group were approximately HK\$10,144.9 million. According to the unaudited pro forma financial information, the unaudited pro forma consolidated total liabilities of the Enlarged Group would have been decreased to approximately HK\$8,465.7 million.
- (c) As of 30 June 2014, the total equity of the Group was approximately HK\$10,144.9 million. According to the unaudited pro forma financial information, the unaudited pro forma total equity of the Enlarged Group would have been decreased to approximately HK\$8,827.3 million.
- (d) For the year ended 31 December 2013, the consolidated net profit of the Group was HK\$491.4 million and according to the accountants' report of Yu Ji Pipeline Company as set out in Appendix II to this circular, the audited net profit before tax for the year ended 31 December 2013 and eleven months ended 30 November 2014 was amounted to RMB352.52 million and RMB331.99 million respectively. The Directors believe that Yu Ji Pipeline Company will be able to generate profit attributable to the Shareholders in the future.

Set out in Appendix I of this circular is the "Unaudited Pro Forma Financial Information of the Enlarged Group" and the basis of preparation thereon.

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D. BUSINESS MODEL OF YU JI PIPELINE COMPANY

Yu Ji Pipeline Company was established by Sinopec Corp. on 27 October 2014 by way of injection of the assets and liabilities relating to the Yulin-Jinan Pipeline Project which commenced operation in around October 2010. Before the restructuring, Sinopec Natural Gas Branch Company was responsible for sale and transmission of natural gas to the customers.

Yu Ji Pipeline Company is principally engaged in natural gas pipeline transmission services with its Yulin-Jinan Pipeline Project. During the three years ended 31 December 2013, the revenue of Yu Ji Pipeline Company was generated from provision of natural gas pipeline transmission services to its customers, including Sinopec Corp. and its subsidiaries, as well as the independent city gas operators. In order to improve the administrative and management efficiency and reduce the possible administration costs, and also to reduce the possible credit risk from the independent city gas operators, from the end of 2013, Yu Ji Pipeline Company deals with Sinopec Natural Gas Branch Company only for transmission of natural gas to the designated delivery point(s). In other words, Sinopec Natural Gas Branch Company becomes the only customer of Yu Ji Pipeline Company, and all revenue was derived from the transactions for provision of natural gas pipeline transmission services entered into with Sinopec Natural Gas Branch Company. Sinopec Natural Gas Branch Company directly deals with its customers, including the independent city gas operators, for sale and transmission of natural gas, and collects the fees for transmission of natural gas from its customers which the fees will be subject to the State-prescribed prices.

Yulin-Jinan Pipeline Project is a unique infrastructure project, which is responsible for the transmission of natural gas of Daniudi Gas Field of Sinopec Corp. and passing through four provinces, namely, Shaanxi, Shanxi, Henan and Shandong provinces. It is a key energy project and a key construction project recognized by the “11th Five-Year” plan of the PRC, and is also an important part of construction plan of natural gas transmission pipeline network of the PRC. Therefore, the Company considers that the risk of loss of Sinopec Natural Gas Branch Company as its single customer is minimal.

As advised by the director of Yu Ji Pipeline Company, there is no other similar pipeline project with similar coverage as the Yulin-Jinan Pipeline Project, and the recent drop in oil price did not have any material impact on the trading prospect and operation of Yu Ji Pipeline Company, as the pricing of the pipeline transmission fee has been determined in accordance with the fixed price prescribed by the National Development and Reform Commission upon commencement of the pipeline’s operation.

III. THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

Upon Completion, Yu Ji Pipeline Company will become a wholly-owned subsidiary of the Company, and its continuing transactions with Sinopec Corp. and its subsidiaries will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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A. THE NON-EXEMPT PROPOSED CONTINUING CONNECTED TRANSACTIONS

Below sets out the Non-Exempt Proposed Continuing Connected Transactions arising upon the Completion, which the applicable percentage ratios (as defined under the Listing Rules) for the value of the caps are more than 5% and hence will not be qualified as de minimis transactions and will be subject to the reporting, announcement and Independent Shareholders' approval requirements (where applicable) under Chapter 14A the Listing Rules.

(a) Natural Gas Transmission Services Framework Master Agreement

On 30 December 2014, Yu Ji Pipeline Company has entered into the Natural Gas Transmission Services Framework Master Agreement with Sinopec Natural Gas Branch Company in respect of the provision of natural gas pipeline transmission services from Yu Ji Pipeline Company to Sinopec Natural Gas Branch Company by transmitting through the Yulin-Jinan Pipeline Project owned by Yu Ji Pipeline Company to the natural gas delivery point(s) designated by Sinopec Natural Gas Branch Company.

The Natural Gas Transmission Services Framework Master Agreement will be valid for a term of three years up to 31 December 2017.

Pricing basis

Under the Natural Gas Transmission Services Framework Master Agreement, the pipeline transmission fee was determined in accordance with the Reply of the National Development and Reform Commission regarding the Yulin Natural Gas Pipeline Transmission Fee (Fa Gai Jia Ge [2010] No. 2780) (《國家發展改革委關於榆林天然氣管道運輸價格的批覆》(發改價格[2010]2780號)) which shall be adjusted subject to adjustment(s) as announced by the State or the relevant local government authorities.

Historical amounts

The aggregate amounts received by Yu Ji Pipeline Company in respect of these transactions with Sinopec Corp. and its subsidiaries were approximately RMB82.0 million, RMB138.0 million, RMB222.0 million and RMB1,047.8 million for the three financial years ended 31 December 2013 and for eleven months ended 30 November 2014 respectively.

During the year ended 31 December 2013, the majority of the revenue on provision of the natural gas pipeline transmission services was generated from the transactions with the independent city gas operators. Starting from the end of 2013, Yu Ji Pipeline Company entered into all transactions on provision of the natural gas pipeline transmission services with Sinopec Natural Gas Branch Company, instead of those independent gas operators. As such, the actual transaction amount for the eleven months ended 30 November 2014 is significantly higher than such actual transaction amount for the year ended 31 December 2013.

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Annual caps and payment terms

The Company estimates that the aggregate amounts to be received by the Group in respect of these transactions under the Natural Gas Transmission Services Framework Master Agreement shall not exceed RMB1,343 million, RMB1,478 million and RMB1,550 million for each of the three financial years ending 31 December 2017 respectively.

In arriving at the aforesaid annual caps, the Directors (including the independent non-executive Directors, and members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) have taken into account the factors, including (i) the State-prescribed prices or government-approved prices for transmission fee in respect of Yulin-Jinan Pipeline Project, (ii) the historical amounts of the transactions, (iii) the natural gas transmission capacity of Yulin-Jinan Pipeline Project and (iv) the market demand of natural gas. Further, the proposed annual caps for the three years ending 31 December 2015, 2016 and 2017 have been determined based on (i) the projected transaction amounts of natural gas pipeline transmission services for the three years ending 31 December 2015, 2016 and 2017 which are used by the Valuer to arrive at the appraised value of Yu Ji Pipeline Company; and (ii) a buffer of 10% for each of the year to allow flexibility to Yu Ji Pipeline Company's operations.

The payment terms of these transactions will be determined by the parties on a transaction-by-transaction basis, and individual agreements under the Natural Gas Transmission Services Framework Master Agreement will be signed between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company for each of these transactions in accordance with market norms and on normal commercial terms, and with reference to the specifications and requirements, such as quantity, delivery point(s) and transmission terms. The management of Yu Ji Pipeline Company will consider from time to time the market norms in relation to the similar transactions which are in other provinces in the PRC, such as the pipelines of Sinopec Corp. from Sichuan to Shanghai, before entering into the individual agreements. As individual agreements will be entered into between the parties subject to the specifications and requirements of each transaction, the payment terms will also be agreed upon by the parties on a transaction-by-transaction basis. The price for provision of natural gas transmission services will be charged by Yu Ji Pipeline Company in accordance with the State-prescribed prices without deduction of costs or charges under the Natural Gas Transmission Services Framework Master Agreement.

(b) Yu Ji Pipeline Financial Services Framework Master Agreement

On 30 December 2014, Yu Ji Pipeline Company entered into the Yu Ji Pipeline Financial Services Framework Master Agreement with Sinopec Finance for provision of intra group financial services by Sinopec Finance to Yu Ji Pipeline Company. The Yu Ji Pipeline Financial Services Framework Master Agreement will be valid for a term of three years up to 31 December 2017.

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Nature of the transactions

The intra group financial services to be provided by Sinopec Finance to Yu Ji Pipeline Company 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 Yu Ji Pipeline Company at its request or instruction provided that Sinopec Finance has obtained the relevant approval(s) from the CBRC.

Pricing basis

Sinopec Finance has undertaken to adhere to the principles below in providing the afore-mentioned financial services to Yu Ji Pipeline Company within the PRC:

- (i) the interest rate for Yu Ji Pipeline Company'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 Yu Ji Pipeline Company 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, Yu Ji Pipeline Company will then be charged the same by Sinopec Finance.

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.

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- (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 Yu Ji Pipeline Company to check the status of its deposits with Sinopec Finance each business day to enable Yu Ji Pipeline Company to monitor and ensure that the maximum outstanding balance at any time (including any interest accrued therefrom) for Yu Ji Pipeline Company'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 Yu Ji Pipeline Company immediately 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 Yu Ji Pipeline Company upon request.

Historical amounts

The historical amounts of the maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by Yu Ji Pipeline Company with Sinopec Finance for the three years ended 31 December 2013 were approximately RMB1.72 million, RMB1.71 million and RMB3.05 million respectively, and approximately RMB247.56 million for the eleven months ended 30 November 2014.

Annual caps

(a) Deposit services

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 Yu Ji Pipeline Company with Sinopec Finance will be RMB500 million, RMB600 million and RMB800 million for each of the three financial years ending 31 December 2017 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 Yu Ji Pipeline Company and the following factors have been considered by Yu Ji Pipeline Company:

- (1) in order to strengthen the centralised management of funds and monitor the use of funds, the Sinopec Group will utilize 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;

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- (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 Yu Ji Pipeline Company 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 Yu Ji Pipeline Company 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 Yu Ji Pipeline Company's funds settlement business at Sinopec Finance, settlement expenses will be undertaken by Sinopec Finance while Yu Ji Pipeline Company 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 Yu Ji Pipeline Company the same accordingly;
- (5) Sinopec Finance undertakes that the major shareholder shall not appropriate Yu Ji Pipeline Company's funds; and
- (6) given the future development and needs of Yu Ji Pipeline Company, the Board plans to increase the deposits placed by Yu Ji Pipeline Company with Sinopec Finance for the three financial years ending 31 December 2017.

(b) Loan services and conducting bill acceptance and discount services

In view of the loan services provided by Sinopec Finance to Yu Ji Pipeline Company 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.90 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 Yu Ji Pipeline Financial Services Framework Master Agreement are fair and reasonable and are in the interest of the Shareholders as a whole.

(c) 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 Yu Ji Pipeline Company 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.

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The total fees payable by Yu Ji Pipeline Company to Sinopec Finance and the terms in respect of entrustment loans and other financial services shall not be higher than the fees charged or less favourable than the terms by other major financial institutions for the entrustment loans and financial services of similar types. The Company expects that each of the percentage ratios of such fees payable will fall within the de minimis threshold as stipulated under Rule 14A.76(1) 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 Yu Ji Pipeline Company under the Yu Ji Pipeline Financial Services Framework Master Agreement exceed the relevant threshold.

B. THE EXEMPT PROPOSED CONTINUING CONNECTED TRANSACTIONS

Below sets out the Exempt Proposed Continuing Connected Transactions which their applicable ratios for the value of the caps are less than 5% but more than 0.1% and hence will be subject to the reporting and announcement requirements but exempt from Independent Shareholders' approval under Rule 14A.76(2) of the Listing Rules.

(a) Gas Storage Framework Master Lease Agreement

On 30 December 2014, Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company entered into the Gas Storage Framework Master Lease Agreement, pursuant to which Sinopec Natural Gas Branch Company agreed to lease to Yu Ji Pipeline Company certain gas storage facilities for a term of three years up to 31 December 2017.

Pricing basis

Under the Gas Storage Framework Master Lease Agreement, the lease of gas storage facilities from Sinopec Natural Gas Branch Company by Yu Ji Pipeline Company will continue to be conducted on arm's length negotiation between the parties and on normal commercial terms with reference to the costs and taxes, and will be adjusted subject to the State policy. The Company also considered the factors, such as historical costs for leasing the gas storage facilities, comparable market price of leasing similar facilities in the proximity and business tax, when determining the pricing.

Historical amounts

The aggregate amounts paid by Yu Ji Pipeline Company in respect of these transactions were nil, nil, approximately RMB85.7 million and RMB69.4 million for the three financial years ended 31 December 2013 and for eleven months ended 30 November 2014 respectively.

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Annual caps

The Company estimates that the annual caps contemplated under the Gas Storage Framework Master Lease Agreement to be payable by Yu Ji Pipeline Company will be RMB95 million, RMB97 million and RMB97 million for each of the three financial years ending to 31 December 2017.

In arriving at the aforesaid annual caps, the Directors (including the independent non-executive Directors) have taken into account the factors, including natural gas storage capacity of the facilities, the costs and applicable tax rate taxes.

(b) Services Outsourcing Framework Master Agreement

On 30 December 2014, Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company entered into the Services Outsourcing Framework Master Agreement, to procure a range of services and products from Sinopec Natural Gas Branch Company in relation to the Yulin-Jinan Pipeline Project, including:

1. Operation of the Yu Ji natural gas pipelines;
2. Maintenance and relevant technical supporting services for the operation of Yu Ji natural gas pipelines;
3. Management and maintenance of gas storage and relevant facilities; and
4. Other services and products as required by Yu Ji Pipeline Company.

Upon Completion, Yu Ji Pipeline Company shall procure from Sinopec Natural Gas Branch Company on a continuing basis certain services, products and assistance mentioned above. Pursuant to the Services Outsourcing Framework Master Agreement, it will be valid for a term of three years up to 31 December 2017.

Pricing basis

The provision of outsourcing services by Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company under the Services Outsourcing Framework Master Agreement will continue to be conducted on arm's length negotiation between the parties and on normal commercial terms with reference to costs of provision of services and products, and taxes. The Company also considered the factors in determining the pricing, including (i) the operation costs of natural gas pipelines, such as salaries and training expenses, social security insurance contribution of the employee, gas pipelines maintenance and repairing costs, insurance expenses, fuel costs, business tax and other expenses, (ii) the historical costs in respect of the services under the Services Outsourcing Framework Master Agreement, and (iii) estimated market price of similar services provided by an independent third party. The management of Yu Ji Pipeline Company will obtain the prices from independent third parties which can offer similar services and

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products under the Services Outsourcing Framework Master Agreement, and will compare such prices with the costs of provision of services and products by Sinopec Natural Gas Branch Company from time to time.

Historical amounts

The aggregate amounts paid by Yu Ji Pipeline Company in respect of these transactions were approximately RMB115.49 million, RMB162.25 million, RMB304.67 million and RMB215.15 million, for the three financial years ended 31 December 2013 and for eleven months ended 30 November 2014 respectively.

Annual caps

The Company estimates that the aggregate amounts to be payable by Yu Ji Pipeline Company in respect of these transactions under the Services Outsourcing Framework Master Agreement shall not exceed RMB340 million, RMB380 million and RMB420 million for each of the three financial years ending 31 December 2017 respectively.

In arriving at the aforesaid annual caps, the Directors (including the independent non-executive Directors) have taken into account the factors, including natural gas pipelines maintenance costs, the salaries and social security insurance contribution of the employees for the operation of Yu Ji Pipeline Project, as well as the applicable tax rate.

C. REASONS FOR AND BENEFITS OF THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

The Proposed Continuing Connected Transactions arising from the Acquisition are or will be entered into in the ordinary and usual course of business of the Group on normal commercial terms. The Board is of the general view that it is in the interests of the Company and the Shareholders as a whole to carry on the Proposed Continuing Connected Transactions as these transactions have facilitated and will continue to facilitate and develop the natural gas transmission business and operation of the Group, which will become one of the core businesses of the Group, as well as to provide maintenance and supporting services to Yu Ji Pipeline Company upon Completion. The Directors (including the independent non-executive Directors, and members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) are of the view that the Proposed Continuing Connected Transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company, with the respective proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, to strengthen the Company's business activities and with the favourable support these Proposed Continuing Connected Transactions would bring to the Company's business activities, the Board considers that it is beneficial for the Company to carry out the Proposed Continuing Connected Transactions with Sinopec Corp. and its subsidiaries.

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D. ANNUAL REVIEW OF THE NON-EXEMPT PROPOSED CONTINUING CONNECTED TRANSACTIONS

The Group has established and adopted a series of measures and policies, including contract policies, connected transaction management methods and internal control management methods, to govern the conduct of the Non-Exempt Proposed Continuing Connected Transactions and to ensure that the Non-Exempt Proposed Continuing Connected Transactions will be conducted in accordance with the agreements and that the pricing of the Non-Exempt Proposed Continuing Connected Transactions are fair and reasonable.

Before entering into any agreements in respect of the Non-Exempt Proposed Continuing Connected Transaction, the finance department and the risk control department of the Company will review the prices and other relevant terms offered by an independent third party (where applicable) in order to ensure the terms offered by the relevant connected parties are no less favourable than those offered by an independent third party. The Company has formulated a series of internal rules and regulations on the management of the Non-Exempt Proposed Continuing Connected Transactions, to ensure that the pricing mechanism is transparent and the implementation of such pricing mechanism is subject to strict scrutiny by the Group and that the Non-Exempt Proposed Continuing Connected Transactions are conducted in a fair and reasonable manner and in all respect in the best interest of the Company and the Shareholders as a whole.

The Company's finance department and the risk control department will also conduct random internal assessments on the internal control measures in respect of the Non-Exempt Proposed Continuing Connected Transaction and the financial information of the Company to ensure that such measures remain complete and effective. The finance department and the risk control department will convene meetings from time to time to discuss and assess the implementation of the Non-Exempt Proposed Continuing Connected Transactions and will then report the assessments results to the audit committee of the Board and the Board, and will also monitor the transactional amounts in a timely manner and manage the compliance during the process of business operation. The Company will provide information for the independent non-executive Directors and its auditors to review the transactions annually in accordance with the Listing Rules and to ensure that the relevant agreements of the transactions are entered into on normal commercial terms or on terms no less favorable to the Company than those available to or from independent third parties in the ordinary and usual course of business of the Company.

In addition, the Company will comply with certain review, reporting and disclosure requirements under the Listing Rules in respect of the Non-Exempt Proposed Continuing Connected Transactions which include, (a) the auditors of the Company must provide a letter to the Board (with a copy of it provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) each year, confirming that the Non-Exempt Proposed Continuing Connected Transactions: (i) have received the approval of the Board; (ii) have been conducted in accordance with the pricing policies of the Group; (iii) have been entered into in accordance with the relevant agreement governing the Non-Exempt Proposed Continuing Connected Transactions; and (iv) have not exceeded the annual caps as disclosed in this circular; (b) the Board must set out in the annual report of the Company whether its auditors have confirmed the matters as referred to in point (a) above; and (c) in the event that any variation or renewal of the agreements governing the

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Non-Exempt Proposed Continuing Connected Transactions, the Company will comply in full with all applicable reporting, annual review, disclosure and independent shareholders' approval requirements of Chapter 14A of the Listing Rules in respect of all continuing connected transactions effected after such variation or renewal.

IV. INFORMATION ON THE COMPANY AND SINOPEC GROUP

(a) Information on the Company

The Company was incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. The principal activities of the Group include the trading of crude oil and oil products, the operation of crude oil and oil products terminals, natural gas pipelines and their ancillary facilities, provision of logistics services including storage, logistics, transportation and terminal services, and the distribution of crude oil, oil products and natural gas and international logistics agency services on a global basis.

(b) Information on 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: (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.

(c) Information on Yu Ji Pipeline Company

Yu Ji Pipeline Company is principally engaged in the business of construction and operation of natural gas pipelines and maintenance and relevant technology of natural gas pipeline. Yu Ji Pipeline Company was established by Sinopec Corp. on 27 October 2014 by way of injection of the assets and liabilities relating to the Yulin Jinan Pipeline Project. Yu Ji Pipeline Company owns Yulin, Shaanxi Province – Jinan, Shandong Province Natural Gas Transmission Pipelines of about 944.93 km long, which pass through four provinces including Shaanxi Province, Shanxi Province, Henan Province and Shandong Province, the PRC, and the ancillary facilities and its operation commenced in around October 2010.

The trunk line was built with a designed annual transmission capacity of 3 bcm, and upon completion of the compression upgrade project for Yulin-Jinan Pipeline Project, it is expected that the annual transmission capacity will be increased to 5 bcm. It is estimated that the compression upgrade project will be completed by the end of 2015 and further capital commitment for such project will be approximately RMB380 million. The pipeline transmits the natural gas produced at Sinopec Group's Daniudi Gas Field in North China's Ordos Basin, which is the state-owned company's second-largest gas field project, and the natural gas is being directed to residential, commercial and industrial users in Jinan.

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(d) Information of Sinopec Natural Gas Branch Company

Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp., which is principally engaged in construction and operation of natural gas transmission pipelines, liquefied natural gas receiving station, compressed natural gas refueling station and gas storage, and the development of long distance pipelines market and liquefied projects as well as the sales of natural gas.

(e) Information of Sinopec Finance

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.

V. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) exceed 25%, the Acquisition constitutes a major transaction for the Company pursuant to Rule 14.06(5) of the Listing Rules. In addition, since SKI, the immediate controlling shareholder of the Company, holding 1,500,000,000 Shares representing approximately 60.33% of the issued share capital of the Company, is an indirect wholly-owned subsidiary of Sinopec Corp., the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As such, the Acquisition and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the SGM on a vote taken by way of poll and on which SKI and its associates shall abstain from voting in favour.

Upon Completion, Yu Ji Pipeline Company will become a wholly-owned subsidiary of the Company, and its continuing transactions with Sinopec Corp. and its subsidiaries will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules, and the Company will comply with the applicable reporting, annual review and disclosure requirements under Chapter 14A of the Listing Rules.

With respect to the Non-Exempt Proposed Continuing Connected Transactions, since the value of each of the caps of the Non-Exempt Proposed Continuing Connected Transactions as disclosed in paragraph headed “III. The Proposed Continuing Connected Transactions – B. The Non-Exempt Proposed 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.76 of the Listing Rules, these transactions and agreements are subject to the reporting, announcement and Independent Shareholders’ approval requirements as set out in Chapter 14A of the Listing Rules. SKI, Sinopec Group Company and their respective associates shall abstain from voting at the SGM. The

LETTER FROM THE BOARD

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 Rules 14A.71 and 14A.72 of the Listing Rules.

Further, as the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the amounts of annual caps of the transactions under the Yu Ji Pipeline Finance Financial Services Framework Master Agreement are more than 5% but less than 25%, the entering into of such financial services framework master agreement also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

VI. SGM

The SGM will be held on Tuesday, 10 February 2015 at 10:00 a.m. at Taishan Room, Level 5, Island Shanghai-La, Pacific Place, Supreme Court Road, Central, Hong Kong during which an ordinary resolution shall be proposed to the shareholders of the Company to approve the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions. SKI and its associates will abstain from voting in relation to the resolution to be proposed to approve the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions. The Acquisition and the Non-Exempt Proposed Continuing Connected Transactions are therefore subject to the approval by the Independent Shareholders at the SGM on a vote taken by way of poll.

A form of proxy for use by the Shareholders at the SGM is enclosed. Shareholders are advised to read the notice and to complete the accompanying white form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting if they so wish.

VII. GENERAL

- (a) The Company will convene a SGM for the Shareholders to consider, and, if fit, to approve the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions.
- (b) SKI and its associates shall abstain from voting on the resolution approving the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions.
- (c) Since Completion of the Acquisition is subject to the fulfillment of certain conditions, including the approval of the Acquisition and Non-Exempt Proposed Continuing Connected Transactions, the Acquisition and the Proposed Continuing Connected Transactions may or may not proceed. Investors should exercise caution when dealing in the Shares. When in doubt, investors are recommended to consult their professional adviser(s).

LETTER FROM THE BOARD

- (d) Mr. Fong Chung, Mark served as an executive director for China development of Grant Thornton International Ltd from June 2009 to December 2013, and retired in January 2014. Given that Grant Thornton Hong Kong Limited is the reporting accountant on Yu Ji Pipeline Company, Mr. Fong Chung, Mark will not join the Independent Board Committee.

VIII. RECOMMENDATION

The Directors consider that the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions, and include all matters relating thereto are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions, and include all matters relating thereto.

Your attention is drawn to the recommendation of the Independent Board Committee as set out on pages 30 to 31 to this circular and the letter from the Independent Financial Adviser as set out on pages 32 to 63 to this circular.

Your attention is drawn to the information set out elsewhere in this circular and in the appendices to it.

By order of the Board of
Sinopec Kantons Holdings Limited
Chen Bo
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)

20 January 2015

To the Independent Shareholders

Dear Sir or Madam,

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION
TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN
SINOPEC YU JI PIPELINE COMPANY LIMITED
AND
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular (the “Circular”) dated 20 January 2015 issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 30 December 2014, the Board announced the Acquisition and the Proposed Continuing Connected Transactions. The Independent Board Committee was formed on 30 December 2014 to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of (i) the Acquisition Agreement and (ii) the agreements relating to the Non-Exempt Proposed Continuing Connected Transactions are fair and reasonable and whether (i) the Acquisition and (ii) the Non-Exempt Proposed Continuing Connected Transactions are in the interest of the Company and its Shareholders. Somerley Capital Limited has been appointed by the Company as Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of (i) the Acquisition and (ii) the Non-Exempt Proposed Continuing Connected Transactions.

The terms and reasons for (i) the Acquisition and (ii) the Non-Exempt Proposed Continuing Connected Transactions are described in the letter from the Board as set out in the Circular.

We also draw your attention to the letter from the Independent Financial Adviser in the Circular containing the advice of Somerley Capital Limited in respect of (i) the Acquisition and (ii) the Non-Exempt Proposed Continuing Connected Transactions.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

As your Independent Board Committee, we have discussed with the management of the Company the reasons for entering into (i) the Acquisition and (ii) the Non-Exempt Proposed Continuing Connected Transactions and the basis upon which their terms have been determined. We have also considered the key factors taken into account by Somerley Capital Limited in arriving at its opinion regarding the (i) the Acquisition and (ii) the Non-Exempt Proposed Continuing Connected Transactions as set out in the letter from the Independent Financial Adviser as set out in the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, among other things, the advice of Somerley Capital Limited, the Independent Financial Adviser to the Company, considers that the (i) the Acquisition and (ii) the Non-Exempt Proposed Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Company, and in the best interest of the Company and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions as set out in the notice of the SGM at the end of the Circular.

Yours faithfully,

Ms. Tam Wai Chu, Maria

Independent

Non-executive Director

Dr. Wong Yau Kar, David

Independent

Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

20 January 2015

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

Dear Sirs,

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION
TO THE ACQUISITION OF THE ENTIRE INTEREST IN
SINOPEC YU JI PIPELINE COMPANY LIMITED
AND
(2) NON-EXEMPT PROPOSED CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and Independent Shareholders in connection with the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions (collectively, the “**Transactions**”). Details of the Transactions are contained in the circular to the Shareholders dated 20 January 2015 (the “**Circular**”), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As the applicable percentage ratios (as defined under the Listing Rules) are more than 25% but are less than 100%, the Acquisition constitutes a major transaction for the Company pursuant to Rule 14.06(3) of the Listing Rules. In addition, since SKI, the immediate controlling shareholder of the Company, holding 1,500,000,000 Shares representing approximately 60.3% of the issued share capital of the Company, is an indirect wholly-owned subsidiary of Sinopec Corp., the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As such, the Acquisition and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the SGM on a vote taken by way of poll.

Upon Completion, Yu Ji Pipeline Company will become a wholly-owned subsidiary of the Company, and its continuing transactions with Sinopec Corp. and its subsidiaries and associates will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios (as defined under the Listing Rules) for the value of each of the caps of the Non-Exempt Proposed Continuing Connected Transactions are more than 5%, those Non-Exempt Proposed Continuing Connected

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements as set out under Chapter 14A of the Listing Rules. The Company will also disclose the relevant details of its Non-Exempt Proposed Continuing Connected Transactions conducted during the financial year in the annual report of the Company in accordance with the relevant requirements as set out in Rules 14A.71 and 14A.72 of the Listing Rules.

SKI and its associates shall abstain from the voting on the resolution approving the Transactions.

The Independent Board Committee, comprising two independent non-executive Directors, namely Ms. Tam Wai Chu, Maria and Dr. Wong Yau Kar, David, has been established to make a recommendation to the Independent Shareholders on whether the terms of the Transactions are on normal commercial terms which are fair and reasonable and whether the Transactions are in the interests of the Company and the Independent Shareholders as a whole. Mr. Fong Chung, Mark served as an executive director for China development of Grant Thornton International Limited from June 2009 to December 2013, and retired in January 2014. Given that Grant Thornton Hong Kong Limited is the reporting accountant on Yu Ji Pipeline Company, Mr. Fong Chung, Mark will not join the Independent Board Committee. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated with the Company, Sinopec Corp., their respective substantial shareholders or associates, and accordingly, are considered eligible to give independent advice on the Transactions. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any other fees or benefits from the Company, Sinopec Corp., their substantial shareholders or associates. In formulating our opinion and recommendation, we have reviewed, among other things, the announcement dated 30 December 2014 in relation to the Transactions, the Acquisition Agreement, the agreements for the Non-Exempt Proposed Continuing Connected Transactions, the Valuation Report prepared by ZhongHe Appraisal Co., Ltd., an independent firm of qualified valuers, the annual report of the Company for year ended 31 December 2013 (the “**2013 Annual Report**”), the interim report of the Company for the six months ended 30 June 2014 (the “**2014 Interim Report**”) and the financial information on Yu Ji Pipeline Company and the Enlarged Group as set out in the Circular. We have also discussed with the management of the Group and Yu Ji Pipeline Company regarding the businesses and future prospects of the Enlarged Group. We note that the Board has reviewed the Valuation Report as set out in Appendix V to the Circular for the purposes of determining the consideration of the Acquisition (the “**Transfer Consideration**”). We have also considered the aforesaid valuations in forming our overall opinion herein. We considered the Valuation Report serve as the key reference in determining the Transfer Consideration and we therefore have discussed with ZhongHe Appraisal Co., Ltd. the bases, assumptions and methodologies adopted in the Valuation Report in the course of our review in assessing the fairness and reasonableness thereof, but no material reliance has been placed by us on such valuation in forming our overall opinion herein.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, we have relied on the information and facts supplied, and the opinions and intention expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete and will remain true, accurate and complete up to the time of the SGM and completion of the Acquisition. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or Yu Ji Pipeline Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. Background and businesses of the Group

The Group is principally engaged in (i) the trading of crude oil, petroleum and petrochemical products; (ii) the rendering of crude oil jetty services; and (iii) the operating of vessel charter services. In 2012, the Group has completed the expansion of its crude oil transmission system in northern China, eastern China and southern China through the acquisition of a portfolio of five jointly controlled interests in Qingdao Shihua Crude Oil Terminal Co. Ltd., Ningbo Shihua Crude Oil Terminal Co. Ltd., Rizhao Shihua Crude Oil Terminal Co. Ltd., Tianjin Shihua Crude Oil Terminal Co. Ltd. and Tangshan Caofeidian Shihua Crude Oil Terminal Co. Ltd. (the “**Five Joint Ventures**”), which are engaged in deepwater crude oil terminals located in the eastern sea board of the PRC.

As stated in the 2014 Interim Report, during the first half of the year, six domestic terminal companies (including Zhan Jiang Port Petrochemical Terminal Co. and the Five Joint Ventures) generated an aggregate throughput of 78.22 million tonnes, realizing investment return of approximately HK\$284,000,000, representing an increase of approximately 32.09% as compared with the same period of last year; investment return from Vesta Terminal B.V., the joint venture of the Company in Europe was approximately HK\$33,230,000, representing an increase of approximately 64.83% as compared with the same period of last year, providing a strong driving force for the profitability of the Group. In the second half of 2014, while achieving good results in various operations, the Company will push forward the work of acquisition of Yu Ji Pipeline Company, and complete the asset acquisition as early as possible. In addition, the Company will take various effective measures, and continue to expand the storage and logistics projects to generate even better results for production, operations and development of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Recent financial results and position of the Group

Financial statements of the Group for the two years ended 31 December 2013 and the six months ended 30 June 2013 and 2014 are disclosed in the 2013 Annual Report and 2014 Interim Report, to which the Independent Shareholders' attention is drawn. Key financials of the Group are summarised below.

(a) Financial results of the Group

The following summarises the annual results of the Group for each of the two years ended 31 December 2013 and the interim results of the Group for the six months ended 30 June 2013 and 2014 respectively:

Table 1: Summary of the Group's financial results

	For the six months ended		For the year ended	
	30 June 2014 (unaudited) HK\$'000	30 June 2013 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000	31 December 2012 (audited) HK\$'000
Revenue	3,510,630	13,049,149	23,355,579	22,041,792
Gross profit	153,311	71,146	154,782	239,391
Share of results of associated companies	56,383	63,586	108,780	92,007
Share of results of joint ventures	260,363	165,902	456,966	59,759
Profit attributable to the Shareholders for the period/year	377,284	230,864	491,397	291,738
Earnings per Share	15.18 cents	10.52 cents	21.00 cents	15.49 cents

The consolidated audited revenue and profit attributable to the Shareholders for the year ended 31 December 2013 were approximately HK\$23,355.6 million and HK\$491.4 million respectively, representing increases of 6.0% and 68.4% respectively as compared to those of the corresponding period in 2012. The increase in turnover was mainly due to increase in crude oil trading volume from 3.35 million tonnes in 2012 to 3.65 million tonnes in 2013, which resulted in the increase in segment revenue for trade of crude oil from HK\$20,936.0 million in 2012 to HK\$22,435.9 million in 2013. The decrease in gross profit was due to the planned maintenance in oil refinery facilities by a client and the increase in operating loss in vessel charter business of the Group. The increase in profit was due to the significant increase of investment return in 2013 generated by the Group's acquisition of the Five Joint Ventures principally engaged in the operation of crude oil jetty and its ancillary facilities, which completed in October 2012 and resulted in the increase in share of results of joint ventures from HK\$59.8 million in 2012 to HK\$457.0 million in 2013.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The consolidated unaudited revenue and profit attributable to the Shareholders for the six months ended 30 June 2014 were approximately HK\$3,510.6 million and HK\$377.3 million respectively, representing a decrease of 73.1% and an increase of 63.4% respectively as compared to those of the corresponding period in 2013. The decrease in turnover was mainly attributable to the crude oil trading volume of the Group reduced significantly to 511,300 tonnes in the first half of 2014, representing a decrease of approximately 74.9% as compared with the corresponding period in 2013 due to adjustment of the Group's core business. The gross profit improved as a result of the termination of the loss making vessel charter contracts and the completion of the maintenance of a client's oil refinery facilities. The overall improvement in the net profit attributable to the Shareholders was a result of the significant increase in the gross profits from the operation and the investment return from the joint ventures of the Group.

(b) Financial position of the Group

The following is a summary of the Group's balance sheet as at 30 June 2014 and 31 December 2013 as extracted from the 2014 Interim Report:

Table 2: Financial position of the Group

	As at 30 June 2014 (unaudited) HK\$'000	As at 31 December 2013 (audited) HK\$'000
ASSETS		
Non-current assets		
Property, plant and equipment	1,893,216	1,958,211
Investment properties	14,581	14,910
Prepaid land lease payment	715,369	724,018
Interests in associated companies	682,356	617,864
Interests in joint ventures	5,906,671	5,475,680
Total non-current assets	9,212,193	8,790,683
Current assets		
Inventories	19,634	47,108
Trade, bills and other receivables	465,491	730,367
Cash and cash equivalents	1,304,883	1,622,454
Total current assets	1,790,008	2,399,929
Total assets	11,002,201	11,190,612

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June 2014 (unaudited) HK\$'000	As at 31 December 2013 (audited) HK\$'000
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	95,228	97,582
Current liabilities		
Trade and other payables	740,632	1,223,410
Income tax payable	21,483	13,399
Total current liabilities	<u>762,115</u>	<u>1,236,809</u>
Total liabilities	<u>857,343</u>	<u>1,334,391</u>
EQUITY		
Equity attributable to the Shareholders		
Share capital	248,616	248,616
Reserves	9,857,624	9,597,975
Equity attributable to the Shareholders	10,106,240	9,846,591
Non-controlling interest	<u>38,618</u>	<u>9,630</u>
Total equity	<u>10,144,858</u>	<u>9,856,221</u>

As noted in the 2014 Interim Report, the Group had sound liquidity and financial positions as at 30 June 2014. The non-current assets of the Group primarily include interests in joint ventures and property, plant and equipment, and current assets principally comprise cash and cash equivalents and trade, bills and other receivables. The liabilities of the Group mainly comprise trade and other payables. The decrease in cash and cash equivalents from approximately HK\$1,622.5 million as at 31 December 2013 to approximately HK\$1,304.9 million as at 30 June 2014 and decrease in trade and other payables from approximately HK\$1,223.4 million as at 31 December 2013 to approximately HK\$740.6 million as at 30 June 2014 was attributable to the settlement of payment by the Group for part of the land premium of the fifty-year land use right for the investment construction of storage and terminals ancillary facilities in Batam, Indonesia in the first half of 2014. As of 30 June 2014, the land premium actually paid by the Group was approximately HK\$367.6 million, representing 55% of the total land premium of the project in Batam, Indonesia.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Reasons for and benefits of the Acquisition

The Group has been striving to become a first-class international petrochemical storage logistics company. In order to achieve its goal, the Group actively develops and continues to integrate the construction and operating business of petrochemical storage and logistics facilities, by having completed the equity acquisition of the six (6) oil terminal companies, namely Zhan Jiang Port Petrochemical Terminal Co. and the Five Joint Ventures.

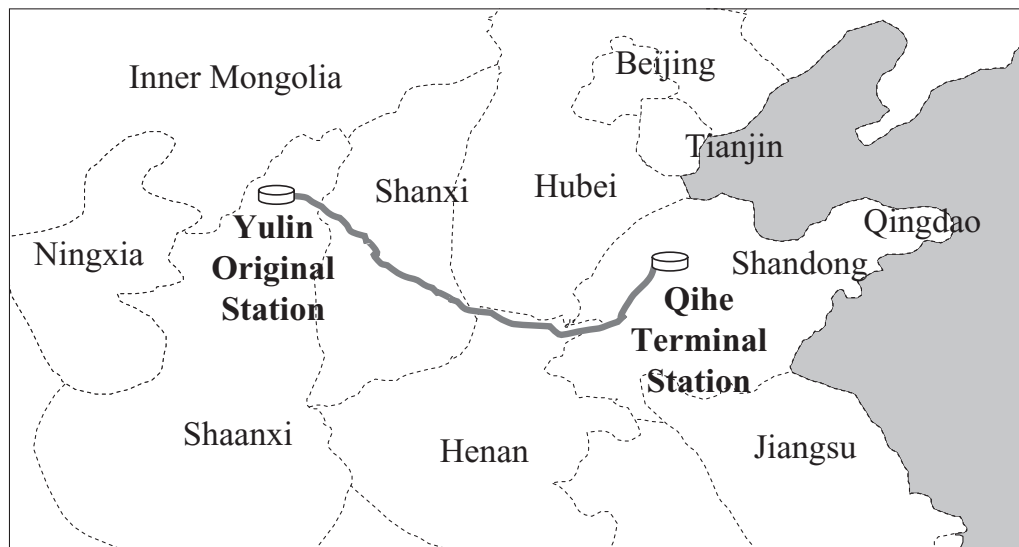
During the recent years, the stable economic development in the PRC and the attention paid to and continuous investment in environment protection by the government, have enhanced the rapid development of natural gas and met with rigid demand in the PRC. In 2013, natural gas import volume in PRC reached approximately 53.0 bcm, representing a significant increase of 25% as compared to last year, and natural gas consumption volume for the whole year reached approximately 150.0 bcm, natural gas dependence has for the first time exceeded 30%, reaching approximately 31.6%. According to “12th Five-Year” plan of the PRC, it is expected that by 2015, the PRC will be the second largest natural gas consumption country, and by that time, the PRC’s natural gas production will reach approximately 176.0 bcm, with the consumption of over 230.0 bcm. Looking forward, the demand for natural gas in the PRC will still be at the stage of rapid development before 2030. According to “13th Five-Year” plan of the PRC and the forecast of the International Energy Agency, it is expected that the demand for natural gas will be approximately 350.0 bcm by 2020, and will break through 392.0 bcm by 2030.

Yulin-Jinan Pipeline Project is responsible for the transmission of natural gas from Daniudi Gas Field, Ordos Basin, which represents an important asset of realizing the Group’s deployment in natural gas transmission logistics sector so as to enable the Group to benefit from fast-growing natural gas market in the PRC and the favourable development trend. The length of the pipeline of the Yulin-Jinan Pipeline Project in respect of the Acquisition is approximately 944.93 km, starting from Yulin, Shaanxi province in the west of the PRC, and ending at Shandong Qihe in the east, by passing through four provinces, namely Shaanxi, Shanxi, Henan and Shandong. The pipeline contains an annual designed capacity of 3 bcm, mainly for the purpose of transmitting natural gas of Daniudi Gas Field, Ordos Basin of Sinopec Corp to Shandong province in the east of the PRC. It is a key energy project and a key construction project recognized by the “11th Five-Year” plan of the PRC, and is also an important part of construction plan of natural gas transmission pipeline network of the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An illustration of the geographic location of the Yulin-Jinan Pipeline Project is set out below:

Figure 1: Geographic location of the Yulin-Jinan Pipeline Project



The Acquisition is beneficial to the Group's optimisation of the layout of midstream infrastructures such as oil and gas storage and pipelines, so as to further enrich its strategic assets combination, to promote further diversification of the Group's business and to speed up the development of professionalism of the Group. This will enhance the operation of natural gas storage and transportation and logistics volume of the Group, in order to upgrade the scale of crude oil and gas storage transportation business to a new level.

While providing storage terminals and logistic services for the upper, middle and lower streams of business of Sinopec Group, the Acquisition will enable the Group to also take part in Sinopec Group's natural gas logistics business in order to achieve its strategic goal of becoming a leading oil and gas storage and logistics company in the future.

4. The Acquisition

(a) The Acquisition Agreement

On 30 December 2014, Sinomart Development (as purchaser), a wholly-owned subsidiary of the Company, and Sinopec Corp. (as vendor) entered into the Acquisition Agreement. Pursuant to the Acquisition Agreement, Sinopec Corp. conditionally agreed to sell and Sinomart Development conditionally agreed to purchase the entire equity interest in Yu Ji Pipeline Company, which in turn owns Yulin-Jinan Pipeline Project.

The Acquisition Agreement will become effective upon the satisfaction of, among other things, the following conditions precedent:

- (i) the due execution by Sinopec Corp. and Sinomart Development of the Acquisition Agreement;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the parties having completed their respective internal approval procedures in relation to the Acquisition and having obtained relevant approvals, including but not limited to the approval of the Independent Shareholders in respect of the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions at the SGM; and
- (iii) the parties having obtained the approvals from the approving authorities including the Ministry of Commerce of the PRC required in connection with the Acquisition Agreement.

Up to the Latest Practicable Date, the above condition (i) has been fulfilled. If any of the conditions is not fulfilled within 12 months from the date on which such resolution in respect of the Acquisition is approved by the Independent Shareholders at the SGM, the Acquisition Agreement and the transactions contemplated thereunder will be terminated simultaneously.

Upon Completion, Yu Ji Pipeline Company will become a wholly-owned subsidiary of the Company and the assets, liabilities and the financial results of Yu Ji Pipeline Company will be consolidated into the consolidated financial statements of the Company.

(b) Transfer Consideration

The Transfer Consideration payable by Sinomart Development for the Acquisition is RMB2,576,881,100. Pursuant to the Acquisition Agreement, the Transfer Consideration will be paid in cash within 30 business days from the date of the conditions precedent of the Acquisition Agreement having been fulfilled.

The Company intends to satisfy payment for the Transfer Consideration by the internal resources of the Group and/or other equity/debt financing, as may be arranged by the Board. Up to the Latest Practicable Date, the Company has yet finalised any equity/debt financing plan, and the financing plan will be at the discretion of the Board upon taking consideration of various factors, such as the market conditions and the terms of financing from the financial institutions.

The Transfer Consideration has been arrived at after arm's length negotiation between Sinomart Development and Sinopec Corp., and was determined based on the valuation of Yu Ji Pipeline Company as at 30 November 2014, appraised by the Valuer, an independent firm of qualified PRC valuer (designated by the PRC government to conduct valuation of state-owned assets), including the income approach. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Valuer is independent and not connected with the Company, Sinopec Corp., the Financial Adviser, the auditors of the Company, the reporting accountants of Yu Ji Pipeline Company and their respectively ultimate beneficial owners.

The Directors consider that it would be appropriate and beneficial to the Company to use the income approach for valuation of the entire equity interests in Yu Ji Pipeline Company on the basis that (i) by adopting the income approach, the parties would have

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

regard to factors such as the future business and financial performance of Yu Ji Pipeline Company; and (ii) the income approach is in line with the applicable PRC laws and regulations in respect of valuation of PRC state-owned assets.

As at 30 November 2014, the valuation of Yu Ji Pipeline Company was about RMB2,576.88 million (the “**Appraised Value**”). As at the date of valuation, being 30 November 2014, the unaudited net asset value of Yu Ji Pipeline Company prepared in accordance with HKFRS was RMB1,539.37 million. The Directors consider that the valuation of Yu Ji Pipeline Company as of 30 November 2014 is fair and reasonable.

5. Information on Yu Ji Pipeline Company

(a) Background and business of Yu Ji Pipeline Company

Yu Ji Pipeline Company owns Yulin, Shaanxi Province-Jinan, Shandong Province Natural Gas Transmission Pipelines of about 944.93 km long, which pass through four provinces including Shaanxi province, Shanxi province, Henan province and Shandong province, the PRC, and the ancillary facilities and its operations commenced in around October 2010.

The trunk line was built with a designed annual transmission capacity of 3 bcm, and upon completion of the compression upgrade project for Yulin-Jinan Pipeline Project, it is expected that the annual transmission capacity will be increased to 5 bcm. It is estimated that the compression upgrade project will be completed by the end of 2015 and further capital commitment for such project will be approximately RMB380 million. The pipeline transmits the natural gas produced at Sinopec Group’s Daniudi Gas Field in North China’s Ordos Basin, which is the state-owned company’s second-largest gas field project, and the natural gas is being directed to residential, commercial and industrial users in Jinan.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Financial information on Yu Ji Pipeline Company

(i) Financial results

The audited financial results of Yu Ji Pipeline Company for the three years ended 31 December 2013 and the eleven months ended 30 November 2014 as extracted from the accountant's report of Yu Ji Pipeline Company as set out in Appendix II to the Circular, for the purpose of our analysis, are as set out below.

Table 3: Yu Ji Pipeline Company's financial results

	For the eleven months ended 30 November 2014 RMB'000	For the year ended 31 December		
		2013	2012	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,047,813	1,254,658	979,604	869,943
Cost of services	<u>(584,222)</u>	<u>(746,305)</u>	<u>(498,482)</u>	<u>(434,746)</u>
Gross profit	463,591	508,353	481,122	435,197
Other income	56,667	6,479	–	–
Administrative and other expenses	<u>(29,541)</u>	<u>(23,859)</u>	<u>(27,964)</u>	<u>(13,166)</u>
Operating profit	490,717	490,973	453,158	422,031
Finance income	46	16	32	33
Finance costs	<u>(158,772)</u>	<u>(138,470)</u>	<u>(123,103)</u>	<u>(94,821)</u>
Finance costs – net	(158,726)	(138,454)	(123,071)	(94,788)
Profit before income tax	331,991	352,519	330,087	327,243
Income tax expenses	<u>(82,998)</u>	<u>(88,130)</u>	<u>(82,522)</u>	<u>(81,811)</u>
Profit attributable to equity holders	<u>248,993</u>	<u>264,389</u>	<u>247,565</u>	<u>245,432</u>

A. Revenue

Revenue of Yu Ji Pipeline Company had been derived from its gas transmission operation. Revenue increased by 12.6% and 28.1% in 2012 and 2013 respectively as compared with the respective preceding year, which was

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mainly attributable to the increase in the market demand for gas in China which boosted the volume of Yu Ji Pipeline Company's gas transmission. Revenue for the eleven months ended 30 November 2014 decreased by 5.5% as compared to the corresponding period in 2013, mainly due to the decrease in demand from 1.93 bcm for the eleven months ended 30 November 2013 to 1.87 bcm for the corresponding period in 2014 for the Shandong province, which charges the highest transmission fee at RMB0.46 per cm as compared to the other three provinces.

B. Gross profit

Gross profit of Yu Ji Pipeline Company increased by 10.6% and 5.7% in 2012 and 2013 respectively as compared with the respective preceding year, which was mainly due to the increase in the market demand for gas in China and thus the increase in the volume of Yu Ji Pipeline Company's gas transmission. The gross profit margin of Yu Ji Pipeline Company decreased from 50.0% in 2011 to 49.1% in 2012, and decreased further to 40.5% in 2013. The significant decrease in gross profit margin in 2013 was mainly due to substantial amount of payment of fees for storage vault and production safety expenses has been incurred during 2013. The decrease in gross profit margin for the three years ended 31 December 2013 was also attributable to the gradual increase in transmission of gas to provinces with lower market price. The gross profit margin increased to 44.2% for the eleven months ended 30 November 2014 due to the decrease in cost of services as a result of the decrease in production safety expenses.

C. Other income

Other income of RMB6.5 million and RMB56.7 million for the year ended 31 December 2013 and the eleven months ended 30 November 2014 was mainly derived from the tax refund of the value-added tax paid by the Yu Ji Pipeline Company as a result of the replacement of business tax with value-added tax. According to approval documents released by the official PRC tax authorities, the value-added tax refund policy for taxpayers engaged in pipeline transmission services will be effective until 31 December 2015, subject to any amendments of the policy by the tax authorities.

D. Finance costs

Finance costs represented interest expenses incurred for Yu Ji Pipeline Company's long-term borrowings of RMB3,300 million. Increase in finance costs was mainly due to the rise of the effective interest rate from 2.9% per annum in 2011, to 3.7% per annum in 2012, 4.2% per annum in 2013 and 5.4% per annum in 2014.

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E. Profit attributable to equity holders

Yu Ji Pipeline Company reported profit attributable to its equity holders of RMB245.4 million, RMB247.6 million, RMB264.4 million and RMB249.0 million for the years ended 31 December 2011, 2012 and 2013 and the eleven months ended 30 November 2014 respectively. The gradual increase in profit attributable to equity holders of Yu Ji Pipeline Company for the three years ended 31 December 2013 was mainly due to the increase in revenue and gross profit as mentioned above, despite partially offset by the increase in finance expenses. Profit attributable to equity holders for the eleven months ended 30 November 2014 increased by 19.1% compared to the corresponding period in 2013 despite the decrease in revenue, which is offset by the decrease in cost of services and the other income derived from value-added tax refund as mentioned above.

(ii) Financial positions

Set out below are the summarised audited financial positions of Yi Ji Pipeline Company as at 31 December 2011, 2012 and 2013 and as at 30 November 2014 as extracted from the accountant's report of Yu Ji Pipeline Company as set out in Appendix II to the Circular.

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Table 4: Yu Ji Pipeline Company's financial position

	As at 30 November 2014 RMB'000	As at 31 December		
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
ASSETS				
Non-current assets				
Prepaid land lease payments	27,181	27,710	–	–
Property, plant and equipment	<u>4,560,907</u>	<u>4,775,115</u>	<u>4,963,232</u>	<u>4,658,967</u>
Total non-current assets	<u>4,588,088</u>	<u>4,802,825</u>	<u>4,963,232</u>	<u>4,658,967</u>
Current assets				
Inventories	5,787	7,160	7,206	689
Trade and other receivables	239,670	108,207	5,283	28,287
Cash and cash equivalents	<u>215,662</u>	<u>3,115</u>	<u>2,257</u>	<u>517</u>
Total current assets	<u>461,119</u>	<u>118,482</u>	<u>14,746</u>	<u>29,493</u>
Total assets	<u>5,049,207</u>	<u>4,921,307</u>	<u>4,977,978</u>	<u>4,688,460</u>
LIABILITIES				
Non-current liabilities				
Long-term borrowings	<u>3,300,000</u>	<u>3,300,000</u>	<u>3,300,000</u>	<u>3,300,000</u>
Current liabilities				
Accruals and other payables	<u>209,841</u>	<u>330,042</u>	<u>111,824</u>	<u>79,001</u>
Total liabilities	<u>3,509,841</u>	<u>3,630,042</u>	<u>3,411,824</u>	<u>3,379,001</u>
EQUITY				
Share capital	1,000,000	–	–	–
Capital reserve	466,811	1,267,488	1,229,172	982,070
Retained earnings	<u>72,555</u>	<u>23,777</u>	<u>336,982</u>	<u>327,389</u>
Total shareholder's equity	<u>1,539,366</u>	<u>1,291,265</u>	<u>1,566,154</u>	<u>1,309,459</u>

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A. Property, plant and equipment

The balance mainly represented the Yulin, Shaanxi Province-Jinan, Shandong Province Natural Gas Transmission Pipelines of about 944.93 km long, which pass through four provinces including Shaanxi province, Shanxi province, Henan province and Shandong province, the PRC, and the ancillary facilities.

B. Trade and other receivables

The balance mainly consisted of prepayment incurred for overseas purchases of equipment including such as compressors and valves, which was approximately RMB27.3 million, RMB0.7 million, RMB100.7 million and RMB215.0 million as at 31 December 2011, 2012 and 2013 and 30 November 2014 respectively. The fluctuations over the three years ended 31 December 2011, 2012 and 2013, and the eleven months ended 30 November 2014 reflected the changes in the needs of Yu Ji Pipeline Company to make overseas purchases of such equipment over the same period.

C. Cash and cash equivalents

The Yu Ji Pipeline Company had cash and cash equivalents totaling approximately RMB0.5 million, RMB2.3 million, RMB3.1 million and RMB215.7 million as at 31 December 2011, 2012 and 2013 and 30 November 2014 respectively. The increase in the total amount of cash and cash equivalents in 2014 was mainly contributed by profit for the period being retained in Yu Ji Pipeline Company.

D. Long-term borrowings

The balance represented long-term borrowings from Sinopec Corp., which are unsecured, and shall not repayable before 31 March 2016 with effective interest rate of 5.4% (2013: 4.2%, 2012: 3.7%, 2011: 2.9%) per annum.

E. Equity attributable to equity holders

The balance as at 30 November 2014 mainly comprised of share capital of RMB1,000 million, capital reserve of RMB466.8 million, and the retained earnings of RMB72.6 million after dividend payments to equity holders.

Independent Shareholders are advised to read the management and discussion analysis of Yu Ji Pipeline Company as set out in Appendix III to the Circular for further information on the financial analysis of Yu Ji Pipeline Company.

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6. Analysis of the Transfer Consideration

As discussed in the letter from the Board in the Circular, the Transfer Consideration was arrived at after arm's length negotiations between Sinomart Development and Sinopec Corp. and was determined based on the valuation of Yu Ji Pipeline Company of RMB2,576.9 million as at 30 November 2014, as appraised by the Valuer, by using the income approach.

(i) PRC valuation

A summary of the Valuation Report issued by the Valuer dated 8 December 2014 containing the Appraised Value is set out in Appendix V to the Circular. The Valuation Report has been prepared in compliance with the relevant PRC regulatory requirements and professional standards as required to obtain the relevant approvals for the Acquisition.

We have discussed the expertise of the Valuer with its relevant staff members. We understand that the Valuer is certified with the relevant PRC qualifications required to perform this valuation exercise and the person in-charge of the valuation of Yu Ji Pipeline Company has over 10 years' industry experience in conducting valuation exercises. We have also reviewed the terms of the Valuer's engagement letter and noted that the purpose of which is to prepare a valuation report and provide the opinion of value on the Yu Ji Pipeline Company. The engagement letter also contains standard valuation scopes that are typical of business valuation carried out by independent valuers. In the course of our review, we have discussed with the Valuer the methodologies, bases and assumptions adopted in the Valuation Report.

As set out in Appendices V and II to the Circular, as at 30 November 2014, the Appraised Value and the net asset value of Yu Ji Pipeline Company are as follow:

Table 5: Reconciliation of Appraised Value and net asset value attributable to shareholders of Yu Ji Pipeline Company

	As at 30 November 2014	
	Appraised Value	Net asset value
	<i>(RMB' million)</i>	<i>(RMB' million)</i>
Interest attributable to the shareholders of Yu Ji Pipeline Company	2,576.9	1,539.4

(i) Valuation methodologies

Based on our discussion with the Valuer and review of the Valuation Report, we note that the Valuer has adopted both asset-based approach and income approach to arrive at the value of the equity interest of Yu Ji Pipeline Company and there is a difference between the appraised values based on the respective

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approach. We understand that the difference in the valuation conclusion between the two valuation approaches is mainly due to: the difference in the perspective of consideration in the two valuation approaches as the asset-based approach considers the way of re-acquisition of assets, which reflects the replacement value of the existing assets of Yu Ji Pipeline Company, while the income approach considers the profitability of Yu Ji Pipeline Company, which reflects the consolidated profitability of assets of Yu Ji Pipeline Company. Based on the business nature of Yu Ji Pipeline Company, the Valuer considers it appropriate to value its operating assets with stable and predictable operating profit and cash flow by income approach, as its future cashflows or income can be reasonably estimated with confidence and finally concludes that the appraised value of Yu Ji Pipeline Company based on the income approach to be the final Appraised Value. Shareholders are advised to refer to Appendix V to the Circular for further details of the Valuation Report.

Based on the income approach, the Valuer valued the equity interests of Yu Ji Pipeline Company based on the enterprise value less interest bearing loan. The enterprise value is derived based on the sum of the values of (a) the operating assets that generate revenue; and (b) the non-operating assets, which are detailed as follows:

- (a) Income approach is used to capitalize or discount future projected cash flows of the operating assets that generate revenue to a single present value. The Valuer studied the future earnings potential of Yu Ji Pipeline Company, and conducted discussions with the management team of the subject company to understand its budgets/projections for future years, together with industry research and government data research to cross check the reasonableness of the inputs used by the management team of Yu Ji Pipeline Company. The Valuer then translated this understanding into bases and assumptions used in financial models to derive the present value of the subject company.
- (b) The non-operating assets of Yu Ji Pipeline Company refers to the assets not directly generating income, including non-revenue generating assets and the assets that do not produce benefits. For these assets, the Valuer adopted the replacement cost approach to appraise its value.

Having discussed these methods with the Valuer and reviewed with them the reasons for adopting the various valuation methodologies and the bases and assumptions used for valuing the equity interests of Yu Ji Pipeline Company, we are of the opinion that, the chosen valuation methodologies in establishing the Appraised Value as at 30 November 2014 are in line with the market practice for valuation of similar businesses.

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(ii) *Comparable transactions*

As a cross-check, we have carried out our own analysis to assess the fairness of the Transfer Consideration. We have selected a list of comparable transactions to the Acquisition for our comparison analysis based on the selection criteria that these transaction targets were engaged in transmission of the natural gas in the PRC through both long distance transmission pipeline across provinces or/and cities (the “**Primary Comparable Transactions**”) and short distance transmission pipeline within city or district (the “**Secondary Comparable Transactions**”) in the past five years. We set out in the table below these Primary Comparable Transactions and their price-to-earnings (“**PER**”) and price-to-book (“**PBR**”) multiples based on their respective transaction values.

Table 6: Primary Comparable Transactions

Date of announcement	Target company and its business	Listed company as either buyer or seller	Acquired stake	Deal value	PER (times)	PBR (times)
27-Dec-2013	Wah Shing Century Limited owns 60% interest in a joint venture company, Chaozhou Huamao Energy Distribution Company Limited, which is engaged in the investment and construction of natural gas pipelines, as well as the distribution and sales of natural gas in Fuyang, Longhu and Dongfeng in Chaozhou	China Tian Lun Gas Holdings Limited (1600.hk) as buyer	100%	RMB432 million	N/A	8.0
31-Dec-2010	PetroChina Beijing Gas Pipeline Co., Ltd is engaged in natural gas transmission which provides services to city gas operators along the No. 1 and No. 2 Shaanxi-Beijing Pipelines with an approximate total length of 2,200 kilometres owned by PetroChina Beijing Gas Pipeline Co., Ltd. The No. 3 Shaanxi-Beijing Pipeline of the target group is designed to have an annual transmission capacity of approximately 15 bcm	Kunlun Energy Co Ltd (“ Kunlun Energy ”) (0135.hk) as buyer	60%	HK\$21,973.3 million	12.7	2.7
9-Sep-2010	SinoPetro New Energy Group Co Ltd operates long distance gas pipeline: Xiangheng line (Xiangtan – Hengyang, both in Hunan), Liaotai lines (Liaocheng – Taian, both in Shandong), Jizao line (Jizhou – Zaoqiang, both in Hebei), Yingzhang line (Yingxian in Shanxi – Zhangjiakou in Hebei), Taixin line (Taian – Xintai, both in Shandong) and city gas pipeline network in Hengyang City, Xiangtan County, Hengdong County, Hengshan County, Shaoshan City in the southern region; Liaocheng, Taian, Xintai, Ningyang in eastern region and Zhangjiakou, Suihua and Ulanhot in northern region	PetroChina Jinhong Energy Investment Co., Ltd. (formerly known as Jilin Leading Technology Development Co., Ltd.) (000669.sz) as buyer	100%	RMB2,366.7 million	13.7	2.0

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Date of announcement	Target company and its business	Listed company as either buyer or seller	Acquired stake	Deal value	PER (times)	PBR (times)
	Highest				13.7	8.0
	Lowest				12.7	2.0
	Average				13.2	4.2
	The Acquisition		100%	RMB2,576.9 million	9.7	1.7

Source: the Stock Exchange's website and www.cninfo.com.cn

Only three Primary Comparable Transactions are identified. Kunlun Energy's acquisition of PetroChina Beijing Gas Pipeline Co., Ltd in 2010 is, in our view, the closest comparable to the Acquisition in terms of the operations of the acquisition target which is also principally engaged in the operation of long distance transmission pipeline across provinces while the rest are mainly across cities. As shown in the table above, the Acquisition not only compares favourably to Kunlun Energy's acquisition in terms of both PER and PBR but also the rest of the Primary Comparable Transactions. The PER of 9.7 times and the PBR of 1.7 times represented by the Acquisition fall below all of the Primary Comparable Transactions.

Table 7: Secondary Comparable Transactions

Date of announcement	Target company and its business	Listed company as either buyer or seller	Acquired stake	Deal value (million)	PER (times)	PBR (times)
5-May-2014	Cloud Decade Limited ("Cloud Decade") owned 89.2% in a PRC company which is engaged in the business of processing, storage and distribution of liquefied natural gas in Xihu District of Benxi City, Liaoning province	Blue Sky Power Holdings Ltd. (formerly known as China Print Power Group Ltd) (6828.hk) as buyer	100%	HK\$515.4 million	7.9	5.1
3-Apr-2013	Beijing Zhonggong Green Energy Investment Consulting Co., Ltd. owns 100% equity interest in Beijing Changdongshun Gas Limited, which is operating, constructing and managing natural gas pipeline in the Beiqijia area in Beijing	China Infrastructure Investment Limited (0600.hk) as seller	49%	HK\$315 million	N/A	1.1
8-Feb-2013	Atushi Qingyuan Pipe Transport Co Ltd is engaged in natural gas transmission pipeline, production and supply of heat and transport of dangerous goods	Guangzheng Group Co Ltd (002524.sz) as buyer	33.3%	RMB54.7 million	27.8	1.1
16-May-2012	AEI China Gas Ltd is principally engaged in operation of city gas pipelines, gas selling and distribution and operation of compressed natural gas, liquefied petroleum gas stations in the PRC	China Resources Gas Group Limited (1193.hk) as buyer	100%	USD237.7 million	18.0	0.9

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Date of announcement	Target company and its business	Listed company as either buyer or seller	Acquired stake	Deal value (million)	PER (times)	PBR (times)
12-Sep-2011	Nanjing Jingqiao Energy Investments Management Limited (“ Nanjing Jingqiao Energy ”) is engaged in the operation of natural gas pipeline in Jingqiao Town in Nanjing	Zhongyu Gas Holdings Limited (8070.hk/3633.hk) as buyer	100%	RMB97 million	N/A	49.2
22-Jul-2011	Wang Gao Limited operates a portfolio of city gas distribution businesses including piped natural gas distribution, compressed natural gas filling stations operation, repair and maintenance of natural gas pipelines and natural gas facilities in the cities of Yueyang, Zhongshan, Jingdezhen, Anyang, Huizhou Dayawan, Dandong and Dailian Huayuankou	China Resources Gas Group Limited (1193.hk) as buyer	100%	HK\$1,710 million	25.6	2.2
13-Sep-2010	Mega Fair Limited operates a portfolio of city gas distribution businesses including natural gas pipelines, natural gas facilities repair and maintenance and bottled liquefied petroleum gas distribution in the cities of Xiamen, Ningbo, Qidong, Gucheng, Tengzhou, Shifang, Kunshan, Jining and Suining	China Resources Gas Group Limited (1193.hk) as buyer	100%	HK\$2,000 million	27.7	1.4
All Secondary Comparable Transactions	Highest				27.8	49.2
	Lowest				7.9	0.9
	Average				21.4	8.7
Excluding Cloud Decade and Nanjing Jingqiao Energy	Highest				27.8	2.2
	Lowest				18.0	0.9
	Average				24.8	1.3
	The Acquisition		100%	RMB2,576.9 million	9.7	1.7

Source: the Stock Exchange website and www.cninfo.com.cn

Note: Cloud Decade and Nanjing Jingqiao Energy are excluded for illustration purposes due to either their PER or PBR are considered distant from the rest of the Secondary Comparable Transactions.

7 Secondary Comparable Transactions are found and some of them are also engaged in other related operations other than distribution of piped gas. Acquisition targets of two Secondary Comparable Transactions were loss making before the transactions and hence no PERs can be appraised. The PERs of the acquisition targets under the remaining Secondary Comparable Transactions range from 7.9 times to 27.8 times with an average of 21.4 times. The PBRs of the Secondary Comparable

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Transactions range from 0.9 times to 49.2 times with an average of 8.7 times. As shown in the table above, the Acquisition also compares favourably to most of the Secondary Comparable Transactions in terms of both PER and PBR.

Given rather wide ranges of PERs and PBRs represented by the Secondary Comparable Transactions, Cloud Decade and Nanjing Jingqiao Energy, which are considered outliers whose PERs and PBRs appear to be distant from the rest of the Secondary Comparable Transactions, are excluded. Excluding Cloud Decade and Nanjing Jingqiao Energy, the PERs and PBRs of the Secondary Comparable Transactions range from 18.0 times to 27.8 times with an average of 24.8 times and 0.9 times to 2.2 times with an average of 1.3 times, respectively. The pricing basis of the Secondary Comparable Transactions, in our view, appears to be based primarily on PERs, which are significantly higher than the Primary Comparable Transactions as well as Yu Ji Pipeline Company. Despite the PBR represented by the Acquisition is higher than the average PBR of Secondary Comparable Transactions (excluding Cloud Decade and Nanjing Jingqiao Energy), we place less weight on this due to the difference in the pricing basis as a result of different business nature and operations between the long distance transmission pipelines and short distance transmission pipelines.

7. Financial effects of the Acquisition

Upon Completion, Yu Ji Pipeline Company will become an indirect wholly-owned subsidiary of the Company and the financial information of Yu Ji Pipeline Company will be consolidated into the consolidated financial statements of the Group. After the Completion, the Enlarged Group will continue its business focusing on the trading of crude oil and petroleum products, the operation of crude oil terminals and its ancillary facilities as well as natural gas transmission services.

(a) Earnings

Based on the audited financial results as set out in the accountant's report of Yu Ji Pipeline Company in Appendix II to the Circular, Yu Ji Pipeline Company recorded revenue of RMB869.9 million, RMB979.6 million, RMB1,254.7 million and RMB1,047.8 million, and profit attributable to equity holders of RMB245.4 million, RMB247.6 million, RMB264.4 million and RMB249.0 million, for the years ended 31 December 2011, 2012 and 2013 and the eleven months ended 30 November 2014 respectively. In view of the favourable financial performance of Yu Ji Pipeline Company during the three years ended 31 December 2013 and eleven months ended 30 November 2014, the Acquisition could potentially enhance the revenue stream and profitability of the Group upon consolidation of the financial information of Yu Ji Pipeline Company into the consolidated financial statements of the Group.

(b) Net asset value

We set out below the net asset value of the Group and pro forma net asset value of the Enlarged Group as at 30 June 2014 respectively as extracted from the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix I to the Circular.

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Table 8: Proforma net asset value of the Enlarged Group

	The Group	The Enlarged Group immediately upon Completion
<i>Based on merger accounting</i>		
Net asset value (HK\$ million)	10,144.9	8,827.3 ⁽¹⁾

Note:

- (1) The Transfer Consideration of RMB2,576,881,100 is booked as payable in the unaudited pro forma consolidated balance sheet of the Enlarged Group as the financing plan for the Acquisition is yet to be finalised.

As shown in the table above, the pro forma net asset value of the Enlarged Group would decrease from HK\$10,144.9 million to HK\$8,827.3 million.

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix I to the Circular, both the Group and Yu Ji Pipeline Company are under the common control of Sinopec Corp. and pursuant to the accounting policy adopted by the Group, the Acquisition will be accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants and the net assets of the Group and Yu Ji Pipeline Company will be consolidated using the existing book values. Adjustments will be made for the elimination of the investment cost of the Company in Yu Ji Pipeline Company against its share capital, and the excess amount is recognised as merger reserve. Given that the investment cost of the Company in Yu Ji Pipeline Company, i.e. the Transfer Consideration, of RMB2,576.9 million (equivalent to approximately HK\$3,221.1 million) exceeds the share capital of Yu Ji Pipeline Company of RMB1,000 million (equivalent to approximately HK\$1,250 million), the elimination of the investment cost of the Company in Yu Ji Pipeline Company against its share capital would result in a deficit of approximately HK\$1,971.1 million charged to the merger reserve account, which significantly reduce the equity attributable to the Shareholders of the Enlarged Group.

We are of the view that the decline of net asset value as a result of the consolidation of Yu Ji Pipeline Company by adopting the aforesaid merger accounting treatment is purely notional as the underlying fair value of Yu Ji Pipeline Company of HK\$3,221.1 million, which also takes into account the positive contribution by the Acquisition on the Enlarged Group’s earnings, would not be fully reflected in the books of the Enlarged Group. Should the fair value of Yu Ji Pipeline Company of HK\$3,221.1 million be fully reflected in the books of the Enlarged Group, the pro forma net asset value of the Enlarged Group could be increased.

Shareholders should also note that the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix I to the Circular and the table above both assume the Transfer Consideration will be recorded as payable. Subject to

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the finalisation of the financing plan for the Acquisition, the pro forma net asset value of the Enlarged Group could be improved should the Company choose to satisfy the Transfer Consideration by way of equity financing.

(c) Gearing and liquidity

As stated in the letter from the Board in the Circular, the Company intends to satisfy the Transfer Consideration using the internal resources of the Group and/or other equity or debt financing, as may be arranged by the Board. As shown in Table 2, the Group's cash and cash equivalents of HK\$1,304.9 million as at 30 June 2014 is not sufficient to satisfy the Transfer Consideration and, as advised by the management of the Group, will seek financing for the Transfer Consideration by way of equity or debt. As at 30 June 2014, the Group had net assets attributable to the Shareholders of HK\$10,106.2 million, cash and cash equivalents of HK\$1,304.9 million and no borrowings. As at 30 November 2014, Yu Ji Pipeline Company had net assets attributable to equity holders of RMB1,539.4 million, cash and cash equivalents of RMB215.7 million and long-term borrowings of RMB3,300 million. We have reviewed the working capital projection of the Enlarged Group which has taken into account the cash balances and facilities available to the Enlarged Group and concur with the Directors that the Enlarged Group will have sufficient working capital upon Completion.

We set out below the total borrowings and gearing ratio of the Group as at 30 June 2014 and of the Enlarged Group immediately upon Completion based on information extracted from the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix I to the Circular.

Table 9: Gearing ratio of the Enlarged Group

	The Group	The Enlarged Group immediately upon Completion
Total assets (HK\$ million)	11,002.2	17,293.0
Total borrowings (HK\$ million)	–	4,125.0 ⁽¹⁾
<i>Gearing ratio (%)</i>	<i>0.0</i>	<i>23.9</i> ⁽²⁾
Total borrowings and Transfer		
Consideration payable (HK\$ million)	–	7,346.1 ⁽³⁾
<i>Gearing ratio (%)</i>	<i>0.0</i>	<i>42.5</i> ⁽⁴⁾

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Note:

- (1) Total borrowings represent the long-term borrowings of RMB3,300 million of Yu Ji Pipeline Company as at 30 November 2014.
- (2) Calculated as total borrowings divided by total assets.
- (3) Total borrowings and Transfer Consideration payable include (i) the long-term borrowings of RMB3,300 million of Yu Ji Pipeline Company as at 30 November 2014; and (ii) the Transfer Consideration of RMB2,576,881,100 payable by the Company assuming that it will be satisfied entirely by debt financing.
- (4) Calculated as total borrowings and Transfer Consideration payable divided by total assets.

As shown in the table above, the Group does not have any gearing prior to the Acquisition as it has no borrowings, while the gearing ratio of the Enlarged Group will potentially increase to (i) 23.9% immediately upon Completion assuming that the Transfer Consideration will be satisfied by way of equity financing; and (ii) 42.5% immediately upon completion of the Acquisition assuming that the Transfer Consideration will be satisfied by utilising facilities available to the Enlarged Group.

8. The Non-Exempt Proposed Continuing Connected Transactions

Upon Completion, Yu Ji Pipeline Company will become a wholly-owned subsidiary of the Company, and its continuing transactions with Sinopec Corp. and its subsidiaries and associates will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios (as defined under the Listing Rules) for the value of each of the caps of some of the Non-Exempt Proposed Continuing Connected Transactions are more than 5%, the Non-Exempt Proposed Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements as set out under Chapter 14A of the Listing Rules. The Company will also disclose the relevant details of its Non-Exempt Continuing Connected Transactions conducted during the financial year in the annual report of the Company in accordance with the relevant requirements as set out in Rules 14A.71 and 14A.72 of the Listing Rules.

Below sets out the Non-Exempt Proposed Continuing Connected Transactions arising upon the Completion, which will be subject to Independent Shareholders' approval requirements (where applicable) under the Listing Rules. The Acquisition is also conditional upon the Independent Shareholders' approval for the Non-Exempt Proposed Continuing Connected Transactions.

(a) Natural Gas Transmission Services Framework Master Agreement

On 30 December 2014, Yu Ji Pipeline Company has entered into the Natural Gas Transmission Services Framework Master Agreement with Sinopec Natural Gas Branch Company in respect of the provision of natural gas pipeline transmission services from Yu Ji Pipeline Company to Sinopec Natural Gas Branch Company by transmitting through the Yulin-Jinan Pipeline Project owned by Yu Ji Pipeline Company to the natural gas delivery point(s) designated by Sinopec Natural Gas Branch Company.

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The Natural Gas Transmission Services Framework Master Agreement will be valid for a term of 3 years up to 31 December 2017.

Yu Ji Pipeline Company is an enterprise whose business operations are in the natural gas midstream business. Sinopec Natural Gas Branch Company, on the other hand, is an enterprise whose business operations cover both upstream and downstream natural gas activities. In view of the strengths and scope of Sinopec Natural Gas Branch Company's business activities, we concur with the Directors' view that it is beneficial for Yu Ji Pipeline Company to carry out the transactions under the Natural Gas Transmission Services Framework Master Agreement as these transactions will continue to facilitate its business operations upon Completion.

Pricing basis and payment terms

Under the Natural Gas Transmission Services Framework Master Agreement, the pipeline transmission fee was determined in accordance with the Reply of the National Development and Reform Commission regarding the Yulin natural gas pipeline transmission fee (Fa Gai Jia Ga [2010] No. 2780) (the "**NDRC Approval**") which shall be adjusted subject to adjustment(s) as announced by the State or the relevant local government authorities.

As stated in the letter from the Board of the Circular, the payment terms of these transactions will be determined by the parties on a transaction-by-transaction basis, and individual agreements under the Natural Gas Transmission Services Framework Master Agreement will be signed between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company for each of these transactions in accordance with market norms and on normal commercial terms, and with reference to the specifications and requirements, such as quantity, delivery point(s) and transmission terms. The management of Yu Ji Pipeline Company will consider from time to time the market norms in relation to the similar transactions which are in other provinces in the PRC, such as the pipelines of Sinopec Corp from Sichuan to Shanghai, before entering into the individual agreements. As individual agreements will be entered into between the parties subject to the specifications and requirements of each transaction, the payment terms will also be agreed upon by the parties on a transaction-by-transaction basis.

We have reviewed the NDRC Approval and as the pipeline transmission fee was determined based on the state-prescribed prices, we consider that the pricing basis of the Natural Gas Transmission Services Framework Master Agreement to be fair and reasonable and are on normal commercial terms.

Annual caps

The historical aggregate amounts received by Yu Ji Pipeline Company in respect of these gas transmission transactions for the three financial years ended 31 December 2013 and for the eleven months ended 30 November 2014, as well as the projected transaction amounts and proposed annual caps in respect of these

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transactions under the Natural Gas Transmission Services Framework Master Agreement for each of the three financial years ending 31 December 2017 respectively are set out in the table below.

Table 10: Historical transaction amounts and annual caps under Natural Gas Transmission Services Framework Master Agreement

	Historical transaction amounts				Projected transaction amounts			
	<i>RMB million</i>				<i>RMB million</i>			
	For the year ended 31 December			For the eleven months ended 30 November	For the one month ended 31 December	For the year ending 31 December		
	2011	2012	2013	2014	2014	2015	2016	2017
Gas transmission transactions	82.0 ⁽¹⁾	138.0 ⁽¹⁾	222.0 ⁽¹⁾	1,047.8 ⁽¹⁾	87.6 ⁽²⁾	1,221.0 ⁽²⁾	1,339.3 ⁽²⁾	1,410.3 ⁽²⁾
Proposed annual caps	-	-	-	-	-	1,343	1,478	1,550

Notes:

- (1) As advised by the management of Yu Ji Pipeline Company, majority of the revenue of Yu Ji Pipeline Company on provision of the natural gas pipeline transmission services for the three years ended 31 December 2013 was derived from the transactions with independent city gas operators. Starting from the end of 2013, Yu Ji Pipeline Company's business model has been modified where all transactions on provision of the natural gas pipeline transmission service have been entered into between Sinopec Natural Gas Branch Company and Yu Ji Pipeline Company. For the three years ended 31 December 2013, the turnover of Yu Ji Pipeline Company were RMB869.9 million, RMB979.6 million and RMB1,254.7 million respectively, which are appropriate references in terms of the annual caps.
- (2) The projected transaction amounts provided by the management of Yu Ji Pipeline Company are also used in the projection by the Valuer to arrive at the Appraised Value.

In arriving at the aforesaid annual caps, the Directors have taken into account the factors, including (i) the State-prescribed prices or government-approved prices for transmission fee in respect of the Yunin-Jinan Pipeline Project; (ii) the historical amounts of the transactions; (iii) the natural gas transmission capacity of Yulin-Jinan Pipeline Project; and (iv) the market demand of natural gas. The proposed annual caps for the three years ending 31 December 2015, 2016 and 2017 have been determined based on (i) the projected transaction amount of natural gas transmission services for the three years ending 31 December 2015, 2016 and 2017 which are used by the Valuer to arrive at the Appraised Value; and (ii) a buffer of 10% for each of the year to allow flexibility to Yu Ji Pipeline Company's operations.

In assessing the proposed annual caps, we have reviewed the projected gas transmission transaction amounts used by the Valuer to arrive at the Appraised Value and discussed with the Valuer regarding the projection. As advised by the Valuer, they have studied the future earnings potential of Yu Ji Pipeline Company, and conducted discussions with its management team to understand its budgets/

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projections for future years, together with industry research and government data research to cross check the reasonableness of the inputs used by it. Having discussed with the Valuer, we consider the use of the projected gas transmission transaction amounts of Yu Ji Pipeline Company as provided by the Valuer for the three years ending 31 December 2017 to determine the annual caps to be fair and reasonable.

(b) *Yu Ji Pipeline Financial Services Framework Master Agreement*

On 30 December 2014, Yu Ji Pipeline Company entered into the Yu Ji Pipeline Financial Services Framework Master Agreement with Sinopec Finance for the provision of intra group financial services by Sinopec Finance to Yu Ji Pipeline Company. The Yu Ji Pipeline Financial Services Framework Master Agreement will be valid up to 31 December 2017.

The intra group financial services to be provided by Sinopec Finance to Yu Ji Pipeline Company 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 Yu Ji Pipeline Company at Yu Ji Pipeline Company's request or instruction provided that Sinopec Finance has obtained the relevant approval from the CBRC. The services under the Yu Ji Pipeline Financial Services Framework Master Agreement are exempt under Chapter 14A of the Listing Rules from Independent Shareholders' approval requirement except for deposit services.

The following factors have been considered by Yu Ji Pipeline Company before entering into the Yu Ji Pipeline Financial Services Framework Master Agreement:

- (1) In order to strengthen the centralised management of funds and monitor the use of funds, the Sinopec Group will utilize 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 Yu Ji Pipeline Company and Sinopec Finance reduces finance costs, increase interest income of deposits, lower settlement costs and control risks;

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- (3) There will be interest income from the deposits of Yu Ji Pipeline Company 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 Yu Ji Pipeline Company's funds settlement business at Sinopec Finance, settlement expenses will be undertaken by Sinopec Finance while Yu Ji Pipeline Company 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 Yu Ji Pipeline Company the same accordingly;
- (5) Sinopec Finance undertakes that the major shareholder shall not appropriate Yu Ji Pipeline Company's funds; and
- (6) Given the future development and needs of Yu Ji Pipeline Company, the Board plans to increase the deposits placed by Yu Ji Pipeline Company with Sinopec Finance for the three financial years ending 31 December 2017.

Pricing basis

Sinopec Finance has undertaken that in providing the deposit services to Yu Ji Pipeline Company within the PRC, the interest rate for Yu Ji Pipeline Company'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. We have reviewed the terms of the deposit services provided by Sinopec Finance under the Yu Ji Pipeline Financial Services Framework Master Agreement which are generally in line with the Group's existing similar arrangements.

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 Yu Ji Pipeline Company to check the status of its deposits with Sinopec Finance each business day to enable Yu Ji Pipeline Company to monitor and ensure that the maximum outstanding balance at any time

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(including any interest accrued therefrom) for Yu Ji Pipeline Company'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 Yu Ji Pipeline Company immediately 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 Yu Ji Pipeline Company upon request.

Annual caps for deposit services

The historical amounts of the maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by Yu Ji Pipeline Company with Sinopec Finance for the three years ended 31 December 2013 and for the eleven months ended 30 November 2014, as well as the proposed caps for the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by Yu Ji Pipeline Company with Sinopec Finance for each of the three financial years ending 31 December 2017 respectively are set out in the table below.

Table 11: Historical transaction amounts and annual caps under Yu Ji Pipeline Financial Services Framework Master Agreement

Historical transaction amounts				Proposed annual caps		
<i>RMB million</i>				<i>RMB million</i>		
			For the eleven months ended 30			
For the year ended 31 December			November	For the year ending 31 December		
2011	2012	2013	2014	2015	2016	2017
1.72 ⁽¹⁾	1.71 ⁽¹⁾	3.05 ⁽¹⁾	247.56 ⁽¹⁾	500	600	800

Note:

- (1) The low historical transaction amounts were due to the capital expenditure required for the Yulin-Jinan Pipeline Project, repayment of borrowings and distribution during the three years ended 31 December 2013 and the eleven months ended 30 November 2014 as set out in the statements of cash flows of the Yu Ji Pipeline Company in Appendix II to the Circular.

We have conducted discussions with the management teams of Yu Ji Pipeline Company and the Company to understand the basis of determining the proposed annual caps, which is mainly attributable to the historical cash flow movement of Yu Ji Pipeline Company. The proposed annual cap for the year ending 31 December 2015 has been determined based on (i) the net cash inflow from operating activities of Yu Ji Pipeline Company amounted to RMB968.5 million for the year ended 31 December 2013; (ii) the net cash outflow from investing

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activities of RMB251.6 million for the year ended 31 December 2013, for which the management considered to be relevant as less capital expenditure is expected for the Yulin-Jinan Pipeline Project in 2015 and beyond; (iii) the net cash outflow from financing activities of RMB138.5 million for the year ended 31 December 2013, of which the cash outflow from distribution to equity holders of RMB577.6 million has been excluded, as the management of Yu Ji Pipeline Company does not expect to maintain a high level of dividend pay-out in 2015 and beyond; (iv) possible cash outflow resulting from the repayment of borrowings in 2015 as advised by the management of the Company; and (v) a buffer of 20% to allow flexibility to Yu Ji Pipeline Company for any possible additional cash flow might be available for placing with Sinopec Finance.

The proposed annual caps for the year ending 31 December 2016 and 2017 have been determined based on (i) the projected net cash inflow of RMB718.8 million and RMB763.3 million for the year ending 31 December 2016 and 2017 provided by the management of Yu Ji Pipeline Company and used by the Valuer to arrive at the Appraised Value; (ii) possible cash outflow resulting from further repayment of borrowings in 2016 and 2017 as advised by the management of the Company; and (iii) buffers of 20% to allow flexibility to Yu Ji Pipeline Company for any possible additional cash flow might be available for placing with Sinopec Finance. Having discussed with the management the bases and assumptions for the projection, we consider that the proposed annual caps for the three years ending 31 December 2015, 2016 and 2017 to be fair and reasonable.

DISCUSSION AND ANALYSIS

The Company has been positioning itself to become a first-class international petrochemical storage logistics company. In 2012, the Group completed the expansion of its crude oil transmission system in northern China and southern China through acquisition of a portfolio of the Five Joint Ventures which are engaged in deepwater crude oil terminals located in the eastern sea board of the PRC. After the acquisition, the Group holds a total of six domestic terminal companies (including Zhan Jiang Port Petrochemical Terminal Co. and the Five Joint Ventures) which generated an aggregate throughput of 78.22 million tonnes and realised investment return of approximately HK\$284 million for the six months ended 30 June 2014, representing an increase of 32.09% as compared with the same period of previous year and providing a strong driving force to the profitability of the Group.

The Company, through its wholly-owned subsidiary, Huizhou Juade Petrochemical Co., Ltd., currently owns an oil transmission pipeline with 174km long from its crude oil jetty complex located on Mabianzhou Island in the Daya Bay Economic and Technological Development Zone in Huizhou to Sinopec Guangzhou Branch's refinery complex in Guangzhou. The Acquisition of the natural gas transmission pipeline of 944.93 km long passing through Shaanxi, Shanxi, Henan and Shandong provinces with an annual designed capacity of 3 bcm will significantly enhance the scale of pipeline transmission assets of the Group. The income of Yulin-Jinan Pipeline Project is derived from the provision of natural gas transmission services to Sinopec Natural Gas Branch Company by delivering the natural gas from the Daniudi Gas Field, Ordos Basin to the designated point(s) at prescribed rates as approved by the National Development and Reform Commission. The Acquisition will

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facilitate the Company tapping into the midstream of Sinopec Group's natural gas business, which will not only provide a stable cash flow to the Group but also enhance its storage and logistics business in the energy sector.

Yi Ji Pipeline Company is well-positioned to benefit from the continuing economic growth and the increasing demand for natural gas in the PRC. According to "12th Five-Year" plan of the PRC, it is expected that the PRC will become the second largest natural gas consumption country by 2015 with the consumption of 230.0 bcm as compared to the consumption of 150.0 bcm in 2013. According to "13th Five-Year" plan of the PRC and the forecast of International Energy Agency, it is expected that the demand for natural gas will continue to grow and reach 350.0 bcm by 2020 and 392.0 bcm by 2030.

The Transfer Consideration of RMB2,576.9 million was arrived at after arm's length negotiation between Sinopec Corp. and Sinomart Development, and was determined based on the Appraised Value as at 30 November 2014, appraised by ZhongHe Appraisal Co., Ltd., an independent firm of qualified PRC valuers by using the income approach to value the operating assets of Yu Ji Pipeline Company and cost approach to its non-operating assets. We have discussed with the Valuer the reasons for adopting the various methodologies, bases and assumptions adopted to arrive at the Appraised Value and the chosen methodologies, in our view, are in line with market practice for similar valuations. In addition, we have carried out our own analysis to assess the value of Yu Ji Pipeline Company by looking into a list of comparable transactions with the transaction targets engaged in transmission of natural gas in the PRC through both long distance transmission pipelines (i.e. Primary Comparable Transactions) and short distance transmission pipelines (i.e. Secondary Comparable Transactions). We consider the Primary Comparable Transactions to be the most appropriate benchmark in evaluating the fairness of the Transfer Consideration to which the Acquisition compares favourably in terms of both PERs and PBRs. The full year profit of Yu Ji Pipeline Company in 2013 represents 10% of the Transfer Consideration. Based on the Appraised Value and our own analysis, we consider the amount of Transfer Consideration to be fair and reasonable.

No definitive financing plan for the Transfer Consideration has been formulated, but the Company intends to satisfy the Transfer Consideration using the internal resources of the Group and/or other equity or debt financing. As shown in Table 2, the Group's cash and cash equivalents of HK\$1,304.9 million as at 30 June 2014 is not sufficient to satisfy the Transfer Consideration. We have reviewed the working capital projection of the Enlarged Group which has taken into account the cash balances and facilities available to the Enlarged Group and concur with the Directors that the Enlarged Group will have sufficient working capital upon Completion.

The Acquisition is also conditional upon the Independent Shareholders' approval for the Non-Exempt Proposed Continuing Connected Transactions which include the Natural Gas Transmission Services Framework Master Agreement and the deposit services under the Yu Ji Pipeline Financial Services Framework Master Agreement. The Natural Gas Transmission Services Framework Master Agreement is essential and forms an integral part of the Acquisition and the terms of which are in line with the market practices. We have reviewed

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the terms of the deposit services to be provided by Sinopec Finance under the Yu Ji Pipeline Financial Services Framework Master Agreement which are generally in line with the Group's existing similar arrangements with its connected persons.

OPINION

Having taken into account the above principal factors and reasons, we consider that the terms of the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions (including the Annual Caps) are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable as far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition and the Non-Exempt Proposed Continuing Connected Transactions (including the Annual Caps).

Yours faithfully,

for and on behalf of

SOMERLEY CAPITAL LIMITED

Kenneth Chow

Jenny Leung

Managing Director – Corporate Finance

Director

Mr. Kenneth Chow and Ms. Jenny Leung are licensed persons and responsible officers of Somerley Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

INTRODUCTION

The following unaudited pro forma statement of assets and liabilities (“Unaudited Pro Forma Financial Information”) of the Sinopec Kantons Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) and Sinopec Yu Ji Pipeline Company Limited (the “Target Company”, the Group and the Target Company collectively referred to as the “Enlarged Group”) has been prepared on the basis of the notes set out below and in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effects on the assets and liabilities of the Enlarged Group as if the acquisition (the “Acquisition”) of the entire equity interest in the Target Company by Sinomart KTS Development Limited, a wholly owned subsidiary of the Company, had been taken place on 30 June 2014.

The Unaudited Pro Forma Financial Information as at 30 June 2014 has been prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2014, as set out in its published interim report for the six months ended 30 June 2014; and (ii) the pro forma adjustments prepared to reflect the effects of the Acquisition as explained in the notes set out below that are directly attributable to the Acquisition, and do not relate to future events or decisions, and are factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in this circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2014 or any future date.

APPENDIX I

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND
LIABILITIES OF THE ENLARGED GROUP**

	Pro forma adjustments			Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group HK\$'000
	Unaudited statement of assets and liabilities of the Group as at 30 June 2014 HK\$'000 (note 1)	The Target Company as at 30 November 2014 HK\$'000 (note 2)	Others HK\$'000 (note 3)	
ASSETS				
Non-current assets				
Property, plant and equipment	1,893,216	5,701,134		7,594,350
Investment properties	14,581	–		14,581
Prepaid land lease payment	715,369	33,976		749,345
Interests in associated companies	682,356	–		682,356
Interests in joint ventures	5,906,671	–		5,906,671
Total non-current assets	<u>9,212,193</u>	<u>5,735,110</u>		<u>14,947,303</u>
Current assets				
Inventories	19,634	7,234		26,868
Trade, bills and other receivables	465,491	299,588		765,079
Cash and cash equivalents	1,304,883	269,578	(20,710)	1,553,751
Total current assets	<u>1,790,008</u>	<u>576,400</u>		<u>2,345,698</u>
Total assets	<u><u>11,002,201</u></u>	<u><u>6,311,510</u></u>		<u><u>17,293,001</u></u>
LIABILITIES				
Non-current liabilities				
Borrowings	–	4,125,000		4,125,000
Deferred tax liabilities	95,228	–		95,228
	<u>95,228</u>	<u>4,125,000</u>		<u>4,220,228</u>
Current liabilities				
Trade and other payables	740,632	262,302	3,221,101	4,224,035
Income tax payable	21,483	–		21,483
Total current liabilities	<u>762,115</u>	<u>262,302</u>		<u>4,245,518</u>
Total liabilities	<u><u>857,343</u></u>	<u><u>4,387,302</u></u>		<u><u>8,465,746</u></u>
Net assets	<u><u>10,144,858</u></u>	<u><u>1,924,208</u></u>		<u><u>8,827,255</u></u>

Notes to the Unaudited Pro Forma Financial Information:

1. The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2014 as set out in the Company's published interim report for the six months ended 30 June 2014.
2. The amounts are derived from the accountant's report on the Target Company as set out in Appendix II to this circular, the amounts denominated in RMB have been converted, for the purpose of illustration only, into Hong Kong dollar using an exchange rate of RMB1 to HK\$1.25, being the exchange rate prevailing on 30 December 2014.
3. For the purpose of preparing of unaudited pro forma financial information, it is assumed that all the conditions precedent in connection with the acquisition (as set out in page 12 of this circular) had been fulfilled on 30 June 2014 and the Target Company became a wholly owned subsidiary of the Group on that date. The adjustment represents the total consideration of RMB2,576,881,100 (equivalent to approximately HK\$3,221,101,000) for the Acquisition, to be paid in full by cash within 30 days from the date of the conditions precedent of the acquisition agreement have been fulfilled. The Group intends to satisfy payment for the consideration by the internal resources of the Group and/or other equity/debt financing, as may be arranged by the Board. However, as at the Latest Practicable Date, the Group (i) has not made any concrete agreement and arrangement in relation to equity fund raising; and (ii) has not committed to draw down the unguaranteed and unsecured loan facilities amounting to approximately US\$500,000,000 (equivalent to approximately HK\$3,900,000,000) provided by a fellow subsidiary. Pursuant to the payment term as set out in the Acquisition Agreement, a current liability will be recognised to reflect the consideration payable to the seller amounting to RMB2,576,881,100 (equivalent to approximately HK\$3,221,101,000).
4. The adjustment represents the estimated amounts regarding the legal and professional fees and other expenses incurred for the Acquisition of approximately HK\$20,710,000.
5. The acquisition of entire equity interest of the Target Company is considered as a business combination involving entities under common control because the Group and the Target Company are ultimately controlled by Sinopec Corp. both before and after the acquisition, and that control is not transitory. Upon completion of the Acquisition, the assets and liabilities of the Target Company will be accounted for in the consolidated financial statements of the Group using merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.
6. The Directors confirm that consistent policies and assumptions have been applied for the purpose of assessing impairment of property, plant and equipment under Hong Kong Accounting Standard 36 "Impairment of Assets" for the Group and the Target Company, and the Directors are not aware of any indicators that an impairment of the respective property, plant and equipment are required after considering the nature, prospects, financial condition and business risks. Upon the completion of the proposed acquisition and at the end of the each reporting period, the Directors will perform a review for impairment indicators on the Enlarged Group's property, plant and equipment annually in accordance with the Group's accounting policies and principal assumptions or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
7. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group or the Target Company entered into subsequent to 30 June 2014.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION
INCLUDED IN A CIRCULAR****TO THE DIRECTORS OF SINOPEC KANTONS HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sinopec Kantons Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), and Sinopec Yu Ji Pipeline Company Limited 中石化榆濟管理有限責任公司 (the "Target Company") (collectively the "Enlarged Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2014, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages I-1 to I-3 of the Company's circular dated 20 January 2015, in connection with the proposed acquisition (the "Transaction") of the entire interest in the Target Company by the Company. The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described on pages I-1 to I-3.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2014 as if the Transaction had taken place at 30 June 2014. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's financial statements for the period ended 30 June 2014, on which a review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors of the Company have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2014 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 January 2015

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

The following is the text of an accountants' report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.



The Directors
Sinopec Kantons Holdings Limited

Dear Sirs,

We report on the financial information of Sinopec Yu Ji Pipeline Company Limited (“Yu Ji Pipeline Company”), which comprises the statements of financial position as at 31 December 2011, 2012 and 2013 and 30 November 2014, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended 31 December 2011, 2012 and 2013 and the eleven months ended 30 November 2014 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information (the “Financial Information”) prepared on the basis of presentation set out in note 2.1 of section II below, for inclusion in the circular of Sinopec Kantons Holdings Limited dated 20 January 2015 (the “Circular”) in connection with its acquisition of the entire equity interest of Yu Ji Pipeline Company.

Yu Ji Pipeline Company was incorporated in the People’s Republic of China (“PRC”) on 27 October 2014 with limited liability under the company law of the PRC. No audited statutory financial statements of Yu Ji Pipeline Company were prepared.

Yu Ji Pipeline Company has adopted 31 December as its financial year end date.

Basis of preparation

For the purpose of this report, the director of Yu Ji Pipeline Company has prepared the financial statements of Yu Ji Pipeline Company in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the Relevant Periods (the “Underlying Financial Statements”). We have carried out an audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Director’s responsibility

The director of Yu Ji Pipeline Company is responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRS and for such internal control as the director of Yu Ji Pipeline Company determines is necessary to

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enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error. The directors of the Company are responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

For the purpose of this report, we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. It is our responsibility to form an independent opinion based on our audit on the Financial Information and to report our opinion to you.

OPINION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of section II below, the Financial Information gives a true and fair view of the state of affairs of Yu Ji Pipeline Company as at 31 December 2011, 2012 and 2013 and 30 November 2014 and of Yu Ji Pipeline Company's results and cash flows for the Relevant Periods.

COMPARATIVE FINANCIAL INFORMATION

The director of Yu Ji Pipeline Company is responsible for the preparation of the unaudited comparative financial information of Yu Ji Pipeline Company including the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the eleven months ended 30 November 2013 and other explanatory notes (the "30 November 2013 Financial Information") in accordance with the same basis as adopted in preparing the Financial Information and the HKFRS.

Our responsibility is to express a conclusion on the 30 November 2013 Financial Information based on our review. We have reviewed the 30 November 2013 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 November 2013 Financial Information.

On the basis of our review, for the purpose of this report, nothing has come to our attention that causes us to believe the 30 November 2013 Financial Information is not prepared, in all material respects, in accordance with the same basis as adopted in preparing the Financial Information and the HKFRS.

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

(I) FINANCIAL INFORMATION

Statements of profit or loss and other comprehensive income

	<i>Notes</i>	Year ended 31 December			Eleven months ended 30 November	
		2011	2012	2013	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)	
Revenue	5	869,943	979,604	1,254,658	1,109,026	1,047,813
Cost of services		<u>(434,746)</u>	<u>(498,482)</u>	<u>(746,305)</u>	<u>(684,089)</u>	<u>(584,222)</u>
		435,197	481,122	508,353	424,937	463,591
Other income	6	–	–	6,479	–	56,667
Administrative and other expenses	7	<u>(13,166)</u>	<u>(27,964)</u>	<u>(23,859)</u>	<u>(18,892)</u>	<u>(29,541)</u>
Operating profit		422,031	453,158	490,973	406,045	490,717
Finance income	9	33	32	16	16	46
Finance costs	9	<u>(94,821)</u>	<u>(123,103)</u>	<u>(138,470)</u>	<u>(127,293)</u>	<u>(158,772)</u>
Finance costs – net		<u>(94,788)</u>	<u>(123,071)</u>	<u>(138,454)</u>	<u>(127,277)</u>	<u>(158,726)</u>
Profit before income tax		327,243	330,087	352,519	278,768	331,991
Income tax expenses	10	<u>(81,811)</u>	<u>(82,522)</u>	<u>(88,130)</u>	<u>(69,692)</u>	<u>(82,998)</u>
Profit and total comprehensive income for the period/year		<u>245,432</u>	<u>247,565</u>	<u>264,389</u>	<u>209,076</u>	<u>248,993</u>

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

Statements of financial position

		As at 31 December			As at 30
	<i>Notes</i>	2011	2012	2013	November
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014
					<i>RMB'000</i>
Non-current assets					
Prepaid land lease payment	<i>11</i>	–	–	27,710	27,181
Property, plant and equipment	<i>12</i>	<u>4,658,967</u>	<u>4,963,232</u>	<u>4,775,115</u>	<u>4,560,907</u>
Total non-current assets		<u>4,658,967</u>	<u>4,963,232</u>	<u>4,802,825</u>	<u>4,588,088</u>
Current assets					
Inventories	<i>14</i>	689	7,206	7,160	5,787
Trade and other receivables	<i>13</i>	28,287	5,283	108,207	239,670
Cash and cash equivalents	<i>15</i>	<u>517</u>	<u>2,257</u>	<u>3,115</u>	<u>215,662</u>
Total current assets		<u>29,493</u>	<u>14,746</u>	<u>118,482</u>	<u>461,119</u>
Total assets		<u><u>4,688,460</u></u>	<u><u>4,977,978</u></u>	<u><u>4,921,307</u></u>	<u><u>5,049,207</u></u>
EQUITY					
Share capital	<i>16</i>	–	–	–	1,000,000
Capital reserve	<i>17</i>	982,070	1,229,172	1,267,488	466,811
Retained earnings	<i>17</i>	<u>327,389</u>	<u>336,982</u>	<u>23,777</u>	<u>72,555</u>
Total shareholder's equity		<u><u>1,309,459</u></u>	<u><u>1,566,154</u></u>	<u><u>1,291,265</u></u>	<u><u>1,539,366</u></u>
Non-current liabilities					
Long-term borrowings	<i>19</i>	<u>3,300,000</u>	<u>3,300,000</u>	<u>3,300,000</u>	<u>3,300,000</u>
Total non-current liabilities		<u>3,300,000</u>	<u>3,300,000</u>	<u>3,300,000</u>	<u>3,300,000</u>
Current liabilities					
Accruals and other payables	<i>18</i>	<u>79,001</u>	<u>111,824</u>	<u>330,042</u>	<u>209,841</u>
Total current liabilities		<u>79,001</u>	<u>111,824</u>	<u>330,042</u>	<u>209,841</u>
Total liabilities		<u><u>3,379,001</u></u>	<u><u>3,411,824</u></u>	<u><u>3,630,042</u></u>	<u><u>3,509,841</u></u>
Total liabilities and shareholder's equity		<u><u>4,688,460</u></u>	<u><u>4,977,978</u></u>	<u><u>4,921,307</u></u>	<u><u>5,049,207</u></u>
Total assets less current liabilities		<u><u>4,609,459</u></u>	<u><u>4,866,154</u></u>	<u><u>4,591,265</u></u>	<u><u>4,839,366</u></u>
Net current assets/(liabilities)		<u><u>(49,508)</u></u>	<u><u>(97,078)</u></u>	<u><u>(211,560)</u></u>	<u><u>251,278</u></u>

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

Statements of Changes in Equity

	Paid-up capital	Capital reserve	Retained earnings	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as at 1 January 2011	–	606,919	81,957	688,876
Profit and total comprehensive income for the year	–	–	245,432	245,432
Transactions with owners: Increase for the year	–	<u>375,151</u>	<u>–</u>	<u>375,151</u>
Balance as at 31 December 2011	–	982,070	327,389	1,309,459
Profit and total comprehensive income for the year	–	–	247,565	247,565
Transactions with owners: Increase for the year	–	247,102	–	247,102
Distribution	<u>–</u>	<u>–</u>	<u>(237,972)</u>	<u>(237,972)</u>
Balance as at 31 December 2012	–	1,229,172	336,982	1,566,154
Profit and total comprehensive income for the year	–	–	264,389	264,389
Transactions with owners: Increase for the year	–	38,316	–	38,316
Distribution	<u>–</u>	<u>–</u>	<u>(577,594)</u>	<u>(577,594)</u>
Balance as at 31 December 2013	–	1,267,488	23,777	1,291,265
Profit and total comprehensive income for the period	–	–	248,993	248,993
Transactions with owners: Contribution upon incorporation	1,000,000	(800,677)	(199,323)	–
Distribution	<u>–</u>	<u>–</u>	<u>(892)</u>	<u>(892)</u>
Balance as at 30 November 2014	<u>1,000,000</u>	<u>466,811</u>	<u>72,555</u>	<u>1,539,366</u>

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

	Paid-up capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance as at 31 December 2012	–	1,229,172	336,982	1,566,154
Profit and total comprehensive income for the period	–	–	209,076	209,076
Transactions with owners:				
Increase for the period	–	31,404	–	31,404
Distribution	–	–	(429,443)	(429,443)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 30 November 2013 (Unaudited)	<u>–</u>	<u>1,260,576</u>	<u>116,615</u>	<u>1,377,191</u>

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

Statements of Cash Flows

<i>Notes</i>	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Profit before income tax	327,243	330,087	352,519	278,768	331,991
Adjustments for:					
Depreciation of property, plant and equipment	303,085	331,417	350,254	320,264	329,385
Amortization of prepaid land lease	–	–	–	–	529
Finance costs	94,821	123,103	138,470	127,293	158,772
Interest income	(33)	(32)	(16)	(16)	(46)
Net loss on written off/ disposal of items of property, plant and equipment	–	3	20	20	20,273
Decrease/(increase) in inventories	(689)	(6,517)	46	(48)	1,373
Increase in trade and other receivables	(162)	(3,694)	(2,890)	(74,039)	(17,198)
Increase/(decrease) in accruals and other payables	<u>(44,014)</u>	<u>32,823</u>	<u>218,218</u>	<u>49,527</u>	<u>(120,201)</u>
Cash flows from operating activities	680,251	807,190	1,056,621	701,769	704,878
PRC enterprise income tax paid	<u>(81,811)</u>	<u>(82,522)</u>	<u>(88,130)</u>	<u>(69,692)</u>	<u>(82,998)</u>
Net cash generated from operating activities	598,440	724,668	968,491	632,077	621,880
Cash flows from investing activities					
Purchase of property, plant and equipment	(55,663)	(484,988)	(223,875)	(73,691)	(469,987)
Prepaid land lease payment	–	–	(27,710)	–	–
Interest received	33	32	16	16	46
Proceeds from disposal of property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>220,272</u>
Net cash used in investing activities	<u>(55,630)</u>	<u>(484,956)</u>	<u>(251,569)</u>	<u>(73,675)</u>	<u>(249,669)</u>

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

	<i>Notes</i>	Year ended 31 December			Eleven months ended 30 November	
		2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
						(Unaudited)
Cash flows from financing activities						
Interest paid		–	–	(138,470)	(127,293)	(158,772)
Repayment of borrowings		(542,393)	–	–	–	–
Distribution		–	(237,972)	(577,594)	(429,443)	(892)
Net cash used in financing activities		<u>(542,393)</u>	<u>(237,972)</u>	<u>(716,064)</u>	<u>(556,736)</u>	<u>(159,664)</u>
Net increase in cash and cash equivalents		417	1,740	858	1,666	212,547
Cash and cash equivalents at the beginning of the period/year		<u>100</u>	<u>517</u>	<u>2,257</u>	<u>2,257</u>	<u>3,115</u>
Cash and cash equivalents at the end of the period/year	<i>15</i>	<u><u>517</u></u>	<u><u>2,257</u></u>	<u><u>3,115</u></u>	<u><u>3,923</u></u>	<u><u>215,662</u></u>

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

(II) NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

Yu Ji Pipeline Company is a wholly-owned subsidiary of China Petroleum & Chemical Corporation ("Sinopec Corp."), and obtained the Enterprise Business License issued by the Administrative Bureau for Industry and Commerce of Shandong province on 27 October 2014. The address of its registered office is No. 15002, Century Avenue, Lixia District, Jinan City, Shandong Province; its registered capital is RMB1 billion; its business scope includes construction and maintenance of natural gas pipelines and relevant technical consultancy and technical services (Items requiring approval in accordance with laws shall be operated subject to approval of relevant authorities). Upon establishment, it is mainly engaged in the Yulin-Jinan Pipeline Project ("Yu Ji Pipeline Business").

Yu Ji Pipeline Company's ultimate holding company is China Petrochemical Corporation, which is an enterprise at the ministerial level under the State Council of the PRC.

The major accounting policies used for preparing the Financial Information are set out below. Unless otherwise stated, these policies have been consistently applied throughout the Relevant Periods presented.

2.1 BASIS OF PRESENTATION

In accordance with the Notice Concerning Establishment of Sinopec Yu Ji Pipeline Company Limited (Petroleum & Chemical Corporation Ren [2014] No.393) issued by Sinopec Corp., the Yu Ji Pipeline Business and relevant assets originally held by Sinopec Corp. was injected into Yu Ji Pipeline Company by adopting 30 September 2014 as the base date ("Reorganization"). In the process of Reorganization, the paid-up capital of Yu Ji Pipeline Company upon its establishment was paid by Sinopec Corp. with its injection of Yu Ji Pipeline Business and relevant assets, and the difference was recorded through capital reserve and undistributed profits.

The Reorganization only represents the business reorganization of Sinopec Corp., not involving changes in management of related businesses, and the ultimate holding company of Yu Ji Pipeline Company remained unchanged. Therefore for the purpose of this report, the existing Financial Information of Yu Ji Pipeline Company is presented as if the Yu Ji Pipeline Business has been held by Yu Ji Pipeline Company from the beginning of the Relevant Periods.

2.2 BASIS OF PREPARATION

The Financial Information of Yu Ji Pipeline Company has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Yu Ji Pipeline Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to this Financial Information are disclosed in Note 4.

For the purpose of preparing the Financial Information, Yu Ji Pipeline Company has adopted all applicable HKFRS that are relevant to Yu Ji Pipeline Company and are effective for the accounting period beginning on 1 January 2014. For the purpose of presenting this Financial Information, these policies have been consistently applied to all the years/periods presented.

Various new standards, amendments and interpretations have been issued but are not effective for the financial year beginning from 1 January 2014, which have not been early adopted in preparation of this Financial Information.

No other HKFRS or HK(IFRIC) interpretations that are not yet effective would be expected to have a material impact on Yu Ji Pipeline Company.

For the purpose of this report, no information about earning per share is presented as inclusion of such information is meaningless.

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2.3 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in this Financial Information are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is also the functional and presentation currency of Yu Ji Pipeline Company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

2.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less depreciation and amortization and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and construction	15 years
Pipeline transmission equipments	11-20 years
Other equipments	4-20 years
Motor vehicles	8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate by Yu Ji Pipeline Company, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other income" in the profit or loss.

All direct and indirect costs relating to the construction of property, plant and equipment are classified as construction in progress. No depreciation is provided on construction in progress until such times as the relevant assets are completed and available for intended use.

2.5 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2.6 FINANCIAL ASSETS

Yu Ji Pipeline Company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. Which are classified as non-current assets. Yu Ji Pipeline Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which Yu Ji Pipeline Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and Yu Ji Pipeline Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.7 IMPAIRMENT OF FINANCIAL ASSETS

Yu Ji Pipeline Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or those events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

2.8 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average cost method. It comprises all cost of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

2.9 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and deposits held at banks and a fellow subsidiary.

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2.11 ACCRUALS AND OTHER PAYABLES

Accruals and other payables are obligations to pay under ordinary course of business. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.12 BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.13 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where Yu Ji Pipeline Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(d) Tax incentives and approvals

According to the Policies for Implementing the Pilot Program of Levying Value-Added Tax in Lieu of Business Tax (Attachment I of Cai Shui [2013] No.106) issued by the Ministry of Finance and State Administration of Taxation of the PRC, the pilot program of levying value-added tax in lieu of business tax was implemented within the pipeline transportation industry national wide commencing from August 2013, so the turnover tax which Yu Ji Pipeline Company shall be levied was changed to value-added tax from business tax with applicable tax rate of 11%. Pursuant to the Provisions of the Transition Policy Relating to

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the Pilot Plan for Levying Value Added Tax in Lieu of Business Tax (Attachment IV of Cai Shui [2013] No.106), for the general taxpayers engaged in provision of pipelines transportation services among the taxpayers of the pilot plan, they are entitled to enjoy immediate VAT refund on the portion of its effective VAT exceeding 3% of the amounts being subject to the VAT. The above requirements are applicable to Yu Ji Pipeline Company.

2.14 EMPLOYEE BENEFITS

Employee benefits plan

The employees of Yu Ji Pipeline Company in the PRC are required to participate in a central retirement benefit scheme operated by the local municipal or provincial government. Yu Ji Pipeline Company is required to contribute a percentage of its payroll costs to the central retirement benefit scheme. Yu Ji Pipeline Company has no further payment obligations once the contribution has been paid.

2.15 PROVISIONS

Provisions are recognised when Yu Ji Pipeline Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 REVENUE RECOGNITION

Yu Ji Pipeline Company's revenue comprises natural gas pipeline transmission services and is recognised upon transmitted.

2.17 INTEREST INCOME

Interest income is recognised using the effective interest method.

2.18 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.19 RELATED PARTIES

The person(s) will be considered to be related to Yu Ji Pipeline Company if the following situation occurred:

- (a) A person, or a close member of that person's family, is related to Yu Ji Pipeline Company if that person:
 - (i) has control or joint control over Yu Ji Pipeline Company;

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- (ii) has significant influence over Yu Ji Pipeline Company; or
 - (iii) is a member of the key management personnel of Yu Ji Pipeline Company or a parent of Yu Ji Pipeline Company;
- (b) An entity is related to Yu Ji Pipeline Company if any of the following conditions applies:
- (i) The entity and Yu Ji Pipeline Company are members of the same group;
 - (ii) One entity is an associate or joint venture of the other entity (or a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) The entity and Yu Ji Pipeline Company are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either a company or an entity related to Yu Ji Pipeline Company;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) A person identified in (a)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3.1 FINANCIAL RISK MANAGEMENT

Yu Ji Pipeline Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. Yu Ji Pipeline Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Yu Ji Pipeline Company's financial performance.

(a) Foreign exchange risk

Revenues and expenses arising from Yu Ji Pipeline Company's business are mainly denominated in RMB, therefore, as at each reporting date, Yu Ji Pipeline Company is not subject to material foreign exchange risk.

Yu Ji Pipeline Company currently does not have any foreign currency hedging activities.

(b) Credit risk

Yu Ji Pipeline Company's credit risk is primarily attributable to trade and other receivables and bank deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account the information specific to the customer as well as pertaining to the economic environment to which the customer operates. These receivables are due within 0 to 30 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, Yu Ji Pipeline Company does not obtain collateral from customers.

Yu Ji Pipeline Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when Yu Ji Pipeline Company has

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significant exposure to individual customers. At each balance sheet date, percentage of the total trade and other receivables which are due from Yu Ji Pipeline Company's largest customer and the five largest customers respectively are set out below:

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>Percentage</i> (%)	<i>Percentage</i> (%)	<i>Percentage</i> (%)	<i>Percentage</i> (%)
The largest customer	<u>–</u>	<u>21</u>	<u>30</u>	<u>–</u>
The five largest customers	<u>–</u>	<u>63</u>	<u>87</u>	<u>–</u>

In respect of bank deposits, the credit risk is limited because the counter parties are state-owned banks in the PRC or fellow subsidiary financial institutions.

(c) Liquidity risk

The table below analyses Yu Ji Pipeline Company's non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year or on demand <i>RMB'000</i>	After 1 year but within 5 years <i>RMB'000</i>	Total <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
As at 30 November 2014				
Accruals and other payables	208,990	–	208,990	208,990
Long-term borrowings	<u>–</u>	<u>3,524,213</u>	<u>3,524,213</u>	<u>3,300,000</u>
	<u>208,990</u>	<u>3,524,213</u>	<u>3,733,203</u>	<u>3,508,990</u>
As at 31 December 2013				
Accruals and other payables	309,980	–	309,980	309,980
Long-term borrowings	<u>–</u>	<u>3,438,678</u>	<u>3,438,678</u>	<u>3,300,000</u>
	<u>309,980</u>	<u>3,438,678</u>	<u>3,748,658</u>	<u>3,609,980</u>
As at 31 December 2012				
Accruals and other payables	90,395	–	90,395	90,395
Long-term borrowings	<u>–</u>	<u>3,423,185</u>	<u>3,423,185</u>	<u>3,300,000</u>
	<u>90,395</u>	<u>3,423,185</u>	<u>3,513,580</u>	<u>3,390,395</u>
As at 31 December 2011				
Accruals and other payables	51,907	–	51,907	51,907
Long-term borrowings	<u>–</u>	<u>3,394,821</u>	<u>3,394,821</u>	<u>3,300,000</u>
	<u>51,907</u>	<u>3,394,821</u>	<u>3,446,728</u>	<u>3,351,907</u>

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3.2 CAPITAL MANAGEMENT

Yu Ji Pipeline Company's primary objectives when managing capital are to safeguard Yu Ji Pipeline Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Yu Ji Pipeline Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Yu Ji Pipeline Company monitors its capital structure on the basis of current ratio, gearing ratio and an adjusted net debt-to-capital ratio. The current ratio is calculated as current liabilities divided by current assets. The gearing ratio is calculated as total liabilities divided by total assets. For this purpose, adjusted net debt is defined as the sum of interest-bearing borrowings, trade and other payables and unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

As at 30 November 2014 and 31 December 2013, 2012 and 2011, Yu Ji Pipeline Company's current ratio is 220%, 36%, 13% and 37% respectively, and the gearing ratio is 70%, 74%, 69% and 72% respectively. In order to maintain or adjust the ratio, Yu Ji Pipeline Company may adjust the amount of dividends paid to shareholders, issue new shares, raise new debt, speed up debt collection or sell assets to reduce debt. Yu Ji Pipeline Company also considers the cost of capital and the risks associate with each class of capital structure is reviewed annually.

As at each reporting date, the adjusted net debt-to-capital ratio was as follows:

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accruals and other payables	79,001	111,824	330,042	209,841
Long-term borrowings	3,300,000	3,300,000	3,300,000	3,300,000
Less: Cash and cash equivalents	<u>(517)</u>	<u>(2,257)</u>	<u>(3,115)</u>	<u>(215,662)</u>
Adjusted net debt	<u>3,378,484</u>	<u>3,409,567</u>	<u>3,626,927</u>	<u>3,294,179</u>
Total equity	<u>1,309,459</u>	<u>1,566,154</u>	<u>1,291,265</u>	<u>1,539,366</u>
Adjusted net debt to equity ratio	<u>258%</u>	<u>218%</u>	<u>281%</u>	<u>214%</u>

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Yu Ji Pipeline Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of long lived assets

If circumstances indicate that the carrying amounts of a long lived asset may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the

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recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate fair values because quoted market prices for Yu Ji Pipeline Company's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and the amount of operating costs. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling prices and the amount of operating costs.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on Yu Ji Pipeline Company's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. Any revision of useful lives of Yu Ji Pipeline Company's property, plant and equipment may have a significant impact to the Yu Ji Pipeline Company's operating results.

5 REVENUE

	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Natural gas pipeline transmission	<u>869,943</u>	<u>979,604</u>	<u>1,254,658</u>	<u>1,109,026</u>	<u>1,047,813</u>

No segment information is presented as Yu Ji Pipeline Company is principally engaged in one type of business, namely natural gas pipeline transmission, and all of its customers and assets are located in the PRC.

Revenue from customers during the Relevant Periods which contributes over 10% to Yu Ji Pipeline Company's revenue is as follows:

	Year ended 31 December			Eleven months ended	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Customer A	129,313	109,897	N/A (Note)	N/A (Note)	N/A (Note)
Customer B	102,010	126,386	189,184	167,624	N/A (Note)
Customer C	108,626	N/A (Note)	N/A (Note)	N/A (Note)	N/A (Note)
Customer D	N/A (Note)	137,868	222,343	195,995	1,047,813

Note: The corresponding revenue did not contribute over 10% to Yu Ji Pipeline Company's revenue during the corresponding period/year of the Relevant Periods.

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6 OTHER INCOME

	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Refund of value-added tax	–	–	6,479	–	56,615
Other income	–	–	–	–	52
	<u>–</u>	<u>–</u>	<u>6,479</u>	<u>–</u>	<u>56,667</u>

7 EXPENSES BY NATURE

	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Depreciation of property, plant and equipment (<i>Note 12</i>)	303,085	331,417	350,254	320,264	329,385
Amortisation of prepaid land lease payment	–	–	–	–	529
Employee benefit expenses (including director's remuneration)	15,907	18,272	28,126	25,782	26,432
Auditor's remuneration	–	–	–	–	–
Operating lease charges: minimum lease payments	2,297	3,788	5,830	5,345	5,479
Loss from disposal of property, plant and equipment	–	3	20	20	20,273
	<u>–</u>	<u>3</u>	<u>20</u>	<u>20</u>	<u>20,273</u>

8 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Wages, salaries and other benefits	13,893	15,959	24,566	22,518	23,086
Retirement benefit scheme contributions	2,014	2,313	3,560	3,264	3,346
	<u>15,907</u>	<u>18,272</u>	<u>28,126</u>	<u>25,782</u>	<u>26,432</u>

Yu Ji Pipeline Company participates in a defined contribution retirement scheme organised by the local government. Yu Ji Pipeline Company is required to make contributions to the pension fund scheme at a certain percentage of the employees' relevant basic salaries. Contributions to the scheme vest immediately.

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At each reporting date, there was no material outstanding contribution to employee retirement benefits. Yu Ji Pipeline Company does not have any other obligations other than the contributions described above.

(a) **Director's and supervisor's emoluments**

Director's and supervisor's emoluments are as follows:

For the year ended 31 December 2011

	Fees <i>RMB'000</i>	Salaries, Allowances and benefits- in-kind <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Bonus <i>RMB'000</i>	Total <i>RMB'000</i>
Director:					
Wang Chunfu	—	—	—	—	—
Supervisor:					
Li Lucai	—	158	27	108	293

For the year ended 31 December 2012

	Fees <i>RMB'000</i>	Salaries, Allowances and benefits- in-kind <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Bonus <i>RMB'000</i>	Total <i>RMB'000</i>
Director:					
Wang Chunfu	—	—	—	—	—
Supervisor:					
Li Lucai	—	178	27	141	346

For the year ended 31 December 2013

	Fees <i>RMB'000</i>	Salaries, Allowances and benefits- in-kind <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Bonus <i>RMB'000</i>	Total <i>RMB'000</i>
Director:					
Wang Chunfu	—	—	—	—	—
Supervisor:					
Li Lucai	—	209	46	144	399

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For eleven months ended 30 November 2013

	Fees <i>RMB'000</i> (Unaudited)	Salaries, Allowances and benefits- in-kind <i>RMB'000</i> (Unaudited)	Retirement benefit scheme contributions <i>RMB'000</i> (Unaudited)	Bonus <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Director:					
Wang Chunfu	–	–	–	–	–
Supervisor:					
Li Lucai	–	168	42	19	229

For eleven months ended 30 November 2014

	Fees <i>RMB'000</i>	Salaries, Allowances and benefits- in-kind <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Bonus <i>RMB'000</i>	Total <i>RMB'000</i>
Director:					
Wang Chunfu	–	125	21	18	164
Supervisor:					
Li Lucai	–	173	49	19	241

(b) Five highest paid individuals

Of the five individuals whose emoluments were the highest in Yu Ji Pipeline Company for the Relevant Periods, none is the director whose emoluments is reflected in the analysis presented above. The emoluments payable to the five individuals are as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Salaries and other benefits in kind	807	905	999	799	800
Contribution to retirement scheme	136	136	241	221	210
Bonuses	566	754	621	82	79
	<u>1,509</u>	<u>1,795</u>	<u>1,861</u>	<u>1,102</u>	<u>1,089</u>

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The emoluments fell within the following bands:

Emolument bands (in HK dollar) HK\$1-HK\$1,000,000	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	(Unaudited)				
	<i>Number of individuals</i>				
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

9 FINANCE INCOME AND COSTS

	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)				
Interest income	<u>33</u>	<u>32</u>	<u>16</u>	<u>16</u>	<u>46</u>
Interest expenses:					
– Interest expenses on bank and other borrowings wholly repayable within five years	94,821	123,185	138,678	127,501	164,423
– Capitalization of interest	<u>–</u>	<u>(82)</u>	<u>(208)</u>	<u>(208)</u>	<u>(5,651)</u>
	<u>94,821</u>	<u>123,103</u>	<u>138,470</u>	<u>127,293</u>	<u>158,772</u>

10 INCOME TAX EXPENSES

	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)				
Current income tax					
– PRC enterprise income tax	<u>81,811</u>	<u>82,522</u>	<u>88,130</u>	<u>69,692</u>	<u>82,998</u>

PRC enterprises income tax (25%) was provided on the profits of Yu Ji Pipeline Company in accordance with the Enterprises Income Tax Law of the PRC.

At each reporting date, Yu Ji Pipeline Company has no material unprovided deferred tax.

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The tax on Yu Ji Pipeline Company's profit before income tax differs from the theoretical amount that would arise using the principal applicable tax rate as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Profit before income tax	<u>327,243</u>	<u>330,087</u>	<u>352,519</u>	<u>278,768</u>	<u>331,991</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries	81,811	82,522	88,130	69,692	82,998
Expenses not deductible for tax purposes	77	112	179	162	55
Others	<u>(77)</u>	<u>(112)</u>	<u>(179)</u>	<u>(162)</u>	<u>(55)</u>
Income tax expenses	<u>81,811</u>	<u>82,522</u>	<u>88,130</u>	<u>69,692</u>	<u>82,998</u>

11 PREPAID LAND LEASE PAYMENT

Yu Ji Pipeline Company's interests in prepaid land lease payment represent prepaid operating lease payments and their net book value are analysed as follows:

	As at 31 December			As at 30 November
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Outside Hong Kong, held on medium lease term of 10 to 50 years	<u>-</u>	<u>-</u>	<u>27,710</u>	<u>27,181</u>

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12 PROPERTY, PLANT AND EQUIPMENT

	Buildings and construction <i>RMB'000</i>	Pipeline transmission equipment <i>RMB'000</i>	Other equipments <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:						
As at 1 January 2011	–	4,968,982	488	15,277	–	4,984,747
Additions	–	–	18,493	9,821	–	28,314
As at 31 December 2011	–	4,968,982	18,981	25,098	–	5,013,061
Additions	618,881	–	2,407	1,828	12,569	635,685
Written off/disposals	–	–	–	(3)	–	(3)
As at 31 December 2012	618,881	4,968,982	21,388	26,923	12,569	5,648,743
Additions	–	142,264	11,981	5,942	1,970	162,157
Written off/disposals	–	–	(20)	–	–	(20)
As at 31 December 2013	618,881	5,111,246	33,349	32,865	14,539	5,810,880
Additions	–	14,954	1,703	–	339,065	355,722
Transfer from construction in progress	–	146,961	–	–	(146,961)	–
Written off/disposals	(114,067)	(156,798)	–	–	–	(270,865)
As at 30 November 2014	<u>504,814</u>	<u>5,116,363</u>	<u>35,052</u>	<u>32,865</u>	<u>206,643</u>	<u>5,895,737</u>
Accumulated depreciation and impairment losses:						
As at 1 January 2011	–	49,709	153	1,147	–	51,009
Depreciation for the year	–	300,276	614	2,195	–	303,085
As at 31 December 2011	–	349,985	767	3,342	–	354,094
Depreciation for the year	25,013	300,545	2,465	3,394	–	331,417
As at 31 December 2012	25,013	650,530	3,232	6,736	–	685,511
Depreciation for the year	42,880	300,546	3,053	3,775	–	350,254
As at 31 December 2013	67,893	951,076	6,285	10,511	–	1,035,765
Depreciation for the period	38,860	282,643	3,851	4,031	–	329,385
Written back on written off/disposals	(6,248)	(24,072)	–	–	–	(30,320)
As at 30 November 2014	<u>100,505</u>	<u>1,209,647</u>	<u>10,136</u>	<u>14,542</u>	<u>–</u>	<u>1,334,830</u>
Net book value:						
As at 31 December 2011	<u>–</u>	<u>4,618,997</u>	<u>18,214</u>	<u>21,756</u>	<u>–</u>	<u>4,658,967</u>
As at 31 December 2012	<u>593,868</u>	<u>4,318,452</u>	<u>18,156</u>	<u>20,187</u>	<u>12,569</u>	<u>4,963,232</u>
As at 31 December 2013	<u>550,988</u>	<u>4,160,170</u>	<u>27,064</u>	<u>22,354</u>	<u>14,539</u>	<u>4,775,115</u>
As at 30 November 2014	<u>404,309</u>	<u>3,906,716</u>	<u>24,916</u>	<u>18,323</u>	<u>206,643</u>	<u>4,560,907</u>

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13 TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
– Amounts due from Sinopec Corp. and fellow subsidiaries	–	65	5,831	–
– Third parties	–	2,671	357	–
	–	2,736	6,188	–
Deposits, prepayments and other receivables				
– Amounts due from Sinopec Corp. and fellow subsidiaries	27,349	2,547	100,685	214,950
– Third parties	938	–	1,334	24,720
	<u>28,287</u>	<u>5,283</u>	<u>108,207</u>	<u>239,670</u>

All of the trade and other receivables are expected to be recovered within one year.

Trade receivables including amounts due from Sinopec Corp., fellow subsidiaries and third parties, are due within 0 to 30 days from the date of billing.

Other amounts due from Sinopec Corp. and fellow subsidiaries are unsecured and interest free and there are no history of default.

At each reporting date, the ageing analysis of the trade receivables based on invoice date was as follows:

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	–	2,736	6,188	–

The carrying amounts of Yu Ji Pipeline Company's trade and other receivables are denominated in RMB.

Ageing analysis of trade receivables based on maturity date is set out below:

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Not yet past due	–	2,736	6,188	–

At each reporting date, there are no receivables past due but not impaired.

Receivables that are current relate to a number of customers for whom there is no recent history of default. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at each reporting date is the carrying value of each class of receivable mentioned above. Yu Ji Pipeline Company does not hold any collateral as security.

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

14 INVENTORIES

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2014</i>
				<i>RMB'000</i>
Spare parts	689	7,206	7,160	5,787

For the eleven months ended 30 November 2014 and the years ended 31 December 2013, 2012 and 2011, the cost of inventories recognised as expense and included in costs of sales amounted to RMB6,410,000, RMB6,820,000, RMB4,431,000 and RMB3,857,000 respectively (30 November 2013: RMB6,252,000).

15 CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2014</i>
				<i>RMB'000</i>
Cash in hand	9	54	25	–
Deposits in a fellow subsidiary	5	1,638	1,831	213,492
Deposits in other state-owned banks	503	565	1,259	2,170
Cash and cash equivalents	517	2,257	3,115	215,662

The carrying amounts of deposits in a fellow subsidiary, bank balances and cash in hand are denominated in RMB.

The fellow subsidiary is Sinopec Finance Co., Ltd.

16 SHARE CAPITAL

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2014</i>
				<i>RMB'000</i>
Registered and paid-up capital	–	–	–	1,000,000

17 RESERVES

Capital reserve

Capital reserves comprise of certain transactions with Sinopec Corp. (mainly representing contribution and distribution of assets).

Profit available for distribution

As at 30 November 2014, Yu Ji Pipeline Company's profit available for distribution calculated based on the PRC accounting standards is the retained profits with an amount of RMB72,555,000.

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

18 ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014 <i>RMB'000</i>
Amounts due to Sinopec Corp. and fellow subsidiaries	25,791	32,351	162,749	68,259
Amounts received in advance	27,094	21,429	20,062	851
Other payables and accrued charges	26,116	58,044	147,231	140,731
	<u>79,001</u>	<u>111,824</u>	<u>330,042</u>	<u>209,841</u>

At each reporting date, all accruals and other payables of Yu Ji Pipeline Company are expected to be settled within one year.

The amounts due to Sinopec Corp. and fellow subsidiaries are unsecured and interest free. The amounts due to Sinopec Corp. and fellow subsidiaries are repayable on demand.

The carrying amounts of Yu Ji Pipeline Company's accruals and other payables are denominated in RMB.

19 LONG-TERM BORROWINGS

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014 <i>RMB'000</i>
Borrowings	<u>3,300,000</u>	<u>3,300,000</u>	<u>3,300,000</u>	<u>3,300,000</u>

The loans from Sinopec Corp. are unsecured, and shall not be repayable before 31 March 2016. For the eleven months ended 30 November 2014 and the years ended 31 December 2013, 2012 and 2011, the effective interest rate are approximately 5.4%, 4.2%, 3.7% and 2.9% per annum respectively.

20 COMMITMENTS

- (a) Capital commitments outstanding at each reporting date not provided for in the Financial Information were as follows:

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014 <i>RMB'000</i>
Authorised but not contracted for	<u>1,125,555</u>	<u>557,244</u>	<u>1,071,223</u>	<u>542,782</u>

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

- (b) At each reporting date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014
Within 1 year	1,522	2,815	2,653	834
After 1 year but within 5 years	<u>863</u>	<u>551</u>	<u>71</u>	<u>1,150</u>
	<u><u>2,385</u></u>	<u><u>3,366</u></u>	<u><u>2,724</u></u>	<u><u>1,984</u></u>

Yu Ji Pipeline Company leases land and properties with a lease term of one to three years. None of the leases includes contingent rentals.

21 MATERIAL RELATED PARTY TRANSACTIONS

- (a) Transactions with Sinopec Corp. and fellow subsidiaries

	Year ended 31 December			Eleven months ended	
	2011	2012	2013	30 November	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Interest expense	94,821	123,185	138,678	127,501	164,423
Interest income	15	19	5	5	22
Income from natural gas pipeline transmission	81,691	137,868	222,343	195,995	1,047,813
Payment of fees for storage vault	–	–	85,711	78,568	69,358
Purchase of property, plant and equipment and payment of service fees	<u>14,156</u>	<u>648,400</u>	<u>179,659</u>	<u>65,636</u>	<u>204,326</u>

The balances with related companies are disclosed in Notes 13 and 18 to the Financial Information.

The director of Yu Ji Pipeline Company is of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

(b) **Key management compensation**

	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Director's fees	–	–	–	–	–
Salaries, allowances and benefits-in-kind	928	1,210	1,540	1,224	1,364
Contribution to retirement scheme	162	190	357	328	334
Bonus	674	1,039	956	127	138
Total	1,764	2,439	2,853	1,679	1,836

(c) **Transactions with other state-controlled entities in the PRC**

(i) *Transactions with other state-controlled entities*

Yu Ji Pipeline Company operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred to as “state-controlled entities”).

Apart from transactions with Sinopec Corp. and fellow subsidiaries as set out in Note 21(a), Yu Ji Pipeline Company has entered into transactions with other state-controlled entities including but not limited to the following:

	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Income from natural gas pipeline transmission	149,892	178,678	275,241	251,348	–
Purchase of property, plant and equipment and payment of service fees	480	18,470	23,878	20,518	46,835

(ii) *Transactions with state-controlled banks*

Yu Ji Pipeline Company deposits its cash with several state-controlled banks in the PRC. The interest rates of bank deposits in the PRC are regulated by the People's Bank of China. Yu Ji Pipeline Company's interest income received from these state-controlled banks in the PRC is as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Interest income	18	13	11	11	24

APPENDIX II ACCOUNTANT'S REPORT ON YU JI PIPELINE COMPANY

The amounts of cash deposited at state-controlled banks in the PRC are summarised as follows:

	As at 31 December			As at 30
	2011	2012	2013	November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014
Cash and cash equivalents	<u>503</u>	<u>565</u>	<u>1,259</u>	<u>2,170</u>

(III) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Yu Ji Pipeline Company and no dividend was declared or paid in respect of any periods subsequent to 30 November 2014.

Yours faithfully
Grant Thornton Hong Kong Limited
Certified Public Accountants

Level 12
28 Hennessy Road
Wanchai
Hong Kong
20 January 2015

Shaw Chi Kit
Practising Certificate No.: P04834

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF YU JI PIPELINE
COMPANY

Yu Ji Pipeline Company's financial results

Yu Ji Pipeline Company's results and performance ratios are set out as follows:

<i>(All amounts in RMB million unless otherwise stated)</i>	11 months ended 30	Year ended 31 December		
	November 2014	2013	2012	2011
Key results				
Turnover	1,047.8	1,254.7	979.6	869.9
Gross profit	463.6	508.4	481.1	435.2
Operating profit	490.7	491.0	453.2	422.0
Profit attributable to equity holders of Yu Ji Pipeline Company	249.0	264.4	247.6	245.4
Net operating cash (<i>Note 1</i>)	621.9	968.5	724.7	598.4
Key performance ratios				
Profitability ratios				
Gross profit margin	44.2%	40.5%	49.1%	50.0%
Operating profit margin	46.8%	39.1%	46.3%	48.5%
Net profit margin	23.8%	21.1%	25.3%	28.2%
Margin of profit attributable to equity holders	23.8%	21.1%	25.3%	28.2%
Return to net asset	16.2%	20.5%	15.8%	18.7%
Net profit to total asset (<i>Note 2</i>)	4.9%	5.4%	5.0%	5.2%
Asset ratios				
Current ratio (<i>Note 3</i>)	219.7%	35.9%	13.2%	37.3%
Inventory turnover days (<i>Note 4</i>)	3.6	3.5	5.3	0.6
Trade receivable turnover days (<i>Note 5</i>)	0	1.8	1.0	0
Debt to equity ratio (<i>Note 6</i>)	228.0%	281.1%	217.8%	258.0%
Gearing ratio (<i>Note 7</i>)	69.5%	73.8%	68.5%	72.1%

Notes:

1. Cash inflow generated from operating activities for the year less cash outflow generated from operating activities for the year or the relevant period, as the case may be.
2. Profit for the year divided by the total assets at year end or the end of the relevant period, as the case may be.
3. Total current assets at year end divided by total current liabilities at year end or the end of the relevant period, as the case may be.
4. Inventory balances at year end divided by cost of sales for the year and multiplied by 365 days.
5. Balances of trade and bills receivables at year end divided by turnover for the year and multiplied by 365 days.
6. Total liabilities at year end divided by equity attributable to total equity holders of Yu Ji Pipeline Company at year end or the end of the relevant period, as the case may be.
7. Total liabilities divided by total assets at year end or the end of the relevant period, as the case may be.

Financial Review***Turnover***

Yu Ji Pipeline Company recorded a turnover for each of the three years ended 31 December 2011, 2012 and 2013, and the eleven months ended 30 November 2014 of approximately RMB869.9 million, RMB979.6 million, RMB1,254.7 million and RMB1,047.8 million, respectively. Turnover of Yu Ji Pipeline Company for the year ended 31 December 2012 had a growth rate of approximately 12.6% as compared with that of the preceding year. The growth rate increased to 28.1% in 2013. The increase in the turnover over this period was mainly attributable to the increase in the market demand for gas in China which boosted the volume of the gas transmission of Yu Ji Pipeline Company.

For each of the three years ended 31 December 2011, 2012 and 2013, and the eleven months ended 30 November 2014, the turnover of Yu Ji Pipeline Company had been derived from its gas transmission operation.

Gross profit

The gross profit of Yu Ji Pipeline Company increased by 10.5% from approximately RMB435.2 million in 2011 to approximately RMB481.1 million in 2012, and by 5.7% to approximately 508.4 million in 2013. The increase in gross profit of Yu Ji Pipeline Company during this period was mainly due to the increase in the market demand for gas in China and thus the increase in the volume of its gas transmission.

The gross profit margin of Yu Ji Pipeline Company decreased from 50.0% in 2011 to 49.1% in 2012, and decreased further to 40.5% in 2013. The sharp decrease in the gross profit margin in 2013 was mainly because substantial amount of fees for storage vault and production safety expenses were incurred for the financial year ended 31 December 2013. Another factor that contributed to the decrease in the gross profit margin of Yu Ji Pipeline Company for the three years ended 31 December 2011, 2012 and 2013 was the gradual increase in transmission of gas to provinces with lower market price, which reduced the profit margin of Yu Ji Pipeline Company.

Non-operating income

Yu Ji Pipeline Company had a non-operating income of approximately RMB6.5 million and approximately RMB56.7 million for the year ended 31 December 2013 and the eleven months ended 30 November 2014, respectively. Such non-operating income was mainly derived from the tax refund of the value-added tax paid by Yu Ji Pipeline Company as a result of the replacement of business tax with value-added tax which started in certain parts of China for the relevant industry in 2012 and was extended to the entire country for the relevant industry in 2013 as part of China's tax reform.

Non-operating expense

For the eleven months ended 30 November 2014, Yu Ji Pipeline Company incurred a non-operating expense of approximately RMB20.3 million. It represented a significant increase as compared with the non-operating expense of Yu Ji Pipeline Company of approximately nil for the year ended 31 December 2013. Such expense was mainly attributed to the loss on re-routing its gas pipelines at the request of the relevant local governments in the event they change their development plans of their land, which is expected to recur occasionally in the future.

Liquidity and financial resources

As at 30 November 2014, the liquidity of Yu Ji Pipeline Company primarily included cash and cash equivalents.

As at 31 December 2011, Yu Ji Pipeline Company had cash and bank balances totaling approximately RMB0.5 million.

As at 31 December 2012, Yu Ji Pipeline Company had cash and bank balances totaling approximately RMB2.3 million.

As at 31 December 2013, Yu Ji Pipeline Company had cash and bank balances totaling approximately RMB3.1 million.

As at 30 November 2014, Yu Ji Pipeline Company had cash and bank balances totaling approximately RMB215.7 million.

Prior to the financial year ended 31 December 2014, Yu Ji Pipeline Company was treated as a branch company of Sinopec Corp. and its cash and bank balances at year end were largely attributed to Sinopec Corp. From the financial year ended 31 December 2014, Yu Ji Pipeline Company has been treated as an independent legal entity and income for the relevant period was retained under its own name. This accounts for the significant increase in the total amount of cash and cash equivalents of Yu Ji Pipeline Company in 2014.

Capital expenditures

For the financial year ended 31 December 2011, the addition of capital expenditures of Yu Ji Pipeline Company amounted to approximately RMB28.3 million.

For the financial year ended 31 December 2012, the addition of capital expenditures of Yu Ji Pipeline Company amounted to approximately RMB635.7 million.

For the financial year ended 31 December 2013, the addition of capital expenditures of Yu Ji Pipeline Company amounted to approximately RMB189.9 million.

For the eleven months ended 30 November 2014, the addition of capital expenditures of Yu Ji Pipeline Company amounted to approximately RMB355.7 million.

The capital expenditures of Yu Ji Pipeline Company mainly consisted of prepaid land lease payment and expenditures on property, plant and equipment. The addition of capital expenditures increased significantly from approximately RMB28.3 million for the year ended 31 December 2011 to approximately RMB635.7 million for the year ended 31 December 2012 as significant expenditures in the amount of approximately RMB618.9 million were accounted for in the year ended 31 December 2012 for the construction of buildings in gas stations. The addition of capital expenditures of Yu Ji Pipeline Company increased from approximately RMB189.9 million for the year ended 31 December 2013 to approximately RMB355.7 million for the eleven months ended 30 November 2014, since expenditures were incurred for (a) the re-routing of its pipelines at the request of the relevant local governments; and (b) the construction of the gas pipelines pressurization project for Yulin-Jinan Pipeline Project for the eleven months ended 30 November 2014.

Capital structure

Yu Ji Pipeline Company has incurred unsecured borrowings denominated in Renminbi from Sinopec Corp. to finance its pipeline construction. The balance of the outstanding amount owed by Yu Ji Pipeline Company to Sinopec Corp. amounted to RMB3,300.0 million, RMB3,300.0 million, RMB3,300.0 million and RMB3,300.0 million as at 31 December 2011, 2012, 2013, and 30 November 2014, respectively. Such borrowings bear an effective interest rate of approximately 5.4% per annum and shall not become repayable before 31 March 2016.

As at 31 December 2011, 2012 and 2013, and 30 November 2014, Yu Ji Pipeline Company had no bank borrowings.

Capital reserves

Capital reserves of Yu Ji Pipeline Company mainly represent contribution and distribution of assets from Sinopec Corp..

The capital reserves of Yu Ji Pipeline Company increased from approximately RMB982.1 million as at 31 December 2011 to approximately RMB1,229.2 million as at 31 December 2012 and further increased to approximately RMB1,267.5 million as at 31 December 2013. Such increase was mainly attributable to the gradual development of Yu Ji Pipeline Company's business and its increased need for capital. Sinopec Corp. contributed capital to address such need. The capital reserves of Yu Ji Pipeline Company decreased to approximately RMB466.8 million as at 30 November 2014 since RMB1,000 million out of its equity was accounted for as its registered capital following the incorporation of Yu Ji Pipeline Company in October 2014.

Significant investments and material acquisition and disposal

For each of the three years ended 31 December 2011, 2012 and 2013, and the eleven months ended 30 November 2014, Yu Ji Pipeline Company has not entered into any significant investments or any material acquisition or disposal.

Contingent liabilities and pledged / charged assets

Yu Ji Pipeline Company did not have any contingent liabilities or pledged or charged assets for the three years ended 31 December 2011, 2012 and 2013, and the eleven months ended 30 November 2014.

Trade and other receivables and prepayments

As at 31 December 2013, the trade receivables of Yu Ji Pipeline Company was approximately RMB6.2 million, representing an increase of 129.6% over its trade receivables of approximately RMB2.7 million as at 31 December 2012. The trade receivables of Yu Ji Pipeline Company were mainly resulted from the time needed for its customers to settle payments. The increase in trade receivables in 2013 was mainly attributable to the increase in transaction volume between Yu Ji Pipeline Company and its customers for the year 2013.

As at 31 December 2011, the balance of prepayment of Yu Ji Pipeline Company was approximately RMB27.3 million.

As at 31 December 2012, the balance of prepayment of Yu Ji Pipeline Company was approximately RMB0.7 million.

As at 31 December 2013, the balance of prepayment of Yu Ji Pipeline Company was approximately RMB100.7 million.

As at 30 November 2014, the balance of prepayment of Yu Ji Pipeline Company was approximately RMB215.0 million.

The prepayment of Yu Ji Pipeline Company was mainly incurred for overseas purchases of equipment such as compressors and valves, and the fluctuations over the three years ended 31 December 2011, 2012 and 2013, and the eleven months ended 30 November 2014 reflected the changes in the needs of Yu Ji Pipeline Company to make overseas purchases of such equipment over the same period.

Inventory

As at 31 December 2011, inventory balance of Yu Ji Pipeline Company amounted to approximately RMB0.7 million.

As at 31 December 2012, inventory balance of Yu Ji Pipeline Company amounted to approximately RMB7.2 million.

As at 31 December 2013, inventory balance of Yu Ji Pipeline Company amounted to approximately RMB7.2 million.

As at 30 November 2014, inventory balance of Yu Ji Pipeline Company amounted to approximately RMB5.8 million.

Inventory of Yu Ji Pipeline Company mainly consisted of spare parts. The increase in the inventory balance of Yu Ji Pipeline Company from approximately RMB0.7 million as at 31 December 2011 to approximately RMB7.2 million as at 31 December 2012, and to approximately RMB7.2 million as at 31 December 2013 was mainly due to the fact that Yu Ji Pipeline Company had stored up an increasing number of spare parts over the period as its business gradually expanded. The inventory balance of Yu Ji Pipeline Company decreased to approximately RMB5.8 million as at 30 November 2014 mainly because the previously stored spare parts were largely consumed in the year 2014.

Accruals and other payables

Accruals and other payables of Yu Ji Pipeline Company mainly consisted of amounts due to Sinopec Corp. and fellow subsidiaries, amounts received in advance, and other payables and accrued charges.

The accruals and other payables of Yu Ji Pipeline Company increased by 41.5% from approximately RMB79.0 million as at 31 December 2011 to approximately RMB111.8 million as at 31 December 2012 and increased further by 195.2% to approximately RMB330.0 million as at 31 December 2013. The main reason for such increase was the gradual development of the business of Yu Ji Pipeline Company which led to the increase in its payables and charges.

The accruals and other payables of Yu Ji Pipeline Company decreased to approximately RMB209.8 million as at 30 November 2014. Such decrease is mainly attributable to the decline in its amounts received in advance. Prior to the financial year ended 31 December 2014, Yu Ji Pipeline Company was treated as a branch company of Sinopec Corp. and advance payment made by customers attributable to its business was reflected as its amounts

received in advance. From the financial year ended 31 December 2014, Yu Ji Pipeline Company has been treated as an independent legal entity and has mostly dealt with a branch company of Sinopec Corp., which would in turn deal with third-party customers. Therefore, the advance payments from third-party customers were no longer classified as the amounts received in advance of Yu Ji Pipeline Company from the financial year ended 31 December 2014.

Employees and remuneration policies

The table below sets out the number of employees of Yu Ji Pipeline Company.

	As at 31 December		As at 30 November	
	2011	2012	2013	2014
Number of employees	185	249	258	274

In accordance with the applicable PRC legal requirements, Yu Ji Pipeline Company participates in employee social security systems and housing fund system. Related expenses are accounted as the cost of relevant assets or charged to current profit and loss when incurred. Save for compensation given to employees relating to termination of employment, remuneration payables are recognised as liabilities in the accounting period during which the services are rendered by the employees.

During the three years ended 31 December 2011, 2012 and 2013, and the eleven months ended 30 November 2014, remuneration for employees of Yu Ji Pipeline Company was kept in line with the standard determined by Sinopec Corp. for its employees.

Exchange rate risks

Yu Ji Pipeline Company was exposed to certain foreign currency risks through overseas purchases of equipment including compressors and valves, which give rise to payables that are denominated in foreign currency.

For each of the three years ended 31 December 2011, 2012 and 2013, and the eleven months ended 30 November 2014, Yu Ji Pipeline Company does not have significant foreign currency assets or liabilities.

FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 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>):

- interim report of the Company for the six months ended 30 June 2014 dated 21 August 2014 published on 31 August 2014 (pages 10-46);
- annual report of the Company for the year ended 31 December 2013 dated 31 March 2014 published on 7 April 2014 (pages 36-116);
- annual report of the Company for the year ended 31 December 2012 dated 22 March 2013 published on 27 March 2013 (pages 30-102); and
- annual report of the Company for the year ended 31 December 2011 dated 21 February 2012 published on 28 February 2012 (pages 26-77).

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP**For the six months ended 30 June 2014 compared to the six months ended 30 June 2013**

In the first half of 2014, the Group's turnover was approximately HK\$3,510,630,000 (as at 30 June 2013: HK\$13,049,149,000), representing a decrease of approximately 73.10% as compared with the same period of last year; the cost of sales was approximately HK\$3,357,319,000 (as at 30 June 2013: HK\$12,978,003,000), representing a decrease of approximately 74.13% as compared with the same period of last year. The decrease in both turnover and cost of sales was mainly due to the significant decreases in crude oil trading volume of the Group in the first half of 2014 as compared with the same period of last year.

In the first half of 2014, the Group's gross profit amounted to approximately HK\$153,311,000 (as at 30 June 2013: HK\$71,146,000), representing an increase of approximately 115.49% as compared with the same period of last year; the operating profit was approximately HK\$108,950,000, (as at 30 June 2013: HK\$48,425,000), representing an increase of approximately 124.99% as compared with the same period of last year. The significant increase in both the gross profit and the operating profit was due to KTS Development terminating the charter contracts for two vessels upon expiry in the first half of 2014, resulting in a significant decrease in operating loss of charter vessel business; and as Huade Petrochemical maintained normal operations in the first half of 2014 while in the first half of 2013, the base number was lower resulting from the impact of scheduled overhaul of the oil refinery facilities of Guangzhou Branch of Sinopec Corp., a downstream customer of Huade Petrochemical in the period.

In the first half of 2014, the Group's distribution cost was approximately HK\$15,209,000 (as at 30 June 2013: HK\$9,313,000), representing a significant increase of approximately 63.31% as compared with the same period of last year, mainly due to the corresponding increase in staff cost resulting from a strong labour demand by the Company for expanding the storage and logistics projects of the Group.

For the year ended 31 December 2013 compared to the year ended 31 December 2012

For the year ended 31 December 2013, the Group's turnover was HK\$23,355,579,000 (2012: HK\$22,041,792,000), representing an increase of 5.96% as compared with last year. The increase in turnover was mainly due to increase in trading volume in crude oil in 2013 as compared with last year.

For the year ended 31 December 2013, the Group's gross profit amounted to HK\$154,782,000 (2012: HK\$239,391,000), representing a decrease of 35.34% as compared with last year. The decrease in gross profit was due to, on one hand, the planned maintenance in oil refinery facilities carried out by a client, resulting in the decline in business volume and operating income as compared with last year, while on the other hand, the increase of operating loss in vessel charter business of Sinomart Development in 2013 as compared with last year.

For the year ended 31 December 2013, the Group's distribution costs amounted to HK\$20,414,000 (2012: HK\$7,924,000), representing an increase of 157.62% as compared with last year, which was mainly due to the Group's expansion in storage and logistics businesses, driving the need to hire additional staff and the significant increase in staff salary costs.

For the year ended 31 December 2012 compared to the year ended 31 December 2011

As at 31 December 2012, the Group's turnover was approximately HK\$22,041,792,000 (2011: HK\$19,684,732,000), representing an increase of approximately 11.97% as compared with last year. The increase in turnover was mainly due to increase in trading volume in crude oil and average crude oil price in 2012 as compared with last year.

For the year ended 31 December 2012, the Group's profit amounted to approximately HK\$291,738,000 (2011: HK\$213,512,000), representing an increase of approximately 36.64% as compared to last year. The substantial increase in profit was due to the return generated by the Group's acquisition of partial equity interest in Zhan Jiang Port Petrochemical Terminal and the five crude oil terminals in China.

Liquidity, Sources of Finance and Gearing

As at 31 December 2011, 2012, 2013 and 30 June 2014, the Group had current assets of approximately HK\$1,901.39 million, HK\$3,087.22 million, HK\$2,399.93 million and HK\$1,790.00 million respectively.

The Group financed its operation primarily from internally generated resources and interest-bearing borrowings from a fellow subsidiary. As at 31 December 2011, 2012, 2013 and 30 June 2014, the Group had cash on hand and bank balances of approximately HK\$771.75 million, HK\$2,404.98 million, HK\$1,622.45 million and HK\$1,304.88 million respectively.

The Group's current ratio is calculated based on current assets over current liabilities. As at 31 December 2011, 2012, 2013 and 30 June 2014, the Group's current ratio was approximately 1.37, 2.28, 1.94 and 2.35 respectively.

The Group's gearing ratio is calculated based on total liabilities divided by total assets. As at 31 December 2011, 2012, 2013 and 30 June 2014, the Group's gearing ratio was approximately 32.96%, 17.26%, 11.92% and 7.79% respectively.

Loan and Borrowings

As at 31 December 2011, 2012, 2013 and 30 June 2014, the Group had the bank borrowings and/or interest-bearing borrowings of approximately HK\$267.23 million, nil, nil and nil, of which all were short-term borrowings.

Credit Policy

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account the information specific to the customer as well as pertaining to the economic environment to which the customer operates. These receivables are due within 30 to 90 days from the date of billing. Generally, debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Exchange Risk

Save for disclosed in the relevant notes to the financial statements as set out in the respective annual report of 2011, 2012 and 2013 and the interim report of 2014, each entity within the Group was not exposed to significant foreign exchange risk.

Contingent Liabilities

As at 31 December 2011, 2012 and 2013, the Directors do not consider it probable that a claim will be made against the company under any of the guarantees.

Employees and Remuneration Policies

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Group had a total of 200, 232, 241 and 243 employees respectively. Remuneration packages, including basic salaries, bonuses and benefits-in-kind are structured by reference to market terms, trends in Yu Ji Pipeline Company human resources costs in various regions and employees' contributions based on performance appraisals. Subject to the profit for the Group and the performance of the employees, the Group may also provide discretionary bonuses to its employees as an incentive for their further contribution.

Litigation

As at 30 June 2014, the Group had no material pending litigation.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group planned to develop as an international leading oil and gas storage and logistics company, through the acquisition of Zhan Jiang Port Petrochemical Terminal Co., Ltd.* (湛江港石化碼頭有限責任公司) in May 2011, and the acquisitions of Ningbo Shihua Crude Oil Terminal Co., Ltd.* (寧波實華原油碼頭有限公司), Qingdao Shihua Crude Oil Terminal Co., Ltd.* (青島實華原油碼頭有限公司), Tianjin Port Shihua Crude Oil Terminal Co., Ltd.* (天津港實華原油碼頭有限公司), Rizhao Shihua Crude Oil Terminal Co., Ltd.* (日照實華原油碼頭有限公司) and Tangshan Caofeidian Shihua Crude Oil Terminal Co., Ltd.* (唐山曹妃甸實華原油碼頭有限公司) in December 2011. It is considered that the Acquisition is consistent with the development strategy of the Group, as Yu Ji Pipeline Company owns Yulin-Jinan Pipeline Project which is responsible for the transmission of natural gas, which represents an important asset of realising the Enlarged Group's deployment in natural gas transmission logistics sector so as to enable the Enlarged Group to benefit from the fast-growing natural gas market in the PRC and the favorable development trend.

Furthermore, the Directors consider the Acquisition to be a good investment for the Group, as part of the Group's development of its natural gas pipeline transmission business. The Yulin-Jinan Pipeline Project will provide additional revenue streams to the Group. With reference to the historical financial performance of Yu Ji Pipeline Company, the Directors believe that the Acquisition would meet the Group's investment objectives and enhance the financial results of the Enlarged Group.

* *for identification purpose only*

INDEBTEDNESS OF THE GROUP AND YU JI PIPELINE COMPANY

As at the close of business on 30 November 2014, 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.

* *For identification purpose only*

The Group

As at 30 November 2014, unguaranteed and unsecured loan facilities amounting to approximately US\$500 million (approximately HK\$3,900 million) was provided to the Group by a fellow subsidiary.

Save as aforesaid above, at the close of business on 30 November 2014, 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 November 2014.

Yu Ji Pipeline Company

As at the close of business on 30 November 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the director of Yu Ji Pipeline Company confirmed that Yu Ji Pipeline Company has outstanding unguaranteed and unsecured borrowings of RMB3,300,000,000 due to Sinopec Corp.

Save as aforesaid above, at the close of business on 30 November 2014, the director of Yu Ji Pipeline Company confirmed that Yu Ji Pipeline Company 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 director of Yu Ji Pipeline Company has confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of Yu Ji Pipeline Company since 30 November 2014.

WORKING CAPITAL

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

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 2013 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

Statement of Certified Public Valuers

1. We have abided by relevant laws, regulations and asset appraisal guidelines, and followed the principles of independence, objectivity and fairness in conducting this valuation engagement; based on the information collected during our practice, the representation set out herein is objective, and we are legally responsible for the reasonableness of the conclusions of appraisal made herein.
2. The list of assets and liabilities concerning the appraisal target is confirmed by the client and the enterprise appraised and sealed by the same; The client and relevant parties shall be responsible for all information provided in the appraisal report, to ensure all information are true, legal and complete, and ensure the proper use of this appraisal report.
3. We have no existing or anticipated interests in the appraisal target, or any existing or anticipated interests in relevant parties, and we have no prejudice against relevant parties.
4. We have conducted site investigation of the appraisal target hereunder and the assets involved; we have paid necessary attention to their legal ownership status, inspected and examined the information about their legal ownership, and disclosed problems identified according to facts, and we have asked the client and relevant parties to perfect their ownership so as to satisfy the requirements for issuing the appraisal report.
5. The analysis, judgment and conclusions set out in this report issued by us are subject to assumptions and restrictions herein, and users of this report shall take full consideration of the assumptions, restrictions, and specific matters set out in the report and the impact thereof on the appraisal conclusion.

Asset Appraisal Report

in respect of

**Proposed Transfer of Equity of
Sinopec Yu Ji Pipeline Company Limited
Held by China Petroleum & Chemical Corporation to
Sinomart KTS Development Limited**

Zhong He Ping Bao Zi (2014) No. BJV2075

Summary

ZhongHe Appraisal Co., Ltd has accepted the commission of Sinopec Natural Gas Branch Company, in accordance with relevant laws, regulations and asset appraisal guidelines and based on the principles of independence, objectivity and fairness, to appraise the market value of total equity interest of shareholder of Sinopec Yu Ji Pipeline Company Limited on the valuation date of the appraisal. The use of the appraisal result shall be valid for one year. The appraisal results are hereby reported as follows:

Appraisal purpose:	China Petroleum & Chemical Corporation proposes to transfer the equity interest of Sinopec Yu Ji Pipeline Company Limited to Sinomart KTS Development Limited, and requires to appraise the value of total equity interest of shareholder of Sinopec Yu Ji Pipeline Company Limited for determining the market value thereof as at November 30, 2014 (the “valuation date”).
Appraisal target:	the value of total equity interest of shareholder of Sinopec Yu Ji Pipeline Company Limited.
Scope of appraisal:	assets and liabilities of Sinopec Yu Ji Pipeline Company Limited.
Valuation date:	November 30, 2014.
Type of value:	market value.
Appraisal approaches:	asset-based approach and income approach.

APPENDIX V VALUATION REPORT ON YU JI PIPELINE COMPANY

Conclusion: Upon appraisal by the income approach and on a going concern basis, as at the valuation date, November 30, 2014, the book value of the total equity interest of Sinopec Yu Ji Pipeline Company Limited is RMB1,539,366,200; and upon appraisal by the income approach, the total equity interest of Sinopec Yu Ji Pipeline Company is RMB2,576,881,100, where the added value amounts to RMB1,037,514,900 with an appreciation rate of 67.40%.

The above information is a summary of the appraisal report. For the details of the appraisal and reasonable understanding of the appraisal conclusion, please read the full version of the appraisal report.

Asset Appraisal Report

in respect of

**Proposed Transfer of Equity of
Sinopec Yu Ji Pipeline Company Limited
Held by China Petroleum & Chemical Corporation to
Sinomart KTS Development Limited**

Zhong He Ping Bao Zi (2014) No. BJV2075

To: Sinopec Natural Gas Branch Company

Under your commission and in accordance with relevant laws, regulations and asset appraisal guidelines and principles, ZhongHe Appraisal Co., Ltd. has carried out the appraisal in respect of the total equity of shareholders of Sinopec Yu Ji Pipeline Company Limited on the valuation date respectively with the asset-based approach and the income approach. The effective term for use of the appraisal result is one year. And the results of asset appraisal are hereby reported as follows:

I. The Client, the Enterprise Appraised and other users of the Appraisal Report

Client: Sinopec Natural Gas Branch Company

Enterprise Appraised: Sinopec Yu Ji Pipeline Company Limited

(i) Profile of the Client

Name: Sinopec Natural Gas Branch Company

Place of business: 6/F, No. 67, Jia, Ande Road, Xicheng District, Beijing

Registration No.: 1101021794812

Principal: Gao Aihua

Business scope: natural gas construction preparation, planning, bidding and operation and maintenance of natural gas pipelines; sales of natural gas; technology development, technical consultancy and technical service of natural gas storage and transportation.

APPENDIX V VALUATION REPORT ON YU JI PIPELINE COMPANY

(ii) Profile of the Enterprise Appraised

1. Basic information

Name:	Sinopec Yu Ji Pipeline Company Limited
Place of business:	No. 15002, Century Building, Lixia District, Jinan City
Legal representative:	Wang Chunfu
Business scope:	construction and maintenance of natural gas pipelines and relevant technical consultancy and technical services. (Businesses requiring approval in accordance with laws shall be commenced and operated subject to approvals of relevant authorities).

2. Major products, production capacities and major facilities

Sinopec Yu Ji Pipeline Company Limited is a limited liability company established by China Petroleum & Chemical Corporation on October 27, 2014 with capital contribution of relevant assets and liabilities of Yulin-to-Jinan pipelines, with its major business of pipeline transportation and its major assets of Yulin-Jinan Pipeline Project.

The construction of Yulin-Jinan Pipeline Project was commenced in November 2008 and the pipeline became operational on October 2010. The Yulin-Jinan Pipeline Project starts from Yulin City in Shaanxi Province and ends in Qihe in Shandong Province, running through Shaanxi, Shanxi, Henan and Shandong provinces. The trunk line starts from Yulin, runs through the south edge of Mu Us Desert, enters Shanxi Province across Yellow River in Jiaxian; enters Henan Province after passing through Linxian, Fangshan, Lishi, Fenyang, Pingyao, Wuxiang, Xiangyuan, Licheng and Pingshun; reaches Qingfeng in Puyang through Linxian, Anyang and Neihuang, and then enters Zixian in Shandong Province, passes through Liaocheng, Chiping, Yucheng and ends in Qihe at Xuanzhangtun. The pipeline is approximately 944.93 kilometers long; among others, it is 107.04 kilometers long in Shaanxi, 459.51 kilometers long in Shanxi, 215.516 kilometers long in Henan and 162.9 kilometers long in Shandong. The designed capacity of the pipeline is $30 \times 108 \text{ m}^3/\text{a}$; the designed pressure for Yulin-Puyang section is 10.0 Mpa with $\Phi 711$, X65 steel pipes; the designed pressure for Puyang-Jinan section is 8.0 Mpa with $\Phi 610$, X60 pipes.

Along the pipeline, there are 13 gas transmission stations (12 newly built and 1 reconstructed), including 1 newly built origin station, 3 pigging stations, 5 gas distribution pigging stations, 2 gas distribution stations, and 1 terminal station, which are Yulin Original Station, Jiaxian Pigging Station, Fangshan Pigging Station, Fenyang Distribution Pigging Station, Pingyao Distribution

APPENDIX V VALUATION REPORT ON YU JI PIPELINE COMPANY

Station, Wuxiang Pigging Station, Licheng Distribution Pigging Station, Anyang Distribution Pigging Station, Nanyue Distribution Pigging Station, Qingfeng Distribution Station, Liaocheng Distribution Pigging Station and Qihe Terminal Station. Xuanzhangtun Distribution Station is reconstructed.

3. *The tables below set forth selected items from the balance sheet and income statement*

(1) Assets

Unit: RMB'0,000

Item	November 30, 2014	September 30, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Total assets	504,920.70	499,031.86	493,334.36	497,797.79	468,846.05
Total liabilities	350,984.08	352,350.68	364,207.87	341,182.43	337,900.16
Net Assets	153,936.62	146,681.18	129,126.49	156,615.36	130,945.89

(2) Operation

Unit: RMB'0,000

Item	January to November 2014	2013	2012	2011
I. Operating income	104,781.32	125,465.76	97,960.42	86,994.29
Less: Operating cost	57,483.34	71,679.63	46,567.17	40,537.61
Business tax and surcharges	938.88	2,950.88	3,277.92	2,933.65
General and administrative expenses	919.01	2,382.13	2,796.01	1,316.56
Finance costs	15,876.31	13,847.19	12,310.31	9,482.13
II. Operating profits	29,563.78	34,605.94	33,009.01	32,724.35
Add: Non-operating income	5,666.66	647.93	0.00	0.00
Less: Non-operating expenses	2,031.37	2.05	0.35	0.00
III. Total profits	33,199.07	35,251.82	33,008.66	32,724.35
Less: income tax expenses	8,299.77	8,812.96	8,252.16	8,181.09
IV. Net profits	24,899.30	26,438.87	24,756.49	24,543.26

APPENDIX V VALUATION REPORT ON YU JI PIPELINE COMPANY

4. Relation between the Client and the Enterprise Appraised

The Client, Sinopec Natural Gas Branch Company is the branch company of China Petroleum & Chemical Corporation, the shareholder of Sinopec Yu Ji Pipeline Company Limited, and it is in charge of managing the natural gas assets and business of China Petroleum & Chemical Corporation.

(iii) Other users of the Appraisal Report

The appraisal report is exclusively used by the Client and other users of the appraisal report as specified by state laws and regulations.

II. Purpose of Appraisal

China Petroleum & Chemical Corporation proposes to transfer its equity interest in Sinopec Yu Ji Pipeline Company Limited to Sinomart KTS Development Limited, and requires to appraise the value of total equity interest of shareholder of Sinopec Yu Ji Pipeline Company Limited for determining the market value thereof as at November 30, 2014.

The economic activity has been approved by China Petrochemical Corporation with the Notice on Agreed Transfer of 100% Equity of Sinopec Yu Ji Pipeline Company Limited to Sinomart KTS Development Limited (China Shi Hua Zi (2014) No. 643).

III. Appraisal Target and Scope

(i) Appraisal target and scope

For the purpose of this appraisal, the appraisal target is the value of total equity interest of shareholder of Sinopec Yu Ji Pipeline Company Limited. The scope of appraisal covers all assets and liabilities of Sinopec Yu Ji Pipeline Company Limited.

APPENDIX V VALUATION REPORT ON YU JI PIPELINE COMPANY

In this appraisal, the total assets amount to RMB5,049,206,960.49, including current assets of RMB461,119,359.88, fixed assets of RMB4,354,263,487.87, construction in progress of RMB206,643,272.05, intangible assets of RMB27,180,840.69; the total liabilities amount to RMB3,509,840,752.47, including current liabilities of RMB209,840,752.47, non-current liabilities of RMB3,300,000,000.00; and the net assets amount to RMB1,539,366,208.02. Please refer to the table below for details:

Balance Sheet as at November 30, 2014

Unit: RMB

No.	Item	Book Value
1	I. Total current assets	461,119,359.88
2	Cash and cash equivalents	215,662,227.92
3	Prepayments	214,950,312.11
4	Other receivables	3,636,978.01
5	Inventories	5,787,068.13
6	Other current assets	21,082,773.71
7	II. Total non-current assets	4,588,087,600.61
8	Fixed assets	4,354,263,487.87
9	Construction in progress	206,643,272.05
10	Intangible assets	27,180,840.69
11	III. Total assets	5,049,206,960.49
12	IV. Total non-current liabilities	209,840,752.47
13	Accounts payable	33,606,948.07
14	Advances from customers	850,500.00
15	Other payables	175,383,304.40
16	V. Total non-current liabilities	3,300,000,000.00
17	Long-term borrowings	3,300,000,000.00
18	VI. Total liabilities	3,509,840,752.47
19	VII. Net assets (owners' equity)	1,539,366,208.02

The scope of appraisal above is consistent with the scope commissioned for appraisal and provided by the Enterprise Appraised, and the book value has been audited by Grant Thornton (Special General Partnership).

(ii) Distribution and features of major physical assets

The construction of Yulin-Jinan Pipeline Project was commenced in November 2008 and the pipeline became operational on October 2010. The project of Yulin-Jinan Pipeline Project starts from Yulin City in Shaanxi Province and ends in Qihe in Shandong Province, running through Shaanxi, Shanxi, Henan and Shandong provinces. The trunk line starts from Yulin, runs through the south edge of Mu Us Desert, enters Shanxi Province across Yellow River in Jiaxian; enters Henan Province after passing through Linxian, Fangshan, Lishi, Fenyang, Pingyao, Wuxiang, Xiangyuan, Licheng and Pingshun; reaches Qingfeng in Puyang through Linxian, Anyang and Neihuang, and

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then enters Zixian in Shangdong Province, passes through Liaocheng, Chiping, Yucheng and ends in Qihe at Xuanzhangtun. The pipeline is approximately 944.93 kilometers long; among others, it is 107.04 kilometers long in Shaanxi, 459.51 kilometers long in Shanxi, 215.516 kilometers long in Henan and 162.9 kilometers long in Shandong. The designed capacity of the pipeline is 30 x 108 m³/a; the designed pressure for Yulin-Puyang section is 10.0 Mpa with Φ711, X65 steel pipes; the designed pressure for Puyang-Jinan section is 8.0 Mpa with Φ610, X60 pipes.

Along the pipeline, there are 13 gas transmission stations (12 newly built and 1 reconstructed), including 1 newly built origin station, 3 pigging stations, 5 gas distribution pigging stations, 2 gas distribution stations, and 1 terminal station, which are Yulin Original Station, Jiaxian Pigging Station, Fangshan Pigging Station, Fenyang Distribution Pigging Station, Pingyao Distribution Station, Wuxiang Pigging Station, Licheng Distribution Pigging Station, Anyang Distribution Pigging Station, Nanyue Distribution Pigging Station, Qingfeng Distribution Station, Liaocheng Distribution Pigging Station and Qihe Terminal Station. Xuanzhangtun Distribution Station is reconstructed.

Physical assets provided by Sinopec Yu Ji Pipeline Company Limited for appraisal mainly included houses, structures, pipeline grooves, machinery equipment, vehicles, electronic equipment and inventories, etc.

1. The book value of inventories amounts to RMB5,787,068.13, and inventories are raw materials such as spare parts normally stored in the warehouses.
2. The original book value of houses and structures amounts to RMB5,621,176,896.92, and the net book value amounts to RMB4,310,777,584.65, including the value of equipment in the stations. Fixed assets provided for this appraisal include 2 houses, 380 building structure 2 pipelines. Houses refer to the Jinan control center office building and the guard room with a total area of 8,531.60 square meters; the building structure mainly consists of fences, roads, greening, sewage plants, valve chambers along with the pipelines; the pipeline groove connects Yulin-to-Jinan gas pipeline with Yuyang branch pipeline. The overview of the assets of Yulin-to-Jinan gas pipelines is as follows:

Name	Length (km)	Groove Depth (m)	Pipe diameter* wall thickness (mm*mm)	Material	Corrosion prevention	Date of Completion	Nos. of Stations	Nos. of Valve Rooms
Yulin-to-Jinan Pipeline	944.93km	1.5	φ711×12.5/14.4/16/20 φ610×10/12.5/16	X65/X60	3PE	September 30, 2010	12	40

3. The original book value of equipment amounts to RMB67,916,585.47, and the net book value amounts to RMB43,485,903.22, including the value of machinery equipment, vehicles and electronic equipment. The machinery equipment covered 1,124 items, including the compressor units, control system, power transformation and distribution system, process pipe networks, and monitoring equipment in the stations along Yulin-to-Jinan gas pipelines;

APPENDIX V VALUATION REPORT ON YU JI PIPELINE COMPANY

total vehicles included 105 self-use sedans and vehicles for construction; total electronic equipment includes 1,355 items such as computers, printers and air-conditioning for office use.

4. The original value of construction in progress amounts to RMB206,643,272.05, mainly covering the pressurization projects for Yulin-to-Jinan gas transmission pipelines, the interconnection project for origin stations of Yulin-to-Jinan and Shaanxi-to-Beijing gas pipelines.

(iii) Book records of intangible assets filed for appraisal

The intangible asset within the scope of appraisal is the land use right for a parcel of land, which has a book value of RMB27,180,840.69. The parcel of land is located on the north side of Tiancheng Street and on the west side of Fenghuang Road in Xianwen Area of Jinan City with the land usage for scientific researches and an area of 8,474.00 square meters. The Certificate of Land Use Right Gao Xin Guo Yong (2011) No. 0100061 for the parcel of land is obtained on November 4, 2011 and the term for use is 50 years, and the development level is well completed including water, electricity, road, gas, heat, drainage, telecommunication accesses.

(iv) Asset type, quantities and carrying amount concerned in the conclusion of reports issued by other institutions

The land that falls into the scope of this appraisal was appraised by Beijing Huaxin Real Estate Appraisal Co., Ltd. Beijing Huaxin Real Estate Appraisal Co., Ltd. issued the land appraisal report of the Appraisal of Price for Transfer of State-owned Land Use Right of Land on North Side of Tiancheng Street and on West Side of Fenghuang Road in Xianwen Area of High and New Technological Area, Jinan Shandong Province Involved in Proposed Transfer of Equity Interest of Sinopec Yu Ji Pipeline Company Limited Held by China Petroleum & Chemical Corporation to Sinomart KTS Development Limited (Jinan City Shandong Province) (Transfer) (Hua Xin Ping Zi No. 201401199), and the appraisal result for the land use right within the scope of appraisal is RMB27,642,200, which is cited in the appraisal report.

IV. Type of Value and Definition

Based on the purpose of the appraisal and the characteristics of the assets commissioned for appraisal, market value is used in this appraisal. Market value refers to the price at which the appraisal target would be traded between a willing buyer and a willing seller acting reasonably at arm's length, when neither is under compulsory to buy or sell on the Valuation Date.

APPENDIX V VALUATION REPORT ON YU JI PIPELINE COMPANY

V. Valuation Date

The valuation date of this Report is November 30, 2014. The valuation date is determined based on factors such as the time of occurrence of the economic activity, the realization of the economic behavior, the financial accounting of the enterprise, the completeness of the accounting information, and changes in interest rate and foreign exchange rates.

VI. Basis of Appraisal

Basis of economic activity:

Notice on Agreed Transfer of 100% Equity of Sinopec Yu Ji Pipeline Company Limited to Sinomart KTS Development Limited (China Shi Hua Zi No. 643 (2014)).

Legal basis:

- (1) Enterprise State-owned Assets Law of the People's Republic of China (Adopted at the Fifth Session of the Standing Committee of the Eleventh National People's Congress dated October 28, 2008);
- (2) Company Law of the People's Republic of China (Adopted at the Sixth Session of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China dated December 28, 2013);
- (3) Administrative Measures for Appraisal of State-owned Assets (Order of the State Council No. 91)(1991);
- (4) Detailed Rules for Implementation of the Administrative Measures for Appraisal of State-owned Assets (Guo Zi Ban Fa [1992] No. 36) issued by former State-owned Assets Administration;
- (5) Administrative Measures for State-owned Assets of Enterprises (Order of State-owned Assets Supervision and Administration Commission of the State Council No. 12);
- (6) Regulations of Several Issues of Appraisal of State-owned Assets (Order of Ministry of Finance No. 14);
- (7) Interim Measures for the Administration of the Transfer of State-owned Property Rights of Enterprises (Order of State-owned Assets Supervision and Administration Commission and Ministry of Finance No. 3);
- (8) Circular on Strengthening the Administration of the Appraisal of State-owned Assets of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
- (9) Circular on Guidelines for Filing of Appraisal of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);

APPENDIX V VALUATION REPORT ON YU JI PIPELINE COMPANY

(10) Land Administration Law of the People's Republic of China;

(11) Real Estate Administration Law of the People's Republic of China.

Appraisal standards basis

(1) Standards of Professional Ethics for Asset Appraisal – Basic Principles (Cai Qi [2004] No. 20);

(2) Asset Appraisal Standards – Basic Principles (Cai Qi [2004] No. 20);

(3) Guiding Opinions on Attention of Certified Public Valuers on Legal Ownership of Appraisal Targets (Hui Xie [2003] No. 18);

(4) Standards of Professional Ethics for Asset Appraisal – Independence (Zhong Ping Xie [2012] No. 248);

(5) Asset Appraisal Standards – Appraisal Report (Zhong Ping Xie [2011] No. 230);

(6) Asset Appraisal Standards – Enterprise Value (Zhong Ping Xie [2011] No. 227);

(7) Asset Appraisal Standards – Appraisal Procedures (Zhong Ping Xie [2007] No. 189);

(8) Asset Appraisal Standards – Engagement Letter (Zhong Ping Xie [2011] No. 230);

(9) Asset Appraisal Standards – Working Papers (Zhong Ping Xie [2007] No. 189);

(10) Asset Appraisal Standards – Machinery and Equipment (Zhong Ping Xie [2007] No. 189);

(11) Asset Appraisal Standards – Real Estate (Zhong Ping Xie [2007] No. 189);

(12) Asset Appraisal Standards – Utilization of Expert (Zhong Ping Xie [2012] No. 244);

(13) Guiding Opinions on Type of Values in Asset Appraisal (Zhong Ping Xie [2007] No. 189);

(14) Guidelines on Quality Control of Business Operations of Appraisal Institutions (Zhong Ping Xie [2010] No. 214);

(15) Guidance of Appraisal Report Concerning State-owned Assets of Enterprises (Zhong Ping Xie [2011] No. 230);

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Pricing basis:

- (1) Base interest rate for bank deposit and loans and the foreign exchange rate on the valuation date;
- (2) Material price information on www.shcost.cn released on the valuation date;
- (3) The price information of steel on www.zh818.com released on the valuation date;
- (4) Customs Import and Export Tariff of the People's Republic of China (2014);
- (5) Cost Standards for Petrochemical Installation Projects (China Shi Hua Jian [2007] No. 620);
- (6) Notice on Printing and Distributing Reference Price for Supervised Manufacture of Petrochemical Equipment (Shi Hua Gu Fen Wu Ji [2006] Letter No. 444);
- (7) Phone inquiries to equipment manufacturers;
- (8) Recent purchase contracts and invoices of the Enterprise Appraised for acquisition of equipment;
- (9) 2014 Manual for Quotation of Electromechanical Products;
- (10) Price information on www.pingguw.com;
- (11) Price information on www.yiche.com;
- (12) Price information on www.chel68.com;
- (13) HC Trade Category (on the valuation date);
- (14) Price information on ZOLCOMCN;
- (15) Provisions on the Criteria for Compulsory Discard of Motor Vehicles (Order of Ministry of Commerce, Ministry of Environmental Protection, Ministry of Public Security, National Development and Reform Commission No. 12, 2012);
- (16) Administrative Provisions on Construction Supervision and Relevant Charges (Fa Gai Jia Ge [2007] No. 670);
- (17) Administrative Provisions for Charges of Engineering Exploration and Design (Ji Jia Ge [2002] No. 10);
- (18) On-site investigation records of valuers;

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- (19) The quota standards for buildings, and charging standards of government authorities on construction of houses carried out at the time point of the valuation date in the place where the houses, structures and pipelines within the scope of the appraisal are located;
- (20) Statistical information for the progress of payment of construction in progress and relevant evidence of payments provided by the enterprise;
- (21) Relevant engineering budgets and final accounts provided by the enterprise;
- (22) Annual operating plans for the future provided by relevant departments of the enterprises;
- (23) Feasibility report for the pressurization project under construction;
- (24) Other information concerning this appraisal.

Property right basis:

- (1) photocopies of the land use right certificate;
- (2) photocopies of the vehicle license;

Other basis for reference:

- (1) The auditors' report issued by Grant Thornton (Special General Partnership) for the equity transfer;
- (2) The land appraisal report issued by Beijing Huaxin Real Estate Appraisal Co., Ltd. for the land within the scope of the appraisal.

VII. Appraisal Approach

Basic approaches for asset appraisal include market approach, income approach and asset-based approach.

The market approach is an appraisal approach to compare the appraisal target with a listed company or comparable transaction case to determine the value of the target.

The income approach is an appraisal approach to discount prospective earnings of the appraisal target as per a certain discount rate or capitalization rate to determine its value.

The asset-based approach is an appraisal approach to determine the value of the appraisal target by appraising the values of all on- and off-balance sheet assets and liabilities of the enterprise on the valuation date.

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According to the Asset Appraisal Standards – Basic Principles, one or more approaches may be adopted according to the purpose of the appraisal, type of value, and collection of information.

As it is difficult to find any comparable transaction cases, the market approach is not adopted for this appraisal.

According to the purpose of this appraisal and the characteristics of the appraisal target, as well as the applicable conditions for the appraisal approaches, the asset-based approach and the income approach are adopted for appraisal.

- ***Asset-based approach***

- (1) *Current assets*

Current assets within the scope of the appraisal mainly include cash and cash equivalents, prepayments, other receivables and inventories.

1. Cash and cash equivalents

Cash and cash equivalents include bank deposit, and other monetary funds, the book value of which upon verification shall be taken as the value appraised.

2. Other receivables

For other receivables, the book value upon verification shall be taken as the value appraised.

3. Prepayments

The value appraised shall be determined based on the value of assets formed by corresponding goods or rights that could be recovered. Where corresponding goods or rights could be recovered, the book value upon verification shall be taken as the value appraised.

4. Inventories

Inventories are raw materials, which are mainly spare parts for production and operation. The value of raw materials is appraised to be the unit price (excluding tax) of the product plus miscellaneous charges on the valuation date and the quantity.

5. Other non-current assets

Other non-current assets are deductible value-added tax for equipment that are to be certified, and the book value of which should be taken as the value appraised.

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(2) Houses, buildings and structures

For assets such as houses (buildings) and structures, the replacement cost method will be adopted for appraisal.

The formula for replacement cost method is: the value appraised = replacement cost × newness rate

1. Determination of the total cost of replacement

Total cost of replacement = cost of the construction and installation engineering + upfront fees and other expenses + capital cost

2. Determination of newness rate

The newness rate will be calculated respectively by life limit approach and scoring approach, a comprehensive newness rate will be calculated on a weighted basis from the calculation results of newness rate with these two approaches

Newness rate = newness rate from scoring approach × 60% + newness rate from life limit approach × 40%

(1) Newness rate from age limit approach = remaining useful life ÷ (life used + remaining useful life) × 100%

(2) Newness rate from scoring approach

Different components of the houses (buildings) and structures to be appraised are investigated, compared and scored based on the scoring standards for the newness rate of houses (buildings) and structures to derive the newness rate from scoring approach.

(3) Pipelines

Pipelines are appraised by replacement cost method with the following calculation formula:

the value appraised = replacement cost × newness rate

1. Determination of the replacement cost

Replacement cost = cost of main materials + the cost of construction and installation engineering + upfront fees + cost of capital – deductible value-added tax

2. Determination of newness rate

Newness rate = (economic and durable years – years used)/economic and durable years × 100%

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(4) *Equipment*

Equipment is appraised by cost method with the following calculation formula:

Appraised value = total cost of replacement × newness rate

1. Determination of the total cost of replacement

(1) Domestic manufactured equipment

- ① Standard machinery equipment: for domestic manufactured machinery equipment, if there is any that is traded in recent periods, the trade price for the latest period should be referenced with the consideration of corresponding transportation expenses, and the installation and debugging fees to determine the value of the replacement; for equipment with no deals made in recent periods, if such equipment is still available in the market, the manufacturers are directly enquired for the price, with consideration of relevant expenses, to determine the value of replacement; for equipment that has no price inquired and is not replaceable, the value of replacement is determined with price index adjustment method after the original acquisition cost is verified to be generally reasonable.
- ② Non-standard and self-made equipment: Checklist of Non-standard Equipment is filled by category to calculate the weight of main materials, the weight of special materials, the quantity, specifications and models of main components acquired externally to calculate the prices of main materials, auxiliary materials and components acquired externally, which should be considered together with the expenses such as the manufacturing expenses for the main body parts, the installation and debugging expenses, design fees, profits and taxes to calculate the total costs of replacement.
- ③ Electronic equipment: Relevant quotation information is mainly referred to determine the replacement value.

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(2) Imported equipment

For imported equipment, valuers consult relevant professionals and equipment purchasers of the enterprises for the trend of market prices of such equipment in recent years; select key equipment, collect their original purchase contracts and enquire several original equipment manufacturers by fax; analyze the quotation information received and adopt effective parts for comparison with the price in the original purchase contract to further determine the annual rate of price change of such equipment; then the valuers analyze and compare the trend of changes in values known and correct such rate.

Free on board (FOB) price of imported equipment is determined as follows:

- ① For imported equipment with deals made in recent period, the price of the original purchase contract is the FOB price;
- ② For imported equipment with no deals made in recent period yet with letter of quotation received, such letter should be analyzed to determine the FOB price;
- ③ For imported equipment other than those mentioned above, the FOB price should be determined by the product of the price of the original purchase contract of such equipment and the corrected annual rate of price changes.

The total replacement cost of imported equipment is calculated as follows:

Total cost of imported equipment= FOB price of the equipment + sea transportation fee + insurance expenses for sea transportation + customs duties + import value-added tax + bank's financial expenses + commissions for foreign trade + commercial inspection fee + domestic freight and miscellaneous charges + installation and debugging fees + cost of capital + other expenses – deductible value-added tax.

(3) Transportation vehicles

Total replacement cost = value-added tax included purchase price/(1+17%) + vehicle purchase tax + other expenses

in which: vehicle purchase tax = value-added tax included purchase price/(1+17%)×10%

2. Determination of newness rate of equipment

(1) Machinery equipment

The newness rate of equipment is determined on a weighted basis with age limit approach and onsite survey approach, and the formula is as follows:

Newness rate = newness rate from age limit approach × 40% +
newness rate from onsite survey approach × 60%

in which:

Newness rate from age limit approach = (economic and durable years – years used)/economic and durable years × 100%

Newness rate from onsite survey: the valuers have conducted a comprehensive survey to the equipment on site and filled in the technical appraisal table, scoring table and determined the newness rate from onsite survey.

(2) Electronic equipment

Newness rate from age limit approach = (economic and durable years – years used)/economic and durable years × 100%

(3) Vehicles

For determination of the newness rate of vehicles, the age limit approach and mileage approach are adopted respectively to calculate the newness rates. The lower value of the newness rates derived from two approaches is taken as the theoretical newness rate, to the extent of which the valuers have surveyed the vehicles on site, corrected the theoretical newness rate and use the corrected rate as the newness rate.

According to the Provisions on the Criteria for Compulsory Discard of Motor Vehicles (Order of Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security, Ministry of Environmental Protection, [2012] No.12), the valuers determine the newness rate of the vehicles as follows:

- ① The formula for determining the newness rate with age limit approach is as follows:

Newness rate from age limit approach = (economic and durable years – years used)/economic and durable years × 100%

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- ② The formula for determining the newness rate with mileage approach is as follows:

The newness rate determined by mileage approach =
(specified driving mileage – mileage driven)/specified driving
mileage × 100%

- ③ The correction factor is determined through onsite survey. The valuers have conducted onsite survey to the vehicles and respectively consulted the drivers, repairmen and management staff for the running conditions, use intensity, frequency, routine maintenance and overhauling, and check if there is any early or delayed discarding by assuming the continued use in existing conditions so as to determine the correction factor.

(iv) Construction in progress

The construction in progress is appraised by cost method according to its features, type of value to be appraised and information collected. The book value of construction in progress within the appraisal reflects the project payment, payment for materials of the equipment, the management fees of the constructors, the upfront fees of the project and financial expenses.

1. For construction in progress with large amount of investment and long construction period during the construction, the adjusted book value of the project payment, payment for materials of the equipment, the management fees of the constructors, the upfront fees of the project incurred plus the cost of capital is taken as the value appraised.

The project payment is adjusted in combination with the level of the prices of labor, materials and machinery on the valuation date; the payment for the material of equipment is adjusted in combination with the price thereof on the valuation date; and the management fees of the constructors and the upfront fees of the project are mainly analyzed and adjusted in combination with the documents issued by relevant departments.

Cost of capital = reasonable construction period, to which the construction in progress corresponds on the valuation date × the loan rate of the construction corresponding to the entire reasonable construction period × the value of the cost of the construction in progress and the upfront fees appraised (including the prepayment for the engineering equipment under the item of prepayments) ÷ 2

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2. For construction in progress with small amount of investment and short construction period during the construction, the adjusted book value of project payment, payment for materials of the equipment, the management fees of the constructors and the upfront fees of the project incurred is taken as the value appraised.

(6) *Intangible assets*

The intangible asset is the land use right. The land use right within the scope of the appraisal is commissioned to Beijing Huaxin Real Estate Appraisal Co., Ltd for appraisal with market comparison approach and the approach of standard floor-price coefficient correction.

(7) *Liabilities*

Liabilities are appraised according to the liabilities and amounts to be actually borne by the enterprise.

● ***Income approach***

The income approach is an appraisal approach to discount prospective earnings of the appraisal target as per a certain discount rate or capitalization rate to determine its value. For the purpose of appraisal, discounted cash flow method is used in this appraisal for the shareholders' equity of the Enterprise Appraised. Free cash flow for the enterprise is adopted based on the future business model, capital structure, assets use and development trend of future income of the Enterprise Appraised.

Total value of shareholders' equity = corporate value – interest-bearing liabilities

Corporate value = value of operating assets + value of overage assets + value of non-operating assets

Interest-bearing liabilities including short-term borrowing, interest-bearing notes payable, long-term borrowing maturing within one year and long-term borrowing refer to the debts on the accounts of the Enterprise Appraised that bear interest on the valuation date.

1. *The formula for the value of operating assets is:*

$$P = \sum_{i=1}^n R_i(1+r)^{-i}$$

in which:

P: the value of the operating assets on the valuation date

R_i: estimated free cash flow in the ith year

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r: discount rate, determined by weighted average cost of capital

i: years to calculate income

n: discount period

2. *Determination of the value of excess assets*

Excess assets refer to spare assets that have no direct relation to enterprise income and exceed enterprise operation needs, and the value of excess assets is determined by cost method.

3. *Determination of the value of non-operating assets*

Non-operating assets refer to the assets that have no direct relation to enterprise normal operation, including assets without income that do not generate profit and assets with no relation to appraisal and forecast income that generate profits yet are not considered in the income forecast. The former does not generate profit while the latter, although generates profit, is not taken into account in the income forecast. The value appraised is mainly determined by replacement cost method.

4. *Selection of discount rates*

For the selection of discount rates, the capital weight average cost model (“WACC”) is adopted. WACC can be expressed with the following formula:

$$WACC = k_e \times [E \div (D+E)] + k_d \times (1-t) \times [D \div (D+E)]$$

in which:

k_e = Cost of equity capital

E = Market value of equity capital

D = Market value of debt capital

k_d = Cost of debt capital

t = Rate of income tax

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The cost of equity capital is calculated by using capital asset pricing model (“CAPM”), which is a generally applied method to estimate the cost of equity capital and can be expressed with the following formula:

$$E[Re] = Rf1 + \beta (E[Rm] - Rf2) + \text{Alpha}$$

in which:

$E[Re]$ = Expected equity ROE, i.e. cost of equity capital

$Rf1$ = Expected ROE of long-term national bonds

β = beta coefficient

$E[Rm]$ = Expected ROE of the market

$Rf2$ = Long-term expected ROE of the market

Alpha = Special risk premium

$(E[Rm] - Rf2)$ is excess risk premium rate in the equity market, and referred to as ERP.

VIII. Implementation Process and Conditions of Appraisal Procedures

The valuers have appraised the assets and liabilities within the scope of the appraisal. The appraisal procedures are mainly as follows:

(i) Acceptance of commission

Before the acceptance of commission, our company had talks with the Client and the Enterprise Appraised, and had communications for several times with the certified public accountants to learn the purpose of the appraisal, the appraisal target and scope and the valuation date, etc. On the basis, our company also complied with relevant national laws and regulations to sign the Letter of Engagement for Asset Appraisal and drafted relevant appraisal plan.

(ii) Inspection of assets

After the acceptance of the commission, our valuers, according to the (preliminary) detailed filing form for inspection of asset appraisal provided by Sinopec Yu Ji Pipeline Company Limited, formed an appraisal team and prepared a detailed plan for the onsite inspection, and the valuers inspected the existence and status of assets filed by Sinopec Yu Ji Pipeline Company Limited for inspection and verified the documents and data provided thereby. On such basis, the team supplemented or adjusted the original form. As the time was tight, the fixed assets within the appraisal scope were inspected in October before the valuation date.

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1. Inspection of cash and cash equivalents: including bank deposits and other monetary funds.

The valuers reviewed the bank statement and reconciliation statement of bank deposit and other monetary funds on the valuation date, and verified items in large amount that were in transit, and meanwhile verified the account by letter. The letter received was consistent with the statement.

2. Inspection of current accounts: current accounts included in the scope of appraisal were mainly prepayments and other receivables. First, the valuers verified the filing form with the accounting statements, the detailed accounts and the general ledger, and inspected current accounts in large amount item by item and made necessary verification.
3. Inspection of inventories: First, the valuers verified the filing form with the accounting statements, the detailed accounts and the general ledger, and reviewed relevant accounting records and original voucher. And meanwhile, the valuers supervised the counting of the inventories according to the filing form, and checked the inventories with large values one by one, and spot checked those with small unit values. The quantity on the valuation date was induced according to the input and output of the warehouse from the counting date to the valuation date based on the counting results. In the course of counting, the valuers also paid attention to the environment, time and use of the inventories.
4. Onsite survey of equipment: After the valuers entered the site for appraisal on October 25, the appraisal team, according to the filing form for asset appraisal, inspected and checked the equipment one by one, and examined if there was any equipment that was not recorded or verified and cancelled, and consulted the equipment administrators and operators for the use, maintenance, repair and technical transformation of such equipment.

The team conducted onsite inspection to the vehicles, learned the use features and maintenance of the vehicle assets of the enterprise, understood their performance and status and verified the vehicle licenses filed by the enterprise.

In addition to onsite survey to the machinery equipment, the team also verified the equipment according to the Survey Form for Equipment Status filled by the enterprise. Where there was any item missing, mistakenly or repeatedly filled, the form was returned to the enterprise for supplements and completion.

5. Onsite survey to buildings and structures: the buildings and structured within the scope of the appraisal were mainly the pipelines from Yulin to Jinan and assets such as the fences, roads, greening, sewage plants and valve chambers along the pipelines. After the valuers of our company entered the appraisal site on October 25 as the assets were mainly pipelines from Shaanxi to

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Shandong through Shanxi and Henan, the valuers confirmed the specifications, length and directions of the pipelines by reviewing the settlement data, verified the financial and operating data of the owner of the property rights, and interviewed the production and operation departments of the owner of the property rights to understand the operation and use of the pipelines. According to the number of items, area, type of structure and other main parameters, as well as decorations and water supply and drainage, power supply and lighting, heating and ventilation equipment listed in the filing form for the appraisal of the buildings and structures provided by the Enterprise Appraised, the team conducted detailed onsite inspection and verification, and made corrections to inconsistencies between the form and the actual situation in combination with relevant drawings of the buildings and structures; and in addition to the inconsistencies between the actual quantity and details of the buildings, structures and pipelines and those filed, the following was mainly reviewed: the type of the structure of buildings and conditions, etc.

The valuers had an overall inspection to the houses, buildings and structures and verified the assets one by one. For any inconsistency, adjustments were made based on the actual situation and with the prior opinions from relevant personnel of the Enterprise Appraised.

6. Inspection of the construction in progress: For the construction in progress, first, the team learned the procedures of the construction in progress such as the feasibility study, project set-up, approval and reply, the legal planning documents, the design concept and current status, and verified sub-projects that started item by item, learned the details of the project and verified the commencement date, the constructors, and reviewed relevant drawings, contracts and bidding documents; inspected the items of the list of assets for appraisal, verified the consistency between the date in the list and the carrying amount of the construction in progress in the financial statements and learned the main contents and asset status of the construction in progress; reviewed the contracts according to the civil engineering and equipment installation projects filed and interviewed the financial personnel to learn the actual progress of the construction and the payment for the construction, analyzed the components of the book value and the reasonability thereof; surveyed the visual progress of the construction in progress and verified the compliance with the contractual terms.
7. Inspection of the land use right: for the inspection of the land use right, the valuers verified documents concerning the ownership of such land and interviewed relevant personnel to investigate the status, the ownership of the land and current utilization.

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8. Inspection of liabilities: liabilities of the Enterprise Appraised mainly included accounts payable, advances from customers and other payables and other current liabilities, etc. During the inspection, the valuers verified the filing form with the accounting statements, the detailed accounts and the general ledger, and reviewed relevant original voucher and contracts.
9. Investigation with the income approach
 - (1) listening to the working personnel of Sinopec Yu Ji Pipeline Company Limited to introduce the basic business information and the assets and financial conditions, learning the allocation and use of assets of the company and collecting relevant basic financial data;
 - (2) analyzing the components of the historical income, costs and expenses of the enterprise and analyzing the profitability and development trend;
 - (3) analyzing the comprehensive strength, management level, profitability, development capability, and competitive advantages of Sinopec Yu Ji Pipeline Company Limited;
 - (4) predicting the expected income, income period of the company in future periods based on the historical financial information in combination with current market status, and making proper adjustments to the predicted value according to the economic environment and market development;
 - (5) establishing the pricing model for appraisal with the income approach.

(iii) Appraisal estimation

If the asset-based approach is adopted, the valuers should select an appropriate appraisal method for each enterprise asset and debt based on necessary market investigation and inquiry, so as to confirm the value of the shareholders' equity of the Enterprise Appraised.

If the income approach is adopted, the valuers should collect historical financial information through interviews with the management of the enterprise and make analysis by comparing the enterprise with a listed company of similar kind, conduct quantitative analysis for future income, period of benefit and risk and return reward of the enterprise based on a full understanding of the market, and finally determine the value of the shareholders' equity of the Enterprise Appraised.

(iv) Appraisal summary and report

This appraisal is the summary and analysis to, preparation of the appraisal report for and the explanation on the appraisal results in accordance with the requirements Asset Appraisal Standards – Appraisal Report and the Guidance of Appraisal Report Concerning State-owned Assets of Enterprises. And a three-level review has been conducted on the appraisal report.

IX. Assumptions on Appraisal

1. General assumptions

- (1) There is no material change in the existing national and local laws and regulations, systems and social, political and economic policies applicable to Sinopec Yu Ji Pipeline Company Limited during the course of its operation;
- (2) Sinopec Yu Ji Pipeline Company Limited will maintain its on-going operation in line with its current mode of business operation;
- (3) There is no material change in the prevailing tax base and rates, bank loan interest rates and other policies on fees in the PRC;
- (4) There are no force majeure events or unforeseeable factors that result in significant adverse impact.

2. Specific assumptions

- (1) It is assumed that the technical team and senior managers of Sinopec Yu Ji Pipeline Company Limited remain relatively stable in the respective years, and there is no severe loss of core professional staff;
- (2) It is assumed that the current and future managers of Sinopec Yu Ji Pipeline Company Limited are responsible persons, and the management of the company can steadily promote its development plan and the company can maintain a favorable operating environment;
- (3) The future operators of Sinopec Yu Ji Pipeline Company Limited will comply with relevant laws and regulations, and there will be no major violations that may affect the development and earnings of the company;
- (4) It is assumed that the accounting policies used in the financial information provided by Sinopec Yu Ji Pipeline Company Limited and the accounting policies as well as accounting calculation used for earning-forecast remain basically unchanged in important aspects.

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If there is any difference between the actual situation in the future and assumptions aforesaid, the appraisal conclusion will be affected. Users of this report shall pay attention to the effect of the assumptions on the conclusion when using the report.

X. Conclusions

(1) Conclusion on appraisal with asset-based approach

On the valuation date of November 30, 2014 and on a going concern basis, the book value of total assets of Sinopec Yu Ji Pipeline Company Limited upon appraisal with the asset-based approach amounts to RMB5,049,207,000, the appraised value amounts to RMB5,139,768,100, where the value added is RMB90,561,100 with an appreciation rate of 1.79%. The book value of total liabilities amounts to RMB3,509,840,800, the value appraised amounts to RMB3,509,840,800, where the value added is 0 with an appreciation rate of 0.00%; the book value of net assets is RMB1,539,366,200, the value appraised is RMB1,629,927,300 where the value added is RMB90,561,100 with an appreciation rate of 5.88%.

The details of the appraisal results are listed in the summary table of appraisal results as follows:

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Summary Table of Appraisal Results

Valuation date: November 30, 2014

Unit: RMB'0,000

Item	Book Value	Appraised Value	Increase/ Decrease in Value	Appreciation Rate %
Current assets	46,111.94	46,110.74	-1.20	-0.003
Non-current assets	458,808.76	467,866.07	9,057.31	1.97
including: Available-for-sale financial assets	-	-	-	
Held-to-maturity investments	-	-	-	
Long-term receivables	-	-	-	
Long-term equity investments	-	-	-	
Investment property	-	-	-	
Fixed assets	435,426.35	444,385.73	8,959.38	2.06
Construction in progress	20,664.33	20,716.12	51.79	0.25
Project materials	-	-	-	
Disposal of fixed assets	-	-	-	
Productive biological assets	-	-	-	
Oil and gas assets	-	-	-	
Intangible assets	2,718.08	2,764.22	46.14	1.70
Development expenses	-	-	-	
Goodwill	-	-	-	
Long-term deferred expenses	-	-	-	
Deferred tax assets	-	-	-	
Other non-current assets	-	-	-	
Total assets	504,920.70	513,976.81	9,056.11	1.79
Current liabilities	20,984.08	20,984.08	-	0.00
Non-current liabilities	330,000.00	330,000.00	-	0.00
Total liabilities	350,984.08	350,984.08	-	0.00
Net assets (owners' equity)	153,936.62	162,992.73	9,056.11	5.88

(2) Conclusion on appraisal with income approach

Upon appraisal with the income approach and on a going concern basis, the book value of the owners' equity of Sinopec Yu Ji Pipeline Company Limited amounts to RMB1,539,366,200; the value of total equity of shareholders, upon appraisal by the income approach, amounts to RMB2,576,881,100, where the added value amounts to RMB1,037,514,900 with an appreciation rate of 67.40%.

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(3) Determination of the appraisal conclusion

The appraisal result for the total shareholders' equity of Sinopec Yu Ji Pipeline Company Limited from the asset-based approach is RMB1,629,927,300 and the result from the income approach is RMB2,576,881,100. The appraisal result derived from the income approach is 58.10% higher than that from the asset-based approach.

The asset-based approach is to appraise and estimate the value of all the factor assets of the enterprise with proper method according to the specific situation of such assets on a going concern basis and with the assumption of replacing all the production factors, sum all the values and deduct the appraised value of relevant liabilities to derive the appraised value of total shareholders' equity under the asset-based approach, representing the replacement value of the enterprise based on existing assets. And the income approach focuses on the expected profitability of the entire assets of the enterprise and the appraisal result from the income approach is the quantitative and present value of the expected profitability of the entire assets of the enterprise. It is a method to calculate the appraised value based on the expected income of the enterprise in the future, which does not only consider the impact of the reasonable and full utilization of each asset in the enterprise and construction of the combination thereof for the enterprise on the value of total shareholders' equity of the enterprise, but also considers the impact of all the preferential policies, operation qualification, industry competitive powers, the management level, human resources, and synergy of factors of the enterprise, which cannot be considered in the asset-based approach, on the value of total shareholders' equity. Sinopec Yu Ji Pipeline Company Limited has stable customer resources from upstream and downstream, and its pipeline assets are in good operation. According to the industry and operating features of the Enterprise Appraised, it is believed that the appraisal result derived from the income approach can objectively and comprehensively reflect the value of total shareholders' equity of Sinopec Yu Ji Pipeline Company Limited.

According to the analysis above, the appraisal result from the income approach is adopted for the appraisal, i.e. the appraisal result of the value of total shareholders' equity of Sinopec Yu Ji Pipeline Company Limited is RMB2,576,881,100.

XI. NOTES ON SPECIFIC MATTERS

Specific matters stated in the appraisal report refer to, when the appraisal result is determined, relevant matters that are found by the valuers to possibly affect the appraisal conclusion but cannot be appraised according to the qualification and ability of such valuers.

- (1) The assets and liabilities of Sinopec Yu Ji Pipeline Company Limited has been audited by Grant Thornton (Special General Partnership), who has issued an unqualified auditor's report (Zhi Tong Zhuan Zi (2014) No. 110ZC2343).
- (2) The land that falls into the scope of the appraisal was appraised by Beijing Huaxin Real Estate Appraisal Co., Ltd. Beijing Huaxin Real Estate Appraisal Co., Ltd. issued the land appraisal report of Appraisal of Price for Transfer of State-owned Land Use Right of Land on North Side of Tiancheng Street on West

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Side of Fenghuang Road in Xianwen Area of High and New Technological Area, Jinan Shandong Province Involved in Proposed Transfer of Equity of Sinopec Yu Ji Pipeline Company Limited Held by China Petroleum & Chemical Corporation to Sinomart KTS Development Limited (Jinan City Shandong Province)(Transfer)(Hua Xin Ping Zi No. 201401199), and the appraisal result for the land use right within the scope of appraisal was RMB27,642,200, which was cited in the appraisal report.

- (3) The land occupied by structures in the stations within the appraisal scope is used under lease.
- (4) We only estimates the value and issues professional opinions on the assets intended to be offered by the Enterprise Appraised to provide value reference basis for users of the report, and the determination and opinions on the legal ownership of the appraisal target are not included in the scope of our practice, and we will make no guarantee for the legal ownership of the appraisal target. We have not considered the impact of property right ownership on the appraised value or any impact of any possible deals on the appraised value during any changes in the property rights in the future, and the Enterprise Appraised shall be fully responsible for the authenticity, legality and completeness of the information of the legal ownership of the appraisal target provided.

It is advised that users of the appraisal report should pay attention to any impact of the specific matters mentioned above on the appraisal conclusion.

XII. Restrictions on Use of the Appraisal Report

1. The conclusion of the appraisal report is reached on a going concern basis.
2. The appraisal report can only be used for the appraisal purposes and uses set out in the appraisal report.
3. The appraisal report can only be used by users set out in the appraisal report.
4. Unless otherwise stipulated by laws or regulations or agreed by relevant parties, any or all the contents of the appraisal report shall not be extracted, referenced or disclosed in public media without being reviewed by the appraisal institution.
5. The effective term for the use of the appraisal result shall be one year from the valuation date, i.e., any use of the conclusion in the report shall become invalid after November 29, 2015.
6. The assets appraisal report is only valid when used completely. The company is not responsible for the possible losses caused by partial use of the report.

XIII. Date of Appraisal Report

The date of the appraisal report is December 8, 2014.

APPENDIX V VALUATION REPORT ON YU JI PIPELINE COMPANY

(No text in this page)

Legal representative:
Feng Dao Xiang

ZhongHe Appraisal Co., Ltd.

Certified Public Valuer
Person in charge of the appraisal:
Guo Peng Fei

December 8, 2014

Certified Public Valuer
Appraisal Report reviewed by:
Feng Dao Xiang



The Board of Directors
SINOPEC KANTONS HOLDINGS LIMITED
34/F, Citicorp Centre, 18 Whitfield Road
Causeway Bay, Hong Kong

20 January 2015

Dear Sirs,

We refer to the valuation report (the “**Valuation Report**”) prepared by 中和資產評估有限公司 (ZhongHe Appraisal Co. Ltd*) (“**ZhongHe Appraisal**”) in relation to the valuation of the 100% equity interest (“**Equity Interest**”) in 中石化榆濟管道有限責任公司 (Sinopec Yu Ji Pipeline Company Limited) (the “**Target**”) dated 8 December 2014. The Valuation Report, which has been arrived at using the income approach, is regarded as a profit forecast (the “**Forecast**”) under Rule 14.62 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The Valuation Report is included in the circular of Sinopec Kantons Holdings Limited (the “**Company**”) dated 20 January 2015 (the “**Circular**”).

We understand that the Valuation Report has been provided to you as the directors of the Company (the “**Directors**”) in connection with the Company’s proposed acquisition of the Equity Interest from China Petroleum & Chemical Corporation.

We have reviewed the Forecast included in the Valuation Report, for which you as the Directors are solely responsible. We have attended discussions involving the management of the Target, the management of the Company, Grant Thornton Hong Kong Limited (being the reporting accountants of the Target) and ZhongHe Appraisal where the historical performance of the Target and the calculations of the Forecast was discussed. We have also reviewed the letter addressed solely to and for the sole benefit of the Directors from Grant Thornton Hong Kong Limited dated 20 January 2015 as set out in Appendix VI of the Circular regarding the calculations upon which the Forecast has been made. The Forecast is based on a number of bases and assumptions. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Target may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by ZhongHe Appraisal, for which ZhongHe Appraisal and the Company are responsible, we are satisfied that the Forecast included in the Valuation Report and disclosed in the Circular, for which you as the Directors are solely responsible, have been made after due and careful enquiry by you. The work undertaken by us in giving the above view has been undertaken for the purpose of

APPENDIX VI LETTERS IN RELATION TO VALUATION REPORT

reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,
For and on behalf of
Merrill Lynch (Asia Pacific) Limited
Catherine Cai
Managing Director

* *For identification purpose only*

The following is the text of a letter, prepared for the sole purpose of inclusion in this circular, from the reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, in relation to the valuation report contained in Appendix V to this circular.



REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF SINOPEC YU JI PIPELINE COMPANY LIMITED

The board of directors
Sinopec Kantons Holdings Limited

We have been engaged to report on the calculations of the discounted future estimated cash flows on which the valuation (the “Valuation”) prepared by ZhongHe Appraisal Co., Ltd. in respect of the appraisal of the fair value of Sinopec Yu Ji Pipeline Company Limited as at 30 November 2014. The Valuation is set out in the Appendix V of circular of Sinopec Kantons Holdings Limited (the “Company”) dated 20 January 2015 (the “Circular”) in connection with the proposed acquisition of Sinopec Yu Ji Pipeline Company Limited by the Company. The Valuation based on discounted estimated future cash flows which involves projection of profits is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Directors’ responsibility for the discounted future estimated cash flows

The directors of the Company (the “Directors”) are responsible for the bases and assumptions which are adopted in the discounted future estimated cash flows, a summary of which is set out on page V-27 of the Circular (the “Assumptions”). The discounted future estimated cash flows were prepared on a cash basis instead of an accrual basis and do not involve any non-cash transactions but involve the projection of profits. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting accountants’ responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

APPENDIX VI LETTERS IN RELATION TO VALUATION REPORT

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of the proposed acquisition.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12
28 Hennessy Road
Wanchai
Hong Kong

20 January 2015

Shaw Chi Kit
Practising Certificate No.: P04834

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. DIRECTORS' INTERESTS

Directors' Interests and Short Positions

As at the Latest Practicable Date, none of the Directors, nor their associates, had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance Cap.571 (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are deemed or taken to have under such provisions of the SFO), or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange or which are required or pursuant to section 352 of the SFO, to be entered in the register referred to therein. As at the Latest Practicable Date, Mr. Chen Bo, Mr. Zhu Zeng Qing, Mr. Zhu Jian Min, Mr. Tan Ke Fei, Mr. Zhou Feng and Mr. Ye Zhi Jun, being the executive Directors, are also directors of SKI.

Directors' Interest in Any Asset Acquired, Disposed or Leased

None of the Directors has any material interest, directly or indirectly, in any asset which, since 31 December 2013, 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 or is proposed to have a service contract with the Group which does not expire or which is not determinable by the Group within one (1) year without payment of compensation other than statutory compensation.

Directors' Interest in Contracts and Arrangements

There was no contract or arrangement subsisting as at the date of this circular in which any Director was materially interested and which was significant in relation to any business of the Group.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

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

Name of interested party	Number of Shares	Percentage of Shareholding (%)
SKI (<i>Note 1</i>)	1,500,000,000	60.33

Note 1: The entire share capital of SKI is held by Unipec. Unipec is a wholly-owned subsidiary of Sinopec Corp. which is a subsidiary of Sinopec Group Company.

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. EXPERTS AND CONSENTS

The following are the qualifications of the experts that have given opinion or advice, which are contained in this circular:

Name	Qualification
Merrill Lynch (Asia Pacific) Limited	A registered institution under the Securities and Futures Ordinance, registered to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
PricewaterhouseCoopers	Certified public accountants
Grant Thornton Hong Kong Limited	Certified public accountants
Somerley Capital Limited	Independent financial adviser, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance
ZhongHe Appraisal Co., Ltd.	Independent qualified PRC Valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its reports or letters and references to its name, in the form and context in which they appear.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in the share capital of any member of the Group nor do they 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 Group 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. COMPETING INTEREST

Mr. Chen Bo, Mr. Zhu Zengqing, Mr. Zhu Jianmin, Mr. Tan Ke Fei, Mr. Zhou Feng and Mr. Ye Zhi Jun, being executive Directors of the Company, are also directors of Sinopec Kantons International Limited, an immediate controlling shareholder of the Company.

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest, directly or indirectly, in a business which competes or may compete with the business of the Group.

7. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Enlarged Group within 2 years preceding the Latest Practicable Date:

- (a) Acquisition Agreement;
- (b) Natural Gas Transmission Services Framework Master Agreement;
- (c) Yu Ji Pipeline Financial Services Framework Master Agreement;
- (d) Gas Storage Framework Master Lease Agreement;
- (e) Services Outsourcing Framework Master Agreement;
- (f) Lands and Buildings Framework Master Lease Agreement;
- (g) Sinopec Guangzhou Branch framework master agreement dated 29 October 2013 entered into between Huade and China Petroleum & Chemical Corporation Guangzhou Branch (中國石油化工股份有限公司廣州分公司) (“**Sinopec Guangzhou Branch**”), a branch of Sinopec Corp., in relation to regulate, among others, the provision of crude oil jetty services between Huade and Sinopec Guangzhou Branch;

- (h) Unipecc framework master agreement dated 29 October 2013 entered into between the Company and Unipecc in relation to regulate the crude oil trading business;
- (i) Sinopec finance financial services framework master agreement dated 29 October 2013 entered into between Huade and Sinopec Finance Company Limited (“**Sinopec Finance**”) for the provision of intra group financial services by Sinopec Finance to Huade and its subsidiaries;
- (j) Century Bright financial services framework master agreement dated 29 October 2013 entered into between the Company and Sinopec Century Bright Capital Investment Limited (中石化盛駿國際投資有限公司) (“**Century Bright**”), a wholly owned subsidiary of Sinopec Group Company, for the provision of deposit services and settlement and similar services to the Group;
- (k) Unipecc vessel charter framework master agreement dated 29 October 2013 entered into between Sinomart Development and Unipecc in relation to the provision of vessel chartering services to Unipecc;
- (l) Sinopec fuel oil sales company limited framework master agreement dated 29 October 2013 entered into between Huade and 中國石化燃料油銷售有限公司 (Sinopec Fuel Oil Sales Company Limited*) (“**Sinopec Fuel Oil**”), a wholly owned subsidiary of Sinopec Corp., in order to regulate, among others, the provision of fuel oil jetty and storage services by Huade to Sinopec Fuel Oil;
- (m) Unipecc bunkering framework master agreement dated 29 October 2013 entered into between the Company and Unipecc Singapore Pte Limited (聯合石化新加坡有限公司) (“**Unipecc Singapore**”), a wholly owned subsidiary of Unipecc, for the provision of marine bunkering services by Unipecc Singapore to the Group for the vessels chartered to the Group;
- (n) Huade construction project framework agreements dated 29 October 2013 entered into between Huade and 3 members of the Sinopec Group, including (1) 中國石化廣州工程有限公司 (Sinopec Guangzhou Petrochemical Engineering Corporation*), (2) 中國石化第四建設有限公司 (Sinopec The Fourth Construction Company*), and (3) 中國石化國際事業有限公司 (Sinopec International Business Company Limited*) for the provision of construction related design services, engineering construction services, sourcing of equipment and raw materials services for the construction project of the Huizhou Fuel Oil Storage Tanks and Ancillary Facilities to be provided by the respective parties;
- (o) Batam construction project framework master agreement dated 29 October 2013 entered into between Sinomart Development and Sinopec Engineering (Group) Company Limited (中石化煉化工程(集團)股份有限公司) (“**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 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; and

- (p) 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.

* *for identification purposes only*

8. MISCELLANEOUS

- (a) The joint secretaries of the Company are Mr. Li Wen Ping and Mr. Lai Yang Chau, Eugene (practicing solicitor).
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company in Hong Kong is at 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular prevails over its Chinese translation in the case of discrepancy.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong during normal business hours from the date of this circular up to and including the date of the SGM:

- (a) each of the material contracts as referred to in the paragraph headed “Material Contracts” in this Appendix;
- (b) the memorandum of association and bye-laws of the Company;
- (c) the Company’s annual reports for the three years ended 31 December 2013;
- (d) the Company’s interim report for the six months ended 30 June 2014;
- (e) the letter of advice prepared by Somerley Capital Limited as set out on pages 32 to 63 in this circular;
- (f) the letter of independent board committee as set out on pages 30 to 31 in this circular;
- (g) report on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix I to this circular;
- (h) accountant’s report on Yu Ji Pipeline Company as set out in Appendix II to this circular;
- (i) valuation report on Yu Ji Pipeline Company as set out in Appendix V to this circular;
- (j) the letter of Grant Thornton Hong Kong Limited and the letter of Merrill Lynch (Asia Pacific) Limited as set out in Appendix VI to this circular;
- (k) letters of consent from Merrill Lynch (Asia Pacific) Limited, PricewaterhouseCoopers, Grant Thornton Hong Kong Limited, ZhongHe Appraisal Co., Ltd. and Somerley Capital Limited referred to under “Experts and Consents” in this Appendix; and
- (l) 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 the shareholders (the “**Shareholders**”) of Sinopec Kantons Holdings Limited (the “**Company**”) will be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central on Tuesday, 10 February 2015 at 10:00 a.m. and at any adjournment thereof for the purposes of considering and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“1. THAT

- (a) (i) the Acquisition Agreement dated 30 December 2014 (as defined in the circular of the Company dated 20 January 2015 (the “**Circular**”)) entered into between (i) Sinopec Corp. (as defined in the Circular) as vendor, and (ii) Sinomart Development (as defined in the Circular) as purchaser, in relation to the sale and purchase of the entire equity interest in Yu Ji Pipeline Company (as defined in the Circular) at the consideration of RMB2,576,881,100 (the “**Acquisition**”), copy of which has been produced at the SGM marked “A” and signed by the chairman of the SGM for identification purpose, together with particulars described in the Circular (a copy of which has been produced at the SGM marked “B” and signed by the chairman of the SGM for the purpose of identification) be and is hereby approved, confirmed and ratified;
- (ii) all the transactions contemplated under the Acquisition Agreement be and are hereby approved, confirmed and ratified; and
- (iii) any one director of the Company (the “**Director(s)**”) (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are hereby authorised to do such acts and execute such other documents and/or deeds with or without amendments and/or take all such steps as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Acquisition;

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (b) (i) the Company's entering into the Natural Gas Transmission Services Framework Master Agreement (as defined in the Circular) be and is hereby approved, confirmed and ratified;
- (ii) the proposed annual caps for the provision of natural gas pipeline transmission services under the Natural Gas Transmission Services Framework Master Agreement for each of the three financial years ending 31 December 2017 be and are hereby approved, confirmed and ratified; and
- (iii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are 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 as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Natural Gas Transmission Services Framework Master Agreement; and
- (c) (i) the Company's entering into the Yu Ji Pipeline Financial Services Framework Master Agreement (as defined in the Circular) be and is hereby approved, confirmed and ratified;
- (ii) the proposed annual caps for the deposits services placed by Yu Ji Pipeline Company under the Yu Ji Pipeline Financial Services Framework Master Agreement for each of the three financial years ending 31 December 2017 be and are hereby approved, confirmed and ratified; and
- (iii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are 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 as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Yu Ji Pipeline Financial Services Framework Master Agreement.”

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

Hong Kong, 20 January 2015

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

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. In this notice, unless otherwise stated, translation of RMB into HK\$ is based on the approximate exchange rate of RMB1 to HK\$1.25 for information purpose 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.
2. The resolution proposed at the SGM is subject to the approval by the Independent Shareholders (as defined in the Circular) and will be voted by way of poll.
3. Any member entitled to attend and vote at the SGM (or at any adjournment thereof) convened by the above notice is entitled to appoint one or more proxy(ies) 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 Shareholder.
4. 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible, and in any event not later than forty-eight (48) hours before the time appointed for the holding of the meeting (or at any adjournment thereof).
5. The Register of Members of the Company will be closed from 6 February 2015 to 10 February 2015 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify to attend the meeting, all share transfer accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 5 February 2015.

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

Executive Directors:

Mr. Chen Bo (*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:

Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark
Dr. Wong Yau Kar, David