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**CHINA PETROLEUM & CHEMICAL  
CORPORATION**

*(a joint stock limited company incorporated in the  
People's Republic of China with limited liability)  
(Stock Code: 386)*

**SINOPEC KANTONS HOLDINGS  
LIMITED**

*(incorporated in Bermuda with limited liability)  
(Stock Code: 934)*

**Connected Transactions**

**Major and Connected Transaction  
regarding Huade Equity Acquisition  
and  
KGSIM Equity Disposal**

**Financial Adviser to China Petroleum & Chemical Corporation**

**CHINA INTERNATIONAL CAPITAL CORPORATION (HONG KONG) LIMITED**

**Independent financial adviser to the Independent Board Committee and  
the Independent Shareholders of Sinopec Kantons Holdings Limited**

The respective board of directors of Sinopec Corp. and Sinopec Kantons announce that (a) pursuant to the Huade Equity Acquisition Agreement, Kantons Investment has agreed to conditionally acquire from GPC a 30% of equity interest in Huade at a cash consideration of RMB594 million (approximately HK\$571 million); and (b) pursuant to KGSIM Equity Disposal Agreement, Huade has agreed to conditionally dispose to Sinopec Corp. of 90% of equity interest in KGSIM for a cash consideration of RMB153 million (approximately HK\$147 million).

Sinopec Corp also entered into the ZGAT Agreement with ZGAT pursuant to which ZGAT shall transfer its 10% of equity interest in KGSIM to Sinopec Corp. at a cash consideration of RMB17 million (approximately HK\$16.3 million).

*Descriptions on parties to the Transactions*

Sinopec Group Company is (a) the controlling shareholder of Sinopec Corp. (holding approximately 71.23% of its entire issued share capital); (b) ultimate holder of the registered capital of GPC; and (c) the ultimate controlling shareholder of Sinopec Kantons (holding approximately 72.34% of its entire issued share capital through Sinopec Corp.). Huade is a sino-foreign equity joint venture whose 70% of equity interest is indirectly held by Sinopec

Kantons (through Kantons Investment) and 30% is by GPC. KGSIM is a limited liability company incorporated in the PRC, whose 90% of equity interest is held by Huade and 10% of the entire registered capital is held by GPC (through ZGAT).

*Implications of Listing Rules as to Sinopec Corp.*

Pursuant to the Listing Rules, each of Sinopec Group Company, GPC and Huade is a connected person of Sinopec Corp. The Huade Equity Acquisition Agreement, the KGSIM Equity Disposal Agreement and the ZGAT Agreement constitute connected transactions for Sinopec Corp.. Pursuant to Rule 14A.32 of the Listing Rules, these transactions are subject only to reporting and announcement requirements as set out thereunder.

*Implications of Listing Rules as to Sinopec Kantons*

Pursuant to the Listing Rules, each of Sinopec Group Company, Sinopec Corp. and GPC is a connected person of Sinopec Kantons. Both the Huade Equity Acquisition Agreement and the KGSIM Equity Disposal Agreement constitute connected transactions for Sinopec Kantons. A percentage ratio of the Huade Equity Acquisition exceeds 25% but is less than 100%. Certain percentage ratios of the KGSIM Equity Disposal Agreement exceeds 5% but all the percentage ratios are less than 25%. Under Rules 14.08 and 14.24 of the Listing Rules, these transactions constitute a major and connected transaction and will subject to Independent Shareholders' approval of Sinopec Kantons. Sinopec Group Company and its associates will abstain from voting at the SGM with respect to the proposed resolutions to approve these transactions. The Huade Equity Acquisition Agreement and the KGSIM Equity Disposal Agreement are inter-conditional to each other as to approval by the Independent Shareholders in the SGM.

*Circular to be issued by Sinopec Kantons*

A circular of Sinopec Kantons containing, among other matters, further details of the Huade Equity Acquisition, the Huade Equity Acquisition Agreement, the KGSIM Equity Disposal and the KGSIM Equity Disposal Agreement, the advice from the independent board committee of Sinopec Kantons and the independent financial adviser will be dispatched to the shareholders of Sinopec Kantons as soon as practicable.

**A. THE HUADE EQUITY ACQUISITION AGREEMENT DATED [10 JULY] 2006**

**Parties**

- (1) GPC as vendor
- (2) Kantons Investment as purchaser

**Assets to be transferred**

30% of equity interest in Huade

**Consideration**

The consideration for the acquisition is RMB594 million (approximately HK\$571

million). The amount of the consideration was determined following commercial negotiations between the parties at arm's length basis and by reference to (1) audited financial information of Huade prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") for the three years ended 31 December 2005 and three months ended 31 March 2006 and the net assets value of Huade as at 31 March 2006; (2) the net assets value of Huade as at 31 March 2006, being RMB1,808 million (approximately HK\$1,738 million) as set out in the valuation report prepared according to PRC laws and regulations on replacement cost method issued by an independent valuation firm in the PRC appointed by GPC, which firm was designated by the PRC government to conduct valuation for state-owned assets; and (3) the stable and profitable track record and growth potential of Huade.

Based on the consideration of RMB594 million (approximately HK\$571 million) to be paid to GPC, the premium paid by Sinopec Kantons for the transaction would be (1) if based on the audited net assets value as at 31 December 2005 and 31 March 2006 respectively and on a proforma basis as if the acquisition transaction had been completed on 31 December 2005 and 31 March 2006 respectively, HK\$126 million and HK\$115.4 million respectively; and (2) if based on the valuation by the independent valuation firm in the PRC, HK\$49.6 million. The above calculations are for reference only and the exact amount of premium payable will depend on the net assets value corresponding to 30% of equity interest of Huade as at the date of completion of this transaction.

The directors of Sinopec Kantons consider that, given the stable and profitable track the growth potential of Huade and the future development of its Huizhou Crude Oil Jetty, they are of the view that the consideration is fair and reasonable and in the interest of Sinopec Kantons and its shareholders as a whole.

In accordance with Huade Equity Acquisition Agreement, the consideration to be payable by Kantons Investment shall be paid to GPC within 30 days after the conditions precedent to the agreement being satisfied. Sinopec Kantons and Kantons Investment will fund the consideration by bank borrowings.

### **Conditions precedent**

The Huade Equity Acquisition Agreement is conditional upon, among others,

- (a) the Independent Shareholders of Sinopec Kantons approving the resolution to be proposed at the SGM in relation to the Huade Equity Acquisition Agreement and the KGSIM Equity Disposal Agreement;
- (b) consents required for the implementation of this agreement had been obtained by Huade from any third party pursuant to any agreement, contract or essential procedures of notification were completed;
- (c) the approval granted by the State-owned Asset Supervisory and Administration authorities in the PRC for Huade Equity Acquisition to be conducted by way of transfer through agreement ;
- (d) the completion of filing procedures on the results of valuation involved in the transaction contemplated by this agreement at the State-owned Asset Supervisory and Administration authorities with jurisdiction as required by the laws and

regulations; and

- (e) the approval granted by competent Industry and Commercial Administration authorities for Huade Equity Acquisition and relevant matters as contemplated thereunder.

Condition precedent (a) and (e) may not be waived by the parties. Condition (b) may be waived by the parties upon unanimously consent. Conditions precedent (c) and (d) may be waived by the parties upon unanimously consent and with consent from the relevant governmental regulatory authority.

### **Completion**

It is expected that the completion of the Huade Equity Acquisition Agreement will take place within 30 days after all the conditions precedent to the Huade Equity Acquisition Agreement are satisfied. Upon completion of this agreement, Huade will become an indirectly wholly owned subsidiary of Sinopec Kantons and Sinopec Kantons shall enjoy the rights and interests in 30% of equity interest in Huade. Upon completion, the consolidated financial statements of Sinopec Kantons group will include 100% of the results and the assets and liabilities of Huade.

### **Information on Huade**

Huade is a sino-foreign equity joint venture established in 1994 in the PRC. Its total investment and registered capital are US\$234,395,500 (approximately HK\$1,828,284,900) and US\$93,758,200 (approximately HK\$731,313,960) respectively. Sinopec Kantons, through Kantons Investment, is holding 70% of equity interest in Huade while GPC is holding 30%. The term of the equity joint venture is between 1994 and 2029 for 35 years. The principal business of Huade is (a) the operation of the Huizhou Crude Oil Jetty's crude oil unloading, storage and transmission business; and (b) operation of the Petrol Stations through KGSIM.

The Huizhou Crude Oil Jetty complex owned and operated by Huade, including its oil tanker handling, crude oil unloading, storage and pipeline transmission facilities, is located on Mabianzhou Island (馬鞭洲島) in the Daya Bay Economic and Technological Development Zone (大亞灣經濟技術開發區) in Huizhou (惠州), Guangdong Province, the PRC.

The Huizhou Crude Oil Jetty maintained a stable operation and systematic management and achieved steady growth result. Currently, the facilities allowed the anchoring and operation of 150,000 tonnes tankers and the crude oil storage tanks have a storage capacity of 800,000 cubic metres, including a 300,000 cubic metres bonded crude oil depot approved by the General Administration of Customs of the PRC. Crude oil in the storage tanks are pumped through approximately 173.5 km underground and underwater pipeline transmission system to Sinopec Guangzhou Branch.

Sinopec Guangzhou Branch, a major client of the Huizhou Crude Oil Jetty is expanding the capacity of its crude oil refining facility from an annual crude refining capacity of 7.7 million to an annual refining capacity within the range of 10 million to 13 million tonnes of crude oil. It is expected that the expansion will complete by the end of 2006.

With PRC's economy sustaining a steady growth, the market demand for petroleum and petrochemical products has been increasing continuously. Huade is making an investment and construction of a 300,000 tonnes-level berth, as well as dredging channels in Huizhou Crude Oil Jetty to raise load capacity so as to satisfy its downstream customers, including Sinopec Guangzhou Branch, as well as the need to increase productivity and profitability of Huade. It is expected that the expansion of the berth will be completed around mid 2007. In addition, Huade is exploring new sources of profit by using the jetty's reverse transport system, to enhance the operational flexibility of the bonded crude oil depot and to extend the services of its jetty.

Huade charges fees for the use of the Huizhou Crude Oil Jetty, its storage facilities and the pipeline transmission system. The jetty fees for the use of the jetty are controlled and standardized by the Ministry of Communications in the PRC. The crude oil storage fees have to be approved by the Guangdong Price Bureau. The fees for pipeline transmission are standardized by the National Development and Reform Commission.

### **Financial information prepared in accordance with HK GAAP of Huade**

The audited turnover, net profit before and after taxation and the net assets value of Huade for the year ended 31 December 2003, 2004 and 2005 and for the three months ended 31 March 2006 are set out at the table below:

	31 March 2006 RMB'000 (HK\$'000)	31 December 2005 RMB'000 (HK\$'000)	31 December 2004 RMB'000 (HK\$'000)	31 December 2003 RMB'000 (HK\$'000)
Turnover	557,219 (approximately 535,788)	2,594,600 (approximately 2,494,808)	1,973,551 (approximately 1,897,645)	1,638,311 (approximately 1,575,299)
Profit before taxation	39,535 (approximately 38,014)	173,342 (approximately 166,675)	236,115 (approximately 227,034)	233,526 (approximately 224,544)
Net profit after taxation and minority interests	36,626 (approximately 35,217)	153,947 (approximately 148,026)	211,957 (approximately 203,805)	210,807 (approximately 202,699)
Net assets value	1,614,867 (approximately 1,552,757)	1,578,876 (approximately 1,518,150)	1,421,978 (approximately 1,367,287)	1,203,677 (approximately 1,157,382)
Net assets (excluding minority interests)	1,579,401 (approximately 1,518,655)	1,542,775 (approximately 1,483,438)	1,388,828 (approximately 1,335,412)	1,177,902 (approximately 1,132,598)

The audited net profit before and after taxation and the net assets value corresponding to 30% of the equity interest in Huade amounted to RMB70,835,000 (approximately HK\$68,111,000), RMB63,587,000 (approximately HK\$61,141,000) and RMB416,648,000 (approximately HK\$400,623,000) respectively for the year ended 31

December 2004; and RMB52,003,000 (approximately HK\$50,003,000), RMB46,184,000 (approximately HK\$44,408,000) and RMB462,833,000 (approximately HK\$445,032,000) respectively for the year ended 31 December 2005; and RMB11,861,000 (approximately HK\$11,405,000), RMB10,988,000 (approximately HK\$10,565,000) and RMB473,820,000 (approximately HK\$455,596,000) respectively for the three months ended 31 March 2006.

### **Continuing connected transactions in relation to Huizhou Crude Oil Jetty**

It was announced in an announcement of Sinopec Kantons dated 22 February 2005 that on 18 February 2005, Sinopec Corp. and Sinopec Kantons entered into the Sinopec Corp. Framework Master Agreement to set out a framework and to regulate certain services and trading activities being continuing connected transactions under the Listing Rules between Sinopec Corp. and Sinopec Kantons. Pursuant to this agreement, Huade enters into a separate crude oil jetty service agreement with Sinopec Guangzhou Branch annually. These services include the supply of unloading and other jetty services, and crude oil storage and pipeline transmission services to the refining complex of Sinopec Guangzhou Branch. These continuing connected transactions and the revised caps were approved in the Sinopec Kantons' Independent Shareholders meetings on 1 April 2005 and 21 November 2005 respectively. Upon completion of the Huade Equity Acquisition Agreement, Huade will become an indirectly wholly owned subsidiary of Sinopec Kantons. No change is required to the cap or to the terms of the agreements for the continuing connected transactions for provision of Huizhou Crude Oil Jetty services.

## **B. THE KGSIM EQUITY DISPOSAL AGREEMENT DATED [10 JULY] 2006**

### **Parties**

- (1) Huade (holding 90% of its equity interest ) as vendor
- (2) Sinopec Corp. as purchaser

### **Assets to be transferred**

90% of equity interest in KGSIM. KGSIM operates and/or holds the assets and the business of 38 Petrol Stations in Guangdong Province.

### **Consideration**

The consideration for the disposal payable to Huade is RMB153 million (approximately HK\$147 million). The amount of the consideration was determined following commercial negotiations between the parties at arm's length basis and by reference to (1) unaudited financial information of KGSIM prepared in accordance with HK GAAP for the two years ended 31 December 2005 and three months ended 31 March 2006 and the net assets value of KGSIM Equity Disposal as at 31 March 2006; (2) the net assets value of KGSIM as at 31 March 2006, being RMB102 million (approximately HK\$98 million) as set out in the valuation report prepared according to PRC laws and regulations on replacement cost method issued by an independent valuation firm in the PRC appointed by GPC, which firm was designated by the PRC government to conduct valuation for state-owned assets; and (3) the strategic positions of the Petrol Stations in Guangdong

Province.

On a proforma basis as if the disposal transaction had been completed on 31 December 2005, a gain on disposal amounting to RMB16 million (equivalent to HK\$15.4 million) would be recognised by Huade at 31 December 2005. The gain on the disposal is calculated as the excess of the consideration of RMB153 million (approximately HK\$147.1 million) over the 90% unaudited carrying value of assets and liabilities of KGSIM and its subsidiaries of RMB137 million (approximately HK\$131.7 million) at 31 December, 2005. If the transaction had been completed on 31 March 2006, a gain on disposal amounting to RMB21.3 million (equivalent to HK\$20.5 million) would be recognised by Huade based on consideration of HK\$147.1 million and the 90% unaudited carrying value of assets and liabilities of KGSIM and its subsidiaries as at 31 March 2006. The above calculations are for reference only and the exact amount of gain (loss) will depend on the net assets value corresponding to 90% of equity interest of KGSIM as at the date of completion of this transaction.

The directors of Sinopec Corp. consider that, given the strategic positions of the Petrol Stations in Guangdong Province, they are of the view that the consideration is fair and reasonable and in the interest of Sinopec Corp. and its shareholders' as a whole.

In accordance with KGSIM Equity Disposal Agreement, the consideration to be payable by Sinopec Corp. shall be paid to Huade within 30 days after the conditions precedent to the agreement being satisfied. Sinopec Corp. will fund the consideration by internal resources.

The proceeds from the KGSIM Equity Disposal will be used as general working capital by Sinopec Kantons group.

### **Conditions precedent**

The KGSIM Equity Disposal Agreement is conditional upon, among others,

- (a) the Independent Shareholders of Sinopec Kantons approving the resolution to be proposed at the SGM in relation to the KGSIM Equity Disposal Agreement and the Huade Equity Acquisition Agreement;
- (b) consents required for the implementation of this agreement had been obtained by KGSIM from any third party pursuant to any agreement, contract, or essential procedures of notification were completed;
- (c) the approval granted by the State-owned Asset Supervisory and Administration authorities in the PRC for KGSIM Equity Disposal to be conducted by way of disposal through agreement; and
- (d) the completion of filing procedures on the results of valuation involved in the transaction contemplated by this agreement at the State-owned Asset Supervisory and Administration authorities with jurisdiction as required by the laws and regulations.

Condition precedent (a) may not be waived by the parties. Condition (b) may be waived by the parties upon unanimously consent. Conditions precedent (c) and (d) may be

waived by the parties upon unanimously consent and with consent from the relevant governmental regulatory authority.

### **Completion**

It is expected that the completion of the KGSIM Equity Disposal Agreement will take place within 30 days after all the conditions precedent to the KGSIM Equity Disposal Agreement are satisfied. Upon completion of this agreement, KGSIM will become a subsidiary of Sinopec Corp. and will cease to be a subsidiary of Sinopec Kantons and Huade.

### **Information on KGSIM**

KGSIM is a limited liability company established in the PRC in 2002. Its registered capital is RMB145 million (approximately HK\$139.4 million). Sinopec Kantons, through Huade, holds 90% of equity interest in KGSIM. The principal business of KGSIM is the operation of 38 petrol stations in the Guangdong Province under the brand name of “Kantons Petrol Station (冠德油站)”. The Kantons Petrol Stations source their supplies of petroleum products from Guangdong Company.

The PRC government establishes guidance prices chargeable by petrol stations to retail customers for sale of petroleum products in the PRC and permit retail petrol prices to adjust at a certain percentage above or below the guidance prices. However, in recent years, the profit margin of Petrol Stations business decreased as affected by the strict control over retail price adjustment by the PRC government. In spite of the fact that various cost reduction measures were taken by Petrol Stations, a net loss after tax was recorded for the year ended 31 December 2005.

### **Financial information prepared in accordance with HK GAAP of KGSIM**

The unaudited turnover, net profit/(loss) before and after taxation and the net assets value of KGSIM for the two years ended 31 December 2005 and for the three months ended 31 March 2006 is set out at the table below:

	31 March 2006 RMB'000 (HK\$'000)	31 December 2005 RMB'000 (HK\$'000)	31 December 2004 RMB'000 (HK\$'000)
Turnover	475,601 (approximately 457,308)	2,260,246 (approximately 2,173,313)	1,616,953 (approximately 1,554,762)
Profit/(loss) before taxation	(5,958) (approximately (5,728))	5,003 (approximately 4,810)	11,788 (approximately 11,334)
Net profit/(loss) after taxation and minority interests	(6,021) (approximately (5,789))	(1,794) (approximately (1,725))	4,991 (approximately 4,799)

Net assets value	167,103 (approximately 160,675)	173,156 (approximately 166,496)	174,022 (approximately 167,328)
Net assets (excluding minority interests)	146,207 (approximately 140,584)	152,227 (approximately 146,372)	156,224 (approximately 150,215)

The unaudited net profit/(loss) before and after taxation and the net assets value corresponding to 90% of the equity interest in KGSIM amounted to RMB10,609,000 (approximately HK\$10,201,000), RMB4,492,000 (approximately HK\$4,319,000) and RMB140,602,000 (approximately HK\$135,194,000) respectively for the year ended 31 December 2004; and RMB4,503,000 (approximately HK\$4,330,000), RMB(1,615,000) (approximately HK\$(1,553,000)) and RMB137,004,000 (approximately HK\$131,735,000) respectively for the year ended 31 December 2005; and RMB(5,362,000) (approximately HK\$(5,156,000)), RMB(5,419,000) (approximately HK\$(5,211,000)) and RMB131,586,000 (approximately HK\$126,525,000) respectively for the three months ended 31 March 2006.

### **Continuing connected transactions in relation to Kantons Petrol Stations**

It was announced in an announcement of Sinopec Kantons dated 22 February 2005 that on 18 February 2005, Sinopec Corp. and Sinopec Kantons entered into the Sinopec Corp. Framework Master Agreement to set out a framework and to regulate certain services and trading activities being continuing connected transactions under the Listing Rules between Sinopec Corp. and Sinopec Kantons. This includes the supply of petroleum products to the Petrol Stations by Guangdong Company.

Upon completion of the KGSIM Equity Disposal Agreement, Sinopec Kantons shall cease to engage in the operation of Petrol Stations. As such, Guangdong Company shall cease to supply petroleum products to Sinopec Kantons and this ongoing connected transaction will be terminated.

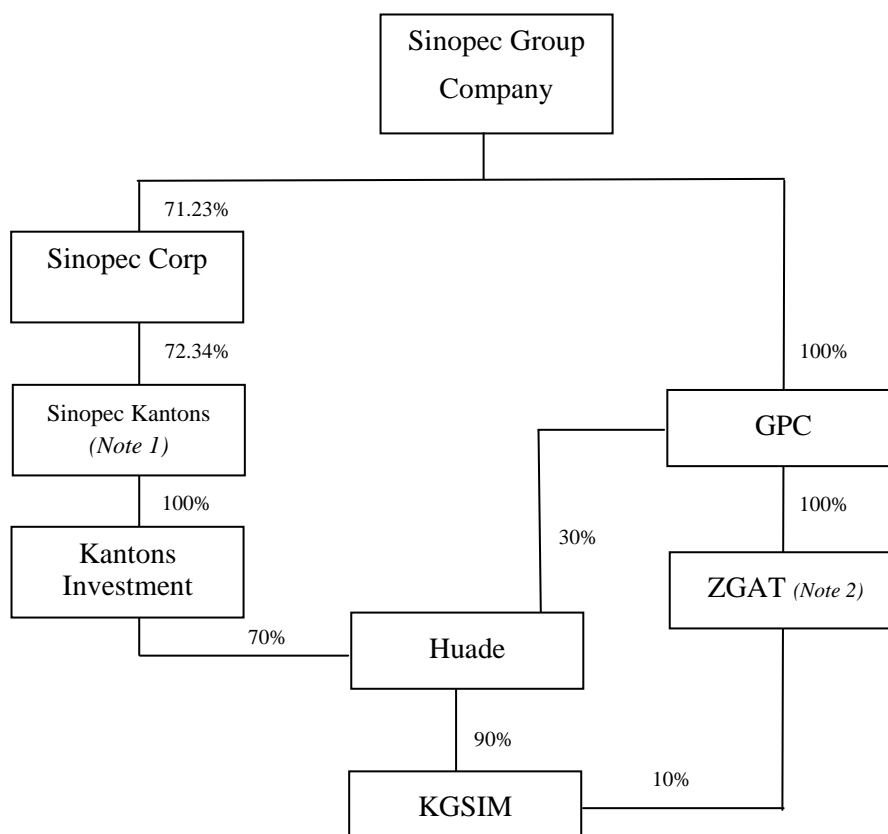
### **C. ZGAT AGREEMENT**

ZGAT has on [10] July 2006 entered into an agreement with Sinopec Corp. pursuant to which ZGAT shall transfer its 10% of equity interest in KGSIM to Sinopec Corp. at a cash consideration of RMB17 million (approximately HK\$16.3 million), arrived at on the same basis as the KGSIM Equity Disposal and on terms similar to the KGSIM Equity Disposal Agreement, save this agreement is not conditional upon the approval of the Huade Capital Acquisition Agreement and the KGSIM Capital Disposal Agreement by the Independent Shareholders in the SGM. It is expected that the completion of the ZGAT Agreement will take place within 30 days after all the conditions precedent to ZGAT Agreement are satisfied.

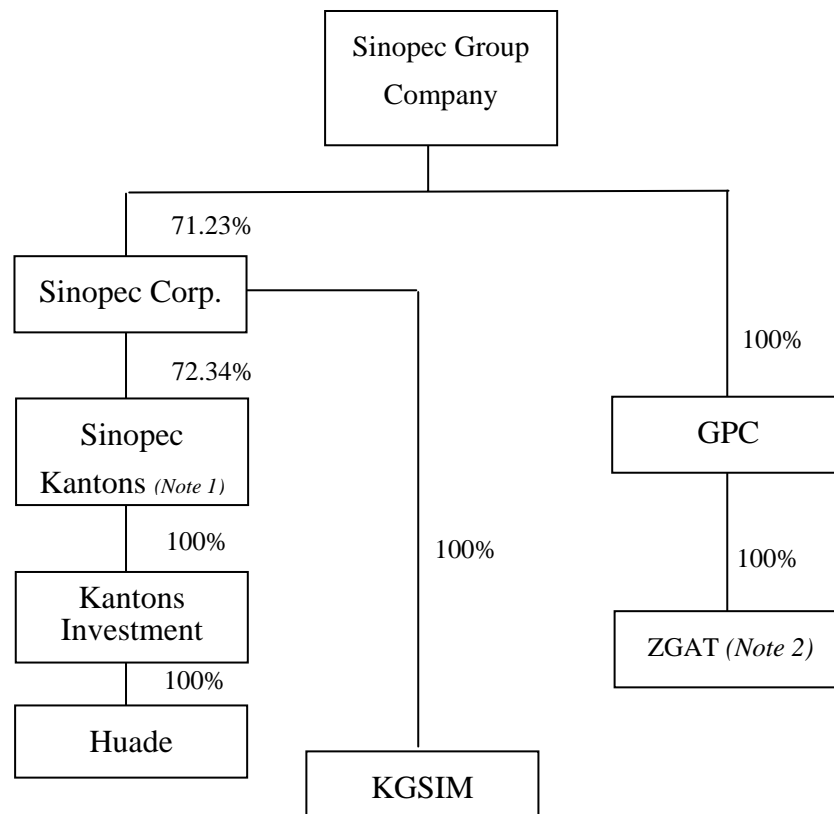
#### D. SIMPLIFIED DIAGRAM OF SHAREHOLDING STRUCTURE

Upon completion of the Transactions, the corporate and shareholding structure of Sinopec Kantons will be as illustrated by the diagram below, which will be simplified from that before and is beneficial to both Sinopec Corp. and Sinopec Kantons:

##### Before the Transactions



## Upon completion of the Transactions



*Note:*

- (1) *Sinopec Corp. holds the controlling interests in Sinopec Kantons through its wholly owned subsidiaries, CPIC and SKI.*
- (2) *GPC holds 90% of equity interest in ZGAT, and CPIGC, a wholly-owned subsidiary of GPC, holds the remaining 10% of equity interest in ZGAT.*

### **E. REASONS AND BENEFITS FOR THE ACQUISITION AND THE DISPOSAL**

As at the date of this announcement and completion of the Transactions, Sinopec Corp. has no plan to privatize Sinopec Kantons. Furthermore, Sinopec Corp. supports and encourages Sinopec Kantons to focus on its existing profitable business, its long term development and to further improve its profitability. However, save for the Huade Equity Acquisition and the KGSIM Equity Disposal, no specific project for merger or acquisition has been identified by Sinopec Kantons as at the date of this announcement.

The Huade Equity Acquisition and the KGSIM Equity Disposal are beneficial to both Sinopec Corp. and Sinopec Kantons for reasons set out as follows.

#### **Benefits of the Transactions to Sinopec Kantons**

1. Huade Equity Acquisition is beneficial to Sinopec Kantons. Huizhou Crude Oil Jetty as operated by Huade has good profitability, and is one of the main sources of profit of Sinopec Kantons. Upon completion of Huade Equity Acquisition, Sinopec

Kantons can fully control Huade and Huade becomes a wholly owned subsidiary of Sinopec Kantons. Sinopec Kantons can streamline its management operations and can concentrate its resources on its core operations, namely the operations of crude oil jetty, and the trading of crude oil and petroleum products. The profitability of Sinopec Kantons will be further enhanced, and shall further increase shareholders' value.

2. KGSIM Equity Disposal is beneficial to Sinopec Kantons. Sinopec Kantons will improve its profitability directly on the one hand through the disposal of the petrol station business. On the other hand, it will also avoid in its future development possible competition with the petrol station business of Sinopec Corp. This furthermore terminates the ongoing connected transactions regarding supply of petroleum products by Guangdong Company to Sinopec Kantons.

#### **Benefits of the Transactions to Sinopec Corp.**

1. Huade Equity Acquisition is beneficial to Sinopec Corp. as the profitability of Sinopec Kantons is increased and Sinopec Kantons is more focused on its core businesses.
2. Both of the KGSIM Equity Disposal and ZGAT Agreement are beneficial to Sinopec Corp. as Sinopec Corp. can rationalize its petrol stations business and the sales administration mechanisms in Guangdong Province and achieve synergy from investment, management, purchasing and marketing.

## **F. DIRECTORS' VIEWS**

### **Directors of Sinopec Kantons' View**

1. The directors of Sinopec Kantons consider that the terms of the Huade Equity Acquisition, the Huade Equity Acquisition Agreement, the KGSIM Equity Disposal and KGSIM Equity Disposal Agreement are on normal commercial terms, which are fair and reasonable and in the interest of Sinopec Kantons and its shareholders as a whole.
2. An independent board committee of Sinopec Kantons, comprising the independent directors of Sinopec Kantons, being Mr. Wong Po Yan, Miss Tam Wai Chu and Mr. Fong Chung will be established to consider the terms of the Huade Equity Acquisition, the Huade Equity Acquisition Agreement, the KGSIM Equity Disposal and the KGSIM Equity Disposal Agreement. The opinion of the independent board committee will be included in the shareholders' circular.

### **Directors of Sinopec Corp.'s View**

The directors of Sinopec Corp. (including independent non-executive directors) consider that the terms of the Huade Equity Acquisition, the Huade Equity Acquisition Agreement, the KGSIM Equity Disposal, the KGSIM Equity Disposal Agreement and the ZGAT Agreement are on normal commercial terms, which are fair and reasonable and in the interest of Sinopec Corp. and its shareholders as a whole.

## **G. LISTING RULES IMPLICATIONS**

Sinopec Group Company is (a) the controlling shareholder of Sinopec Corp. (holding approximately 71.23% of its entire issued share capital); (b) holder of the entire registered capital of GPC; and (c) the ultimate controlling shareholder of Sinopec Kantons (holding approximately 72.34% of its entire issued share capital through Sinopec Corp.). Huade is a sino-foreign equity joint venture company whose 70% equity interest is indirectly held by Sinopec Kantons (through Kantons Investment) and 30% is by GPC. KGSIM is a limited liability company incorporated in the PRC, 90% of its entire registered capital is held by Huade and 10% of the entire registered capital is indirectly held (through ZGAT) by GPC.

### **Implications of Listing Rules as to Sinopec Corp.**

Pursuant to the Listing Rules, each of Sinopec Group Company, GPC and Huade is a connected person of Sinopec Corp. The Huade Equity Acquisition Agreement, the KGSIM Equity Disposal Agreement and the ZGAT Agreement constitute connected transactions for Sinopec Corp. Pursuant to Rule 14A.32 of the Listing Rules, these transactions are subject only to reporting and announcement requirements as set out thereunder.

### **Implications of Listing Rules as to Sinopec Kantons**

Pursuant to the Listing Rules, each of Sinopec Group Company, Sinopec Corp. and GPC is a connected person of Sinopec Kantons. Both the Huade Equity Acquisition Agreement and the KGSIM Equity Disposal Agreement constitute connected transactions for Sinopec Kantons. A percentage ratio of the Huade Equity Acquisition exceeds 25% but is less than 100%. Certain percentage ratios of the KGSIM Equity Disposal exceeds 5% but all the percentage ratios are less than 25%. Under Rules 14.08 and 14.24 of the Listing Rules, these transactions constitute a major and connected transaction of Sinopec Kantons and will be subject to Independent Shareholders' approval of Sinopec Kantons. Sinopec Group Company and its associates will abstain from voting at the SGM with respect to the proposed resolutions to approve these transactions. The Huade Equity Acquisition Agreement and the KGSIM Disposal Agreement are inter-conditional to each other as to approval by the Independent Shareholders in the SGM.

## **H. INFORMATION OF THE SINOPEC GROUP COMPANY, SINOPEC CORP., SINOPEC KANTONS AND GPC**

Sinopec Group Company is a state-owned enterprise established under the laws of the PRC. Sinopec Group Company, the controlling shareholder of Sinopec Corp. and the ultimate controlling shareholder of the Company, is a state-authorized investment vehicle in oil and petrochemical business that integrates the upstream and downstream assets. The business scope of the Sinopec Group Company covers: industrial investments and investment management; exploration and development, storage and transportation (including pipeline transportation), sale and integrated application of petroleum and natural gas; petroleum refining; wholesale of gasoline, kerosene and diesel; production, sales, storage and transportation of petrochemical and other chemical products; design, and construction of petroleum and petrochemical installations; maintenance and repair of petroleum and petrochemical installations, research, development, application and related consulting services of technology, IT and alternative energy products; and import and export of

self-produced products and third parties' products and technologies (other than those operated by companies designated by the state and prohibited to be imported and exported).

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

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

CPIC is a company established under the laws of the PRC, a direct wholly-owned subsidiary of Sinopec Corp. and the sole shareholder of SKI.

GPC is a state-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of Sinopec Group Company.

SKI is a limited liability company incorporated in the British Virgin Islands, and is the immediate controlling shareholder of Sinopec Kantons.

## **I. GENERAL**

A circular of Sinopec Kantons containing, among other matters, further details of the Huade Equity Acquisition, the Huade Equity Acquisition Agreement, the KGSIM Equity Disposal and the KGSIM Equity Disposal Agreement, the advice from the independent board committee of Sinopec Kantons and the independent financial adviser will be despatched to the shareholders of Sinopec Kantons as soon as practicable.

Rothschild has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders of Sinopec Kantons in respect of the Transactions.

## **J. DEFINITIONS**

<b>“associates”</b>	has the meaning ascribed to it under the Listing Rules.
<b>“CPIC”</b>	中國石化國際事業有限公司(China Petrochemical International Co. Ltd.), a company established under the laws of the PRC, which is a direct wholly-owned

	subsidiary of Sinopec Corp. and the sole shareholder of SKI.
<b>“CPIGC”</b>	中國石化國際事業廣州公司 (China Petrochemical International Guangzhou Company), a company established under the laws of the PRC, which is a wholly-owned subsidiary of GPC.
<b>“GPC”</b>	中國石化集團廣州石油化工總廠 (Sinopec Guangzhou Petrochemical Complex), an enterprise established under the laws of the PRC and a wholly owned subsidiary of Sinopec Group Company.
<b>“Guangdong Company”</b>	中國石油化工股份有限公司廣東石油分公司 (Sinopec Guangdong Oil Products Company), a branch of Sinopec Corp., which is principally engaged in the production and sales of petroleum products and chemical products.
<b>“Guangdong Province”</b>	the areas in Guangdong Province, the PRC .
<b>“HK\$”</b>	Hong Kong Dollars, the currency of Hong Kong;
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the PRC.
<b>“Huade”</b>	惠州市大亞灣華德石化有限公司 (Hua De Petrochemical Co. Ltd.), a sino-foreign equity joint venture company established under the laws of the PRC with limited liability in respect of which 70% of registered capital is held by Sinopec Kantons through Kantons Investment, a wholly owned subsidiary of Sinopec Kantons and 30% of registered capital is held by GPC.
<b>“Huade Equity Acquisition”</b>	the acquisition of 30% of the equity interest of Huade by Kantons Investment pursuant to the Huade Equity Acquisition Agreement.
<b>“Huade Equity Acquisition Agreement”</b>	the conditional transfer agreement dated [10 July] 2006 entered into between GPC as vendor and Kantons Investment as purchaser in connection with the transfer of 30% of equity interests in Huade.
<b>“Huizhou Crude Oil Jetty”</b>	the Huizhou crude oil jetty complex operated by Huade, including its oil tanker handling, crude oil unloading, storage and pipeline transmission facilities, which is located on Mabianzhou Island (馬鞭洲島) in the Daya Bay Economic and Technological Development Zone (大亞灣經濟技術開發區) in Huizhou (惠州),

	Guangdong Province, the PRC and which is owned and operated by Huade.
<b>“Independent Board Committee”</b>	an independent board committee of Sinopec Kantons, comprising the independent directors of Sinopec Kantons, being Mr. Wong Po Yan, Miss Tam Wai Chu and Mr. Fong Chung.
<b>“Independent Shareholders”</b>	holders of shares in Sinopec Kantons other than Sinopec Group Company and its associates (as defined under the Listing Rules).
<b>“Kantons Investment”</b>	Kantons International Investment Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of Sinopec Kantons.
<b>“KGSIM”</b>	廣州保稅區冠德油站投資管理有限公司 (Kantons Gas Station Investment & Management Co. Ltd., Guangzhou Bonded Division), a limited liability company incorporated under the laws of the PRC whose equity interest owned as to 90% by Sinopec Kantons through Huade and 10% by GPC through ZGAT.
<b>“KGSIM Equity Disposal”</b>	the disposal by Huade 90% of equity interest in KGSIM pursuant to the KGSIM Equity Disposal Agreement.
<b>“KGSIM Disposal Capital Agreement”</b>	the conditional transfer agreement dated [10 July] 2006 entered into between Huade as vendor and Sinopec Corp. as purchaser in connection with the transfer of 90% of the registered capital of KGSIM.
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
<b>“Petrol Stations”</b>	collectively 38 petrol stations as at the date of this announcement operated by KGSIM; each a <b>“Petrol Station”</b> .
<b>“PRC”</b>	the People’s Republic of China, but for the purposes of this announcement and for geographical reference only (unless otherwise indicated) excludes Taiwan region, Macau Special Administrative Region and Hong Kong.
<b>“RMB”</b>	Renminbi, the currency of the PRC;
<b>“Rothschild”</b>	N M Rothschild & Sons (Hong Kong) Limited, a corporation licensed with the Securities and Futures Commission of Hong Kong to carry on Type 1 (dealing in securities), Type 4 (advising on securities)

and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance of Hong Kong.

<b>“SGM”</b>	special general meeting of Sinopec Kantons to be held for the approval of Huade Equity Acquisition, KGSIM Equity Disposal, Huade Equity Acquisition Agreement and KGSIM Equity Disposal Agreement.
<b>“Sinopec Corp.”</b>	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, Shanghai, New York and London (Stock Code: 386).
<b>“Sinopec Corp. Framework Master Agreement”</b>	the agreement dated 18 February 2005 entered into between Sinopec Kantons and Sinopec Corp. regarding certain continuing connected transactions as referred to in this announcement.
<b>“Sinopec Guangzhou Branch”</b>	中國石油化工股份有限公司廣州分公司 (China Petroleum & Chemical Corporation, Guangzhou Branch), a branch of Sinopec Corp. whose business is principally engaged in oil refining and is a major client of Huade
<b>“Sinopec Group Company”</b>	中國石油化工集團公司 (China Petrochemical Corporation), a state-owned enterprise established under the laws of the PRC.
<b>“Sinopec Kantons”</b>	Sinopec Kantons Holdings Limited (and for identification only 中石化冠德控股有限公司), an exempted company incorporated in Bermuda with limited liability (Stock Code: 934).
<b>“SKI”</b>	Sinopec Kantons International Limited (and for identification only 中石化冠德國際有限公司), a limited liability company incorporated in the British Virgin Islands and is the immediate controlling shareholder of Sinopec Kantons.
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited.
<b>“Transactions”</b>	collectively the Huade Equity Acquisition and the KGSIM Equity Disposal.
<b>“US\$”</b>	US Dollars, the currency of United States;
<b>“ZGAT”</b>	Guangzhou Zhong Guan An Tai Petrochemical Company Limited (廣州中冠安泰石油化工有限公司)

司), a limited liability company incorporated in PRC, and GPC indirectly holds 100% of its registered capital.

**“ZGAT Agreement”**

the transfer agreement dated [10 July] 2006 entered into between ZGAT as vendor and Sinopec Corp. as purchaser in connection with the transfer of 10% of the registered capital of KGSIM.

In this announcement, amounts in Renminbi have been converted into Hong Kong dollars at the rate of HK\$1 = RMB1.04, and amounts in US dollars have been converted into Hong Kong dollars at the rate of US\$1 = HK\$7.80.

By the order of the board of directors of  
China Petroleum & Chemical Corporation  
Chen Ge  
*Secretary to the Board of Directors*

By the order of the board of directors of  
Sinopec Kantons Holdings Limited  
Jiang Zhen Ying  
*Chairman*

Beijing, PRC, 11<sup>th</sup> July 2006

*The directors of China Petroleum & Chemical Corporation jointly and severally accept full responsibility for the accuracy of the information contained in this announcement in relation to China Petroleum & Chemical Corporation and confirm, having made all reasonable enquiries, that to the best of their knowledge, there are no other facts, the omission of which will make any statements in this announcement misleading.*

*The directors of Sinopec Kantons Holdings Limited jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, there are no other facts, the omission of which will make any statements in this announcement misleading.*

*As at the date of this announcement, the executive directors of Sinopec Corp. are Messrs. Wang Tianpu, Zhang Jianhua, Wang Zhigang, Dai Houliang; the non-executive directors are Messrs. Chen Tonghai, Zhouyuan, Fan Yifei and Yao Zhongmin; the independent non-executive directors are Messrs. Shi Wanpeng, Liu Zhongli and Li Deshui.*

*As at the date of this announcement, the executive directors of Sinopec Kantons are Messrs. Jiang Zhen Ying, Pan Xin Rong, Yang Dong, Zhu Jian Min, Zhou Feng, Ye Zhi Jun and Han Kun; the non-executive director of Sinopec Kantons is Mr. Yang Mo Fei; the independent non-executive directors of Sinopec Kantons are Mr. Wong Po Yan, Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark.*

*\* For identification only*