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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold or transferred** all your shares in Sinopec Kantons Holdings Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities 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)**

**MAJOR TRANSACTION  
DISPOSAL OF A WHOLLY-OWNED SUBSIDIARY**

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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board regarding the Disposal and a letter from the Board regarding the Business Valuation Report are set out on pages 5 to 16 and on page 76 of this circular respectively.

The Share Purchase Agreement and the transactions contemplated thereunder have been approved by way of written shareholders' approval pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This circular is being despatched to the Shareholders for information only.

7 August 2020

\* *For identification purpose only*

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## DEFINITIONS

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*This document has both English and Chinese versions. Except for “Appendix II – Business Valuation Report of the Target Company”, should there be any inconsistency between the Chinese and English versions, the English version shall prevail.*

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

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	day(s) other than a Saturday, Sunday or public holiday in the PRC
“Business Valuation Report”	the business valuation report in respect of entire equity of the Target Company (excluding the Disposed Assets) issued by the Independent Professional Valuer on 20 July 2020
“Company”	Sinopec Kantons Holdings Limited (中石化冠德控股有限公司), an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 934)
“Completion”	Completion of the Disposal as contemplated under the Share Purchase Agreement
“Completion Date”	the date of Completion
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Consideration”	RMB3,220,388,400, being the aggregate consideration for the sale and purchase of the Sale Shares, excluding the adjustment set out in the paragraph headed “Adjustment Mechanism” on page 9 of this circular
“Director(s)”	the director(s) of the Company
“Disposal”	the sale of the Sale Shares by Sinomart Development pursuant to the terms of the Share Purchase Agreement and the transactions contemplated thereunder

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## DEFINITIONS

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“Disposed Assets”	Qingfeng Line, the Office Building Properties and auxiliary facilities of Henan Management Office held by the Target Company, for details of these assets, please refer to the Company’s announcement in relation to connected transaction dated 21 July 2020
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Professional Valuer” or “China United Assets Appraisal Group”	中聯資產評估集團有限公司 (China United Assets Appraisal Group Company Limited*), an independent professional valuer appointed by Sinomart Development
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Interim Period”	the period from the Valuation Date (exclusive) to the Completion Date (inclusive)
“Latest Practicable Date”	4 August 2020 being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser” or “PipeChina”	國家石油天然氣管網集團有限公司 (China Oil & Gas Pipeline Network Corporation*), to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, being an Independent Third Party as at the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	100% equity interest in the Target Company to be purchased conditionally by the Purchaser from Sinomart Development in accordance with the Share Purchase Agreement

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## DEFINITIONS

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“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of issued Share(s)
“Share Purchase Agreement”	the share purchase agreement dated 21 July 2020 entered into between Sinomart Development and the Purchaser in relation to the Disposal
“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 is a wholly-owned subsidiary of the Company
“Sinopec Corp.”	China Petroleum & Chemical Corporation (中國石油化工有限公司) (stock code: 386), a joint stock limited liability company incorporated in the PRC, the shares of which are listed on the stock exchanges of Hong Kong, Shanghai, New York and London, is an indirect controlling shareholder of the Company holding approximately 60.33% of the issued share capital of the Company
“Sinopec Group”	Sinopec Group Company, its subsidiaries and its associated companies and affiliates, including the Group
“Sinopec Group Company”	China Petrochemical Corporation (中國石油化工有限公司, formerly known as 中國石油化工總公司), an enterprise established under the laws of the PRC, being the controlling shareholder of Sinopec Corp. (by virtue of its holding of approximately 68.31% in the issued share capital in Sinopec Corp.), and the ultimate controlling shareholder of the Company
“SKI”	Sinopec Kantons International Limited, a company incorporated with limited liability in the British Virgin Islands, being the controlling Shareholder of the Company and a wholly-owned subsidiary of Sinopec Corp.
“State Council”	the State Council of the PRC (中國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“subsidiary”	has the meaning ascribed to it under the Listing Rules
“Target Company”	中石化榆濟管道有限責任公司 (Sinopec Yu Ji Pipeline Company Limited*) but excluding the Disposed Assets. Such company is a limited liability company incorporated in the PRC and is a wholly-owned subsidiary by Sinomart Development, with Sinopec Group Company being its ultimate holding company, as at the date of this circular
“Valuation Date”	31 December 2019, being the benchmark date for the valuation of the Target Company (without the Disposed Assets) conducted by the Independent Professional Valuer
“Yulin-Jinan Pipeline”	Natural gas transmission pipelines and the ancillary facilities from Yulin, Shaanxi Province to Jinan, Shandong Province, which pass through Shaanxi Province, Shanxi Province, Henan Province and Shandong Province, the PRC
“%”	per cent.

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

\*\* *Translation of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.09 for information purposes only. Such translation should not be constructed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.*

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Chen Yaohuan (Chairman)

Mr. Zhong Fuliang

Mr. Mo Zhenglin

Mr. Yang Yanfei

Mr. Zou Wenzhi

Mr. Wang Guotao

Mr. Ye Zhijun (Managing Director)

*Independent non-executive Directors:*

Ms. Tam Wai Chu, Maria

Mr. Fong Chung, Mark

Dr. Wong Yau Kar, David

Ms. Wong Pui Sze, Priscilla

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Principal place of business  
in Hong Kong:*

34/F, Citicorp Centre

18 Whitfield Road

Causeway Bay

Hong Kong

*To the Shareholders*

7 August 2020

Dear Sir or Madam,

**MAJOR TRANSACTION  
DISPOSAL OF A WHOLLY-OWNED SUBSIDIARY**

**INTRODUCTION**

Reference is made to the announcement dated 21 July 2020 published by the Company on the Disposal.

On 21 July 2020 (after trading hours), Sinomart Development, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Share Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and Sinomart Development has conditionally agreed to sell the Sale Shares, representing 100% equity interest in the Target Company at the Consideration of RMB3,220,388,400 (subject to any adjustment in accordance with adjustment mechanism).

\* For identification purpose only

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## LETTER FROM THE BOARD

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As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the Disposal exceed 25% but are less than 75%, the Disposal contemplated under the Share Purchase Agreement constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with, among other things: (i) further information regarding the Disposal; and (ii) other information as required by the Listing Rules.

### **THE SHARE PURCHASE AGREEMENT**

Date: 21 July 2020 (after trading hours)

Parties: The Purchaser; and  
Sinomart Development

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Purchaser and its ultimate beneficial owner is an Independent Third Party as at the Latest Practicable Date.

### **Assets to be disposed of**

Pursuant to the Share Purchase Agreement, Sinomart Development has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Shares.

The Sale Shares represent the entire issued share capital of the Target Company and are beneficially owned by the Company.

### **Basis of Consideration and Adjustment Mechanism**

The Consideration of the Disposal is RMB3,220,388,400 (equivalent to approximately HK\$3,510,223,400), subject to adjustment, if any, as set out in the paragraph headed "Adjustment Mechanism" below. The Consideration was arrived after arm's length negotiation between Sinomart Development and the Purchaser, and was determined with reference to the appraised value of the Target Company (without the Disposed Assets) based on discounted future estimated cash flows approach as at the Valuation Date (details of which are set out in "Appendix II – Business Valuation Report of the Target Company" to this circular).

As disclosed in the Company's announcement dated 10 December 2019, the Company was in the course of negotiations with PipeChina in connection with the Disposal at the end of 2019. The Valuation Date had then been set as 31 December 2019 in contemplation of the Disposal.



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## LETTER FROM THE BOARD

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Due to the outbreak of novel coronavirus, the original timeframe of the Disposal has been delayed. Although the Valuation Date is not updated for the purpose of the Disposal, the Board is of the view that the determination of the Consideration with reference to the appraised value of the Target Company as at the Valuation Date is fair and reasonable on the following grounds:

- (i) income method was adopted as the basis for valuation. Such method refers to assessing the value of assets by estimating the expected income that the valuated company can obtain in the future and converting it into the present value at the expected rate of return. During the Interim Period and even with the outbreak of novel coronavirus, the operation of the Target Company has remained relatively stable, due to the utilities nature of the Target Company's business. It is of the Board's view that the Target Company's business and thus its value should be relatively stable notwithstanding short term ups and downs of the market conditions. Accordingly, the appraised value of the Target Company as at the Valuation Date is considered to be a relevant reference; and
- (ii) adjustment mechanism (details of which are set out in the paragraph "Adjustment Mechanism" below) was in place in the Share Purchase Agreement to reflect any possible change in the profit and loss position of the Target Company during the Interim Period, which shall be enjoyed and borne by the Sinomart Development. Such profit and loss position of the Target Company does not only include the profit/loss earned by the Target Company, but also the appreciation/ depreciation amount of the assets of the Target Company during the Interim Period and is determined by Sinomart Development and PipeChina based on the audited financial statements, the audits of which shall be conducted by independent accounting firm(s) jointly appointed by both parties. It is considered by the Board that such mechanism can sufficiently protect the interest of the Company in respect of any change in the financial position of the Target Company before Completion.

### **Assumptions used in the Business Valuation Report**

Both the asset-based method and the income method have been adopted for the valuation which is related to the natural gas pipeline transmission business carried out by the Target Company. As the Target Company's natural gas pipeline transmission business occupies a leading position in the pipeline transmission industry in Shandong Province, and the Target Company has continuing operations in the past which shows stable profitability, it is expected that it would be able to sustain profitability in the future. Both historical data and the Target Company's current status can be used as reference to quantify its future risks and benefits, the Independent Professional Valuer believes it is appropriate and objective to adopt income method for the final valuation results.

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## LETTER FROM THE BOARD

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The Business Valuation Report is prepared based on to the following principal assumptions:

**(I) General Assumptions**

*1. Assumption of Trading*

It is assumed that all the assets to be valued are being transacted. The Independent Professional Valuer values the assets price by simulating a market transaction with reference to, among others, trading conditions of assets to be valued. It is one of the most basic premises and assumptions for a feasible assets valuation.

*2. Assumption of Open Market*

It is assumed that the transaction of assets of both parties traded or to be traded in the market rank pari passu and both parties have been provided with sufficient opportunities and time to acquire market information for the purpose of making rational judgment on the function, use and transaction price of the assets.

The assumption of open market is on the basis that the assets can be traded in the open market.

*3. Assumption of Going Concern*

It is assumed that the valuation method, parameter and basis used in the valuation are determined on the basis that the assets under valuation will be utilised continuously for current purposes and under the prevailing style, scope, frequency and environment, or will be used under changing conditions.

**(II) Special Assumptions**

1. There is no material change to the PRC's prevailing macro-economic situation, financial and industrial policies, and others;
2. There is no material change to other applicable taxation policies and tax rates and other social and economic conditions in which the Target Company is operating;
3. The future management team of the Target Company duly performs its duties and maintains the existing operation style on a going concern;
4. Each asset under valuation is based on the actual stock on the Valuation Date, and the current market price of relevant assets is based on the effective price in the PRC on the Valuation Date;
5. This valuation assumes that the basic information and financial information are true, accurate and complete;

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## LETTER FROM THE BOARD

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6. The scope of valuation is only based on the valuation declaration list provided by the Target Company, without considering any contingent assets and contingent liabilities that may subsist beyond such list;
7. In view of the frequent changes or material changes in the enterprise's monetary funds or its bank deposits, and others during its operation, the financial cost valuation of this report does not take into account the interest income generated by deposits of the enterprise and any uncertain gains and losses including foreign exchange gains and losses, etc. If there are changes of the aforementioned conditions, the valuation results would generally cease to be effective; and
8. It is assumed that the estimated cash inflow of the Target Company after the Valuation Date is the average inflow, and the cash outflow is the average outflow.

### **Adjustment Mechanism**

The adjustment mechanism represents the change in profit and loss position of the Target Company during the Interim Period. Pursuant to the Share Purchase Agreement, the profit and loss of the Target Company during the Interim Period shall be enjoyed and borne by Sinomart Development. The actual amount to be paid represents the profit and loss during the Interim Period and is determined by Sinomart Development and the Purchaser based on the audited financial statements, the audits of which shall be conducted by independent accounting firm(s) jointly appointed by both parties. The amount of the above adjustment is expected to be not greater than RMB150,000,000.

In addition, to facilitate the cross-border fund payment, the net proceeds from the disposal of the Disposed Assets will be transferred from the Purchaser to Sinomart Development together with the profit and loss, if any, of the Target Company during the Interim Period in cash.

### **Payment Mechanism of the Consideration**

The Purchaser shall pay 90% of the Consideration to Sinomart Development prior to 23 October 2020 (inclusive), and pay the amount of interest calculated at the demand deposit interest rate offered by banks for the same period from 1 October 2020 to the day of payment. The Purchaser shall pay the remaining 10% of the Consideration within 15 Business Days after completion of the audits and issuance of the audit report by the independent accounting firm(s) appointed by both parties, and pay the amount of interest calculated at the demand deposit interest rate offered by banks for the same period from 1 October 2020 to the day of payment. If the Purchaser fails to complete the payment within the above-mentioned period due to the approval of the government departments, the payment period shall be extended accordingly, but the extension period shall not exceed 5 Business Days.

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## LETTER FROM THE BOARD

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### **Conditions Precedent**

Completion is conditional upon the satisfaction of the following conditions as set out in the Share Purchase Agreement:

- (1) the representations, covenants and warranties provided by both parties to the Share Purchase Agreement contained in the Share Purchase Agreement remaining true, accurate and complete and without misleading, false statements and omissions in all material aspects;
- (2) Sinomart Development and the Company having complied with its respective internal corporate documents to approve and the regulatory authorities having approved the Share Purchase Agreement and the transactions contemplated thereunder;
- (3) the Purchaser having complied with its internal corporate documents for the approval of the Share Purchase Agreement and the transactions contemplated thereunder;
- (4) declaration of concentration of business operators having been approved by the relevant PRC government authorities for the Share Purchase Agreement and the transactions contemplated thereunder;
- (5) the Business Valuation Report of the Target Company having been approved or filed in accordance with national laws and regulations; and
- (6) the Share Purchase Agreement and the transactions contemplated thereunder having been reviewed, permitted, filed and registered by all other applicable PRC government authorities.

The parties to the Share Purchase Agreement may waive in writing condition (1) above but cannot waive any of the conditions (2) to (6) above which are related to internal corporate procedures, government or regulatory approval.

### **Completion and Handover Preparation Period**

Pursuant to the Share Purchase Agreement, Sinomart Development and the Purchaser shall perform their respective obligations to facilitate the transfer of the Target Company from Sinomart Development to the Purchaser prior to Completion and handover of the Target Company which are summarised below:

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## LETTER FROM THE BOARD

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- (1) each of Sinomart Development and the Purchaser undertakes to cooperate and obtain all relevant licences, permissions, waivers, orders, exemptions, notification, authorisations, consents, confirmations and approvals from all relevant third parties and/or bodies necessary for the consummation and implementation of the transactions contemplated by the Share Purchase Agreement;
- (2) Sinomart Development undertakes to provide the Purchaser with all necessary information and assistance for the handover of the Target Company and its assets;
- (3) Sinomart Development undertakes to ensure with reasonable efforts that the Target Company would maintain its usual operations of business and that no material adverse changes would occur to the business of the Target Company; and
- (4) Sinomart Development undertakes not to make decision to take actions which may have material adverse changes to the normal business activities of the Target Company.

### **Breaching Responsibilities**

Any party who violates any clause of the Share Purchase Agreement constitutes a breach of contract, and the breaching party shall compensate the innocent party for direct losses.

If the Purchaser fails to pay the Consideration in accordance with the Share Purchase Agreement, for each day overdue, the Purchaser shall pay a penalty to Sinomart Development according to the standard of 0.05% of overdue consideration per day.

If Sinomart Development refuses to complete the changes in industrial and commercial procedures of the Target Company within the agreed period in accordance with the Share Purchase Agreement, for each day overdue, Sinomart Development shall pay the Purchaser a penalty charge according to the standard of 0.05% of the Consideration per day. The liability for breach of contract assumed by Sinomart Development shall not exceed one percent of the Target Company's appraised value except for the case that the delayed delivery of the Target Company is not due to the fault conducted by Sinomart Development.

### **Completion**

Completion is expected to take place on 30 September 2020, subject to the fulfilment or waiver of the conditions precedent to the Share Purchase Agreement by the parties to the Share Purchase Agreement. The ownership and risk of the Target Company shall be transferred from Sinomart Development to the Purchaser since the Completion Date.

Upon Completion, the Company will cease to hold any interests in the Target Company and the Target Company will cease to be a subsidiary of the Company. Accordingly, the financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Group.

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## LETTER FROM THE BOARD

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### INFORMATION OF THE COMPANY AND SINOMART DEVELOPMENT

The Company, a non wholly-owned subsidiary of Sinopec Corp., was incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. The principal businesses of the Group include, among other things, the provision of natural gas pipeline transmission services, the operation of crude oil and oil products terminals and their ancillary facilities and the provision of global logistics services including storage, logistics, transportation and terminal services.

Sinomart Development, a wholly-owned subsidiary of the Company, was incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, the Target Company is wholly-owned by Sinomart Development.

### INFORMATION OF THE TARGET COMPANY

As at the Latest Practicable Date, the Target Company is a limited liability company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company. The Target Company is mainly engaged in the natural gas pipeline transmission business through its only core asset, Yulin-Jinan Pipeline. The pipeline starts in Yulin, Shaanxi Province, and ends at Jinan, Shandong Province, which passes through four provinces including Shaanxi Province, Shanxi Province, Henan Province and Shandong Province. The initial designed gas transmission capacity of the Yulin-Jinan Pipeline was 3 billion m<sup>3</sup> per year. In order to further improve its profitability, the Target Company implemented the compression and capacity expansion of the Yulin-Jinan pipeline. The Yulin Start Station and the Pingyao Station had successively built additional compression equipment, thereby increasing the Yulin-Jinan pipeline transmission capacity to 4 billion m<sup>3</sup> per year. New compression equipment (second compression project) will further be built at Anyang Station in the future and the transmission capacity of Yulin-Jinan pipeline is expected to be further increased to 5 billion m<sup>3</sup> per year.

Set out below is a summary of the financial information of the Target Company (without the Disposed Assets) for the two financial years ended 31 December 2018 and 2019:

	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2019</b>
	<i>RMB million</i>	<i>RMB million</i>
	<i>Audited</i>	<i>Audited</i>
	<i>(approximately)</i>	<i>(approximately)</i>
Revenue	828.4	737.8
Profit before taxation	314.8	230.6
Profit after taxation	236.2	172.9

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## LETTER FROM THE BOARD

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As at 31 December 2019, the total asset value and the net asset value of the Target Company (without the Disposed Assets) were approximately RMB4,043 million and approximately RMB2,254 million respectively, while the appraised value and the increased amount were RMB3,220 million and RMB966 million respectively with an appreciation rate of 42.84%.

### INFORMATION OF THE PURCHASER

The Purchaser (PipeChina) was established on 6 December 2019 as a limited liability company funded by the State Council. PipeChina is mainly engaged in pipeline transmission, storage service, equipment imports, technology imports and exports, science and technology research, informatization research and application, and technology consultant, service, transfer and promotion. (With the items subject to approval in accordance with the law, any business activity shall be carried out in accordance with the scope as approved by relevant authorities.)

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Purchaser and its ultimate beneficial owner is an Independent Third Party as at the Latest Practicable Date.

### REASONS FOR THE DISPOSAL

Maximization of Shareholders' interests and continuous improvement of the return on assets of various business segments have always been one of the goals that the Company strives to pursue. As such, the Board evaluates the performance of each business segment from time to time and implements corresponding measures in a timely manner. After a thorough and careful evaluation, the Board decided to sell the Group's natural gas pipeline business in due course for the reasons listed below.

As at the Latest Practicable Date, the Group is engaged in natural gas pipeline transmission business through Yulin-Jinan Pipeline owned by the Target Company. Yulin-Jinan Pipeline mainly provides natural gas transmission services for Daniudi Gas Field of Sinopec Corp.. In recent years, the production capacity of the gas field can only be maintained at about 3 billion m<sup>3</sup> per year which can provide limited contribution to the profit increment of the Company. For the three consecutive years ended 31 December 2019, revenues of the Group's natural gas pipeline transmission business segment were approximately HK\$1,137 million, HK\$1,000 million and HK\$852 million, respectively, and segment results were approximately HK\$475 million, HK\$380 million and HK\$266 million, respectively. As at the Latest Practicable Date, the billing of inter-provincial long-distance natural gas pipeline services in the PRC has been regulated by the PRC Government, and since 1 September 2017, the National Development and Reform Commission has promulgated and implemented a new natural gas pipeline transmission tariff standard, in which the pipeline transmission service billing was changed from original "one province one price" billing model to a unit-based pipeline transmission distance billing model, which brought about certain negative impacts on the Target Company's profitability. According to the new billing model, under the same pipeline transmission volume and gas transmission structure, the revenue and profitability of the pipeline transmission business have been reduced. At present, the pipeline transmission capacity of the Yulin-Jinan Pipeline has

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## LETTER FROM THE BOARD

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reached 4 billion m<sup>3</sup> per year, and it is expected to further increase to 5 billion m<sup>3</sup> per year after the completion of the second compression project. Therefore, the disposal of the Yulin-Jinan Pipeline on one hand enables the Company to focus on the projects with higher returns, and on the other hand, it can also enable the Yulin-Jinan Pipeline to fully utilize its transmission capacity and realize better value.

In contrast, benefited from the economic growth and increasing energy demand in the PRC, the performance of the Company's crude oil jetty and storage business segment has continued to grow for consecutive years. For the three consecutive years ended 31 December 2019, the throughput of the Group's crude oil jetty were approximately 235 million tons, 250 million tons and 265 million tons, respectively; the segment results of the crude oil jetty and storage business segment were approximately HK\$1,010 million, HK\$1,166 million and HK\$1,241 million, respectively. In the next few years, a further increase in new oil refining plants in the PRC will further provide opportunities for the development of the Group's oil terminal and storage business in the PRC.

In summary, the Board believes that the transfer of 100% of the equity interests in the Target Company to PipeChina is a very rare opportunity. In addition to applying part of the net proceeds from the Disposal to improve the financial position and replenish the working capital of the Group, the Company will continue to seek the strong support from the parent company and apply the remaining net proceeds from the Disposal to further develop the Company's crude oil jetty and storage business at appropriate times with the aim of shaping the Company into a world-class international petrochemical storage and logistic company.

Accordingly, the Directors consider that the terms (including the Consideration) of the Share Purchase Agreement are on normal commercial terms, fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.

### **FINANCIAL EFFECT OF THE DISPOSAL TO THE GROUP**

#### **Earnings and use of proceeds**

Except applying part of the net proceeds of the Disposal to improve the financial position and enhance the working capital of the Group, the Company will continue to seek the strong support from the parent company and apply the remaining net proceeds of the Disposal to further develop the Company's crude oil jetty and storage business at appropriate times with the aim of shaping the Company into a world-class international petrochemical storage and logistic company.

For illustrative purpose, based on the Target Company's carrying amount of net assets to be disposed as at 31 December 2019 of approximately RMB2,254 million (equivalent to approximately HK\$2,457 million) and the Consideration of approximately RMB3,220 million (equivalent to approximately HK\$3,510 million), it is estimated that the Group will record a profit before taxation from the Disposal of approximately RMB966 million (equivalent to approximately HK\$1,053 million). The net impact to retained earnings of the Disposal is approximately RMB144 million (equivalent to approximately HK\$157 million), being the effect of transferring of the merger reserve of approximately RMB822 million (equivalent to



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## LETTER FROM THE BOARD

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approximately HK\$896 million), recorded by the Group in 2015 for the acquisition of 100% equity interest in Sinopec Yu Ji Pipeline Company Limited, to retained earnings, and the profit before taxation from the Disposal.

It should be noted that the actual gain or loss on the Disposal to be recorded by the Group will depend on the carrying value of net assets to be disposed of recorded on the Group's financial statements at the date in which completion of the Disposal takes place, the transaction cost including tax effect for the disposal and therefore may be different from the amount mentioned above.

### **Assets and liabilities**

Upon Completion, the Company will cease to hold any interests in the Target Company and the Target Company will cease to be a subsidiary of the Company. Accordingly, the financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Group.

In addition, since the Target Company will cease to be a subsidiary of the Company upon Completion, the transactions as contemplated under the framework agreements entered into between the Target Company and Sinopec Corp. and/or its subsidiaries will no longer constitute continuing connected transactions/connected transactions of the Company under Chapter 14A of the Listing Rules. For further details of such continuing connected transactions/connected transactions, please refer to the announcements of the Company dated 21 October 2019 and 25 March 2020 and the section headed "Connected Transactions" of the Company's 2019 Annual Report dated 25 March 2020.

### **LISTING RULES IMPLICATION**

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the Disposal exceed 25% but are less than 75%, the Disposal contemplated under the Share Purchase Agreement constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained by written Shareholders' approval without the need of convening a general meeting if (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal; and (ii) written approval has been obtained from a Shareholder who holds more than 50% of the voting rights at that general meeting of the Company to approve the Disposal. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is materially interested in the Disposal. As such, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal.

SKI, being a subsidiary of Sinopec Group Company, holds 1,500,000,000 Shares, representing approximately 60.33% of the total issued Shares having the right to attend and vote at a general meeting of the Company.

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## LETTER FROM THE BOARD

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The Company has received a written approval of the Disposal by SKI. Accordingly, pursuant to Rule 14.44 of the Listing Rules, no general meeting of the Company will be convened for the purpose of approving the Disposal.

### RECOMMENDATION

The Directors (including the independent non-executive Directors) believe that the Share Purchase Agreement have been negotiated on an arm's length basis and is on normal commercial terms which are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### ADDITIONAL INFORMATION

The attention of the Shareholders is drawn to the additional information set out in the appendices to this circular.

Shareholders and other investors should note that completion of the Disposal is subject to the fulfilment or waiver of various conditions precedent and therefore there is no assurance that the Disposal will be implemented as contemplated or at all. Shareholders and other investors are advised to exercise caution when dealing in the securities of the Company.

Yours faithfully,  
For and on behalf of  
**Sinopec Kantons Holdings Limited**  
**Chen Yaohuan**  
*Chairman*

## 1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2017, 2018 and 2019 are disclosed in the following documents which have been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.sinopec.com.hk>):

- annual report of the Company for the year ended 31 December 2017 published on 27 April 2018 available on <https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltn20180427878.pdf>, please refer to pages 56 to 146 in particular;
- annual report of the Company for the year ended 31 December 2018 published on 3 April 2019 available on <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0403/ltn20190403687.pdf>, please refer to pages 50 to 134 in particular; and
- annual report of the Company for the year ended 31 December 2019 published on 8 April 2020 available on <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0408/2020040800709.pdf>, please refer to pages 55 to 146 in particular.

## 2. INDEBTEDNESS

As at the close of business on 30 June 2020, being the latest practical date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding borrowings of approximately HK\$1,820 million comprising an unsecured loan of approximately HK\$1,631 million and an unsecured revolving loan of approximately HK\$189 million. As at 30 June 2020, the Group had lease liabilities of approximately HK\$14 million and unsecured non-trade intercompany balances of approximately HK\$480 million. The summary is listed below:

- a) Unsecured loan from Sinopec Finance Company Limited to the Group of RMB1,490 million (equivalent to approximately HK\$1,631 million) at a fixed rate of one year Loan Prime Rate as at 20 March 2020 minus 0.135%, at 3.915% and repayable by 6 April 2023.
- b) Unsecured revolving loan from Sinopec Century Bright Capital Investment Limited of approximately HK\$189 million carried at a weighted average interest rate of 1.16% per annum. The remaining balance of the credit facility was approximately HK\$3,686 million as at 30 June 2020.
- c) Lease liabilities of approximately HK\$14 million related to the lease of land and properties in the PRC and Hong Kong.
- d) Unsecured non-trade balances due to immediate holding company of approximately HK\$480 million.

As at 30 June 2020, the Group provided guarantee amounting to US\$30 million (equivalent to approximately HK\$233 million), and pledged its 50% equity interest in Fujairah Oil Terminal (“FOT”), a joint venture of the Group, for certain bank loans of FOT.

Save as aforesaid and apart from intra-group liabilities and normal payables in the ordinary course of business, at the close of business on 30 June 2020, the Group did not have any other borrowings, mortgages, charges, debentures or debt securities issued and outstanding, authorised or otherwise created but unissued, or other indebtedness, liabilities under acceptances or acceptance credits, hire purchase commitments or other material 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 June 2020.

### **3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirm that they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest audited consolidated financial statements of the Group were made up.

### **4. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account of the Group's internal resources, cash flow from operations, the facilities available and also the effect of the Disposal, the Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

### **5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Group is principally engaged in the provision of (i) crude oil jetty and storage services; (ii) vessel chartering and logistics services; and (iii) natural gas pipeline transmission services.

As disclosed in the annual report of the Group for the year ended 31 December 2019, the Group's revenue was approximately HK\$1,447,378,000, representing a year-on-year decrease of approximately 12.58% as compared with 2018 of HK\$1,655,633,000; gross profit was approximately HK\$647,725,000, representing a year-on-year decrease of approximately 20.75% as compared with 2018 of HK\$817,309,000; operating profit was approximately HK\$533,371,000, representing a year-on-year decrease of approximately 19.23% as compared with 2018 of HK\$660,371,000. The decrease in revenue, gross profit and operating profit was mainly due to the commencement of scheduled maintenance of the refinery equipment for China Petroleum & Chemical Corporation Guangzhou Branch, the largest downstream customer of Huizhou Daya Bay Huade Petrochemical Company Ltd., a wholly-owned subsidiary of the Company during the year and the decreased annual natural gas pipeline transmission volume of Sinopec Yu Ji Pipeline Company Limited, a wholly-owned subsidiary of the Company.

Despite the decrease in revenue, gross profit and operating profit, for the year ended 31 December 2019, the Group recorded a profit attributable to owners of the Company of approximately HK\$1,285,111,000, representing increase of approximately 1.83% as compared with 2018 of HK\$1,262,071,000. Such increase in profit for the year was mainly driven by the continued growth in profits of the crude oil jetty and storage business segment and investment return of the Company's crude oil terminal associate and joint ventures.

Looking ahead, there are a number of uncertainties that the global economy is facing, such as the outbreak of novel coronavirus and the escalation of Sino-US trade frictions. In particular, the outbreak of novel coronavirus remaining uncertain has brought a persisting and material adverse impact to the global economy. It is expected that the pandemic may still be fluctuating in China until the global pandemic is effectively contained. However, it is believed that the government will adopt specific preventive measures in a timely manner so that the overall stable development momentum of China's economy can be maintained. As far as the Group's businesses are concerned, after the disposal of the entire equity of the Target Company, the Group still retains the two business segments of crude oil jetty and storage services as well as vessel chartering and logistics services. At present, the throughput of domestic crude oil terminal companies has basically recovered to the level before the pandemic; the overseas storage business is on a more positive trend due to the expected changes in the oil products market while the LNG vessel chartering business has remained stable. The Group will closely monitor the possible impact from market and pandemic on the business operations of the Group, and adopt effective contingency plans in a timely manner to strive for the smooth operation of various businesses.

**Disclaimer**

- I. This asset valuation report is prepared in accordance with the Basic Standard for Assets Valuation issued by the Ministry of Finance and the Standard for Practice of Assets Valuation and the Standard for Work Ethic of Assets Valuation issued by the China Appraisal Society.
- II. The client or other users of the asset valuation report shall use the asset valuation report in accordance with the laws, administrative regulations and the scope of use specified in this asset valuation report. If the client or other users of the asset valuation report use the asset valuation report in violation of the aforementioned provisions, the asset valuation institution and asset appraiser shall not bear any responsibilities.

This asset valuation report shall be used solely by the client, users of other asset valuation reports agreed upon in the asset valuation contract, and users of asset valuation report specified in laws and administrative regulations. In addition, no other institution or individual can be the user of the asset valuation report.

The asset valuation institution and asset appraiser remind the asset valuation report users to correctly understand and use the valuation conclusion, which is not equivalent to the realizable price of the valuation target, and the valuation conclusion should not be considered as a guarantee for the realizable price of the valuation target.

- III. The authenticity, legality and completeness of the information provided by the client and other relevant parties are the prerequisites for the entry into force of the valuation conclusion. The assets and liabilities list included in the scope of valuation, as well as the predictive financial information and proof of ownership required for the valuation, have been declared by the client and the valuated unit and confirmed by stamping or other methods.
- IV. The asset valuation institution and the asset appraiser have no existing or expected interest relationship with the valuated unit in the asset valuation report. There is no existing or expected interest relationship with the relevant parties, and there is no prejudice against the relevant parties.
- V. The asset appraiser has conducted on-site investigations on the valuation target and its assets involved in the asset valuation report. Necessary attention has been paid to the legal ownership of the valuation target and its assets involved, and the legal ownership of the valuation target and its assets involved was inspected, the problems that had been discovered were truthfully disclosed, and the client and other relevant parties were invited to improve the property rights to meet the requirements for issuing an asset valuation report.
- VI. The analysis, judgement and results of the asset valuation report issued by the asset valuation institution shall be limited by the assumptions and restrictions stipulated in the asset valuation report, and the asset valuation report users shall give due consideration to the assumptions, restrictions, statements of special matters and their impact on the valuation conclusions stated in the asset valuation report.

VII. The asset valuation institution and asset valuation professionals shall abide by the laws, administrative regulations and asset valuation guidelines, adhere to the principles of independence, objectivity and impartiality, and shall be responsible for the asset valuation report issued in accordance with law.

**Proposed Purchase of Natural Gas Pipeline Related Assets of  
Sinopec Yu Ji Pipeline Company Limited in Cash by  
China Oil & Gas Pipeline Network Corporation**

**ASSET VALUATION REPORT**

Zhong Lian Ping Bao Zi [2020] No. 899

**Summary**

China United Assets Appraisal Group Co., Ltd. was entrusted by Sinomart KTS Development Limited to evaluate the market value of all assets and liabilities listed on pro forma accounting statements of Sinopec Yu Ji Pipeline Company Limited on the Valuation Benchmark Date involved in the economic behavior of proposed purchase of natural gas pipeline related assets of Sinopec Yu Ji Pipeline Company Limited in cash by China Oil & Gas Pipeline Network Corporation.

The valuation object is the net assets listed in the pro forma accounting statements of Sinopec Yu Ji Pipeline Company Limited. The scope of valuation is all assets and liabilities listed in the pro forma accounting statements of Sinopec Yu Ji Pipeline Company Limited.

The Valuation Benchmark Date is 31 December 2019.

The value type of this valuation is market value.

This valuation is based on the premises of continuous use and open market, combined with the actual situation of the entrusted valuation target, comprehensively considering various influencing factors, adopting the asset-based method and the income method to conduct an overall valuation of related assets and liabilities, and then verifying and comparing, considering the applicable premise and purpose of the valuation method. The results of the income method are adopted as the final conclusion of valuation.

After carrying out inventory verification, on-site investigation, market survey and verification, appraisal and estimation and other valuation procedures, based on the judgment and management plan of property right holders and enterprise management on the future development trend, the valuation of relevant assets and liabilities of Sinopec Yu Ji Pipeline Company Limited intended to be transferred as at the Valuation Benchmark Date (i.e. 31 December 2019), on the premise of satisfying relevant valuation assumptions, has been concluded as follows:

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## APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY

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The net book assets of Sinopec Yu Ji Pipeline Company Limited amounted to RMB2,254.4956 million, the net assets after the income method valuation amounted to RMB3,220.3884 million, the appreciated amount was RMB965.8928 million, and the appreciation rate was 42.84%.

In accordance with the relevant laws and regulations regarding to asset valuation, the asset valuation report involving statutory valuation business must be adopted by the client after performing the asset valuation supervision and management procedures in accordance with the laws and regulations. The valuation results shall be valid for one year, being effective from 31 December 2019 to 30 December 2020.

When adopting this valuation conclusion, users of the report are particularly reminded to pay attention to other special issues and significant post-valuation events as stated in this report.

**The above content is excerpted from the main text of the asset valuation report and should be read in conjunction with the full report to understand the details of this valuation project and reasonably understand the valuation conclusions.**



**Proposed Purchase of Natural Gas Pipeline Related Assets of  
Sinopec Yu Ji Pipeline Company Limited in Cash by  
China Oil & Gas Pipeline Network Corporation**

**ASSET VALUATION REPORT**

Zhong Lian Ping Bao Zi [2020] No. 899

**Sinomart KTS Development Limited:**

China United Assets Appraisal Group Co., Ltd. was entrusted by Sinomart KTS Development Limited to evaluate the market value of all assets and liabilities listed on pro forma accounting statements of Sinopec Yu Ji Pipeline Company Limited on the Valuation Benchmark Date (i.e. 31 December 2019) involved in the economic behavior of proposed purchase of natural gas pipeline related assets of Sinopec Yu Ji Pipeline Company Limited in cash by China Oil & Gas Pipeline Network Corporation by adopting the asset-based method and income method in accordance with the relevant laws and regulations and valuation criteria, as well as in accordance with the necessary valuation procedures. The asset valuation report is as follows:

**I. CLIENT, VALUATED UNIT AND OTHER VALUATION REPORT USERS**

The client of this asset valuation is Sinomart KTS Development Limited, and the valuated unit is Sinopec Yu Ji Pipeline Company Limited.

**(I) Information of Client**

Company name: Sinomart KTS Development Limited (經貿冠德發展有限公司)

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

Authorised share capital: HKD185,260,050

Economic nature: General trading

Business Registration Certificate Number: 11989738

**(II) Information of Valuated Unit**

Company name: Sinopec Yu Ji Pipeline Company Limited (中石化榆濟管道有限責任公司)

Company address: No. 15002, Century Avenue, Lixia District, Jinan City, Shandong Province

Legal representative: Wang Chunfu

Registered capital: RMB1.0 billion

Company type: Limited liability company (wholly-owned by legal person)

Date of establishment: 27 October 2014

Unified Social Credit Identifier: 91370000312968627E

Scope of operation: construction of natural gas pipelines; maintenance of natural gas pipelines and related technical consultation and technical services. (Projects that must be approved in accordance with laws may not be allowed to carry out business activities unless approved by relevant departments).

**1. Introduction of the company**

Sinopec Yu Ji Pipeline Company Limited was established on 27 October 2014 with a registered capital of RMB1 billion, and is mainly engaged in business activities such as construction and operation of natural gas pipelines, maintenance of natural gas pipelines and related technical consultations and technical services, leasing of own real estates (land, housing, production and operational premises, and office premises) and leasing of machinery and equipment.

**2. History of the company**

On 27 October 2014, Sinopec Yu Ji Pipeline Company Limited was incorporated and its shareholder was China Petroleum & Chemical Corporation, with a registered capital of RMB1 billion, accounting for 100% of the equity. The company does not have a board of directors and has an executive director and general manager, namely Wang Chunfu, who is also the legal representative of the company. The company also has one supervisor, Li Lucai.

On 30 December 2014, the Share Transfer Agreement stipulated that Sinopec Corp. would transfer 100% of the shares held in Sinopec Yu Ji Pipeline Company Limited to Sinomart KTS Development Limited, and converted the company into a wholly foreign-owned enterprise.

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**APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY**

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As at 31 December 2019, Sinopec Yu Ji Pipeline Company Limited had a registered capital of RMB1 billion and paid-in capital of RMB1 billion. The shareholder capital contribution and capital contribution ratio are as follows:

**Table 1 Name of shareholder,  
capital contribution and ratio of capital contribution**

<b>Name of shareholder</b>	<b>Capital contribution (RMB ten thousand)</b>	<b>Shareholding percentage</b>
Sinomart KTS Development Limited	100,000	100
Total	100,000	100

**3. Accounting policies**

(1) The company implements the Accounting Standards for Enterprises promulgated by the Ministry of Finance in 2006 and the specific accounting standards, application guidelines, explanations and other relevant regulations as promulgated and amended.

(2) *Tax*

The main taxes and tax rates of the company are as follows:

<b>Main tax</b>	<b>Tax rate</b>
Value-added tax	9%
Enterprise income tax	25%
City maintenance and construction tax payable	7%
Educational surcharge	3%
Local educational surcharge	2%
Water utility fund	0.05%

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**APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY**

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**4. Assets, financial position and operating activities**

As at the Valuation Benchmark Date of 31 December 2019, the total assets of the valuated unit were RMB4.0432984 billion, the total liabilities were RMB1.7888028 billion, and the net assets amounted to RMB2.2544956 billion. The company's assets and financial position during the reporting period are as follows:

**Assets, Liabilities and Financial Position of the Company**

*Unit: RMB ten thousand*

<b>Item</b>	<b>31 December 2017</b>	<b>31 December 2018</b>	<b>31 December 2019</b>
Total assets	450,561.68	425,460.32	404,329.84
Liabilities	248,151.94	218,126.00	178,880.28
Net assets	202,409.75	207,334.32	225,449.56
<b>Item</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Main business income	97,334.30	82,843.58	73,782.63
Total profit	40,983.94	31,475.63	23,057.62
Net profit	30,727.39	23,622.88	17,290.09

**(III) Relationship between the client and valuated unit**

The client for this asset valuation is Sinomart KTS Development Limited, and the valuated unit is Sinopec Yu Ji Pipeline Company Limited, a wholly-owned subsidiary of the client, Sinomart KTS Development Limited.

**(IV) Client, other valuation report users as agreed in the asset valuation entrustment contract**

The users of this valuation report are the client and the valuated unit, the relevant parties of economic behaviors, and the relevant regulatory agencies filed in accordance with the relevant provisions of state-owned assets management.

## **II. PURPOSE OF VALUATION**

Pursuant to Notice on the Work in Relation to the Pipeline Assets Transfer Transaction of Sinomart KTS Development Limited in July 2020, China Oil & Gas Pipeline Network Corporation proposed to purchase assets related to natural gas pipeline of Sinopec Yu Ji Pipeline Company Limited in cash.

The purpose of this valuation is to reflect the market value of the certain assets related to natural gas pipeline of Sinopec Yu Ji Pipeline Company Limited on the Valuation Benchmark Date, and to provide value reference for the aforesaid economic behavior.

## **III. VALUATION TARGET AND SCOPE OF VALUATION**

The valuation object is the net assets listed in the pro forma accounting statements of Sinopec Yu Ji Pipeline Company Limited. The scope of valuation is all assets and liabilities listed in the pro forma accounting statements of Sinopec Yu Ji Pipeline Company Limited. The assets included in the scope of the investigation have total book assets of RMB4,043.2984 million, total liabilities of RMB1,788.8028 million, and the total equity of shareholders of RMB2,254.4956 million. It specifically includes current assets of RMB241.0127 million, non-current assets of RMB3,802.2857 million, current liabilities of RMB1,786.7653 million and non-current liabilities of RMB2.0375 million.

On the Valuation Benchmark Date, the book value of assets and liabilities within the scope of valuation are excerpted from the special purpose financial statements, such financial statements have been audited by PricewaterhouseCoopers Zhong Tian LLP and issued the unqualified opinion audit report, PWC ZT Te Shen Zi (2020) No. 2735.

The entrusted valuation object and scope of valuation are consistent with those involved in the economic behavior.

### **(I) Information of major assets entrusted for valuation**

Physical assets mainly include inventories, housings and buildings, equipment and construction in progress. The specific distribution and characteristics of assets are as follows:

#### ***1. Inventories***

Inventories mainly consist of raw materials such as special oil pipes, oil products, power equipment, general oil equipment, bearings, valves and other spare parts related to natural gas pipeline services, which are stored in various stations. The inventories are in good condition as at the Valuation Benchmark Date.

#### ***2. Housings and buildings***

The assets included in the scope of this valuation are mainly housings and structures of the pressurization stations and distribution stations along the line.

Buildings (structures) are distributed along the natural gas pipeline. They are mainly distributed in the sub-transport stations and sub-transport valve rooms along the Yulin-Jinan Pipeline and Qingfeng Branch Line, passing through 10 cities across 5 provinces, namely Shaanxi, Shanxi, Henan, Shandong and Hebei. A total of 30 gas stations (8 metering supervision stations), 40 valve chambers are located along the line. Most of the housings and buildings included in this valuation were constructed between 2010 and 2015. The housings mainly include boiler rooms, blower rooms (integrated processing devices), dormitories, compressor rooms, air compressor rooms and boiler rooms. The structures mainly include roads, gates and walls in the factory area.

The buildings and structures of Sinopec Yu Ji Pipeline Company Limited are mainly consisted of frame, brick-concrete and steel structures, activity rooms and equipment warehouse are mainly steel-structured, and valve rooms and auxiliary rooms are mainly of brick-concrete structure.

The structures mainly include accompanying roads, fences and gates, roads in the fields, fire service pools, waste discharge tanks, sewage wells, ground hardened and compressor covers, etc. The walls and water discharge tanks are mainly of brick-concrete structures, while the accompanying roads, roads in fields and the fire service pools are of the combination of concrete and reinforced concrete structure.

### **3. *Equipment***

Mainly comprising of pipeline assets, machinery equipment, vehicles and electronic equipment.

- 1) Pipeline assets mainly include the Yulin-Jinan Pipeline. The Yulin-Jinan Pipeline has a total length of 911.62 km and a designed annual transmission volume of 4 billion m<sup>3</sup> per year. Among which, the Yulin-Nanle section is 718.57 km long, with designed pressure of 10MPa, pipe diameter of  $\Phi 711 \times 12.5/14.2/16/20$  mm, using material of X65, and commenced production in October 2010. The Nanle-Xuanzhang section has a total length of 193.05 km, with designed pressure of 8MPa, pipe diameter of  $\Phi 610 \times 8.8/10/12.5/16$  mm, using material of X60, and commenced production in November 2009.

The starting point of the line is the first station in Yulin and the ending point is the Xuanzhangtun Gas Transmission Station. The pipeline traverses complex areas such as the east and west of the Maowusu Desert, the Loess Plateau, the Luliang Mountains, the Taiyue Mountains, the Taihang Mountains, and the mined-out areas. It starts in Yulin, Shaanxi, and ends in Dezhou, Shandong. It passes through 4 provinces, 8 cities, and 23 counties (areas) along the route. There are 11 stations, 6 metering supervision stations and 40 trunk valve rooms (16 RTU valve rooms and 24 manual valve rooms) along the line.

- 2) The machinery and equipment are mainly special equipment for gas transmission lines, which mainly include centrifugal compressors, filter separators, metering skids, emergency venting devices, pipe scrapers and ball barrels, etc.
- 3) Vehicles include small passenger cars, off-road vehicles, coaches, fire trucks and emergency communication vehicles, which were purchased from 2010 to 2017.
- 4) The electronic equipment consists mainly various office electronic equipment, air conditioners, monitoring equipment, network equipment, etc., such as computers, printers, photocopiers, switches, air conditioners, digital cameras, intercoms, etc.

Except that most of the gas pipeline assets are placed underground, the remaining equipment assets are distributed in the gas stations, substations, valve rooms, etc. along the gas pipeline. The equipment functions of each station are similar, and the equipment types, specifications and models are relatively identical.

#### **4. *Constructions in progress***

In construction-equipment installation projects mainly include the Yulin-Jinan Pipeline compression project, Anyang Gas Transmission Station capacity expansion and transformation project of the Yulin-Jinan Pipeline, the Yulin-Jinan Pipeline manual valve room transformation project and other projects.

### **(II) Reported book records or unrecorded intangible assets of the company**

As at the Valuation Benchmark Date, the intangible assets recorded in the book within the scope of valuation reported by the company are mainly the land use rights accounted for by the enterprise under construction. The land plot area to be estimated is 35,189.54 sq.m., for the use of pipeline transmission and the type of use right is allocation. The land registration procedure has not yet been completed, and the real property certificate is being processed.

As at the Valuation Benchmark Date, no intangible assets with unrecorded accounts were found.

### **(III) Type and quantity of off-balance sheet assets reported by the enterprise**

As at the Valuation Benchmark Date, the company has not reported off-balance sheet assets, nor has it been found that the company has off-balance sheet assets that have not been recorded on its books.

**(IV) The asset type, quantity and book value involved in the conclusion of the report issued by other institutions**

The book value of the assets and liabilities on the Valuation Benchmark Date in this valuation report are excerpted from the special purpose financial statements, such financial statements have been audited by PricewaterhouseCoopers Zhong Tian LLP and issued the unqualified opinion audit report, PwC ZT Te Shen Zi (2020) No. 2735.

In addition, the other work of the valuation was solely completed by China United Assets Appraisal Group Co., Ltd., without citing the reports of other intermediary service agencies.

**IV. VALUE TYPES AND DEFINITIONS**

According to the purpose of this valuation, the value type of this valuation is determined as market value.

Market value refers to the estimated amount of the value of the normal fair transaction conducted by the valuation target on the Valuation Benchmark Date when the voluntary purchaser and voluntary seller act reasonably without any coercion.

**V. VALUATION BENCHMARK DATE**

The benchmark date of this asset valuation is 31 December 2019.

The client has drawn up a timetable for this act, in order to speed up the overall work process, taking into account the need for the Valuation Benchmark Date to be as close as possible to the realization date of the valuation purpose and the practical possibility of completing the valuation work, and after consultation with all parties, the Valuation Benchmark Date is determined to be 31 December 2019.



**VI. VALUATION BASIS**

The valuation basis followed in this asset valuation mainly includes the basis of economic behavior, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership, and the basis of price determination and other reference materials used in the valuation and estimation, as follows:

**(I) Basis of economic behavior**

1. Notice on the Work in Relation to the Pipeline Assets Transfer Transaction by Sinomart KTS Development Limited in July 2020.

**(II) Basis of laws and regulations**

1. Property Law of the People's Republic of China (Adopted at the 5th session of the Tenth National People's Congress on 16 March 2007);
2. Law of the People's Republic of China on the State-Owned Assets of Enterprises (Adopted at the 5th session of the Standing Committee of the Eleventh National People's Congress on 28 October 2008);
3. Company Law of the People's Republic of China (Amended at the 6th session of the Standing Committee of the Thirteenth National People's Congress on 26 October 2018);
4. Securities Law of the People's Republic of China (Amended for the second time at the 15th Session of the Standing Committee of the Thirteenth National People's Congress on 28 December 2019);
5. Urban Real Estate Administration Law of the People's Republic of China (Amended at the 12th session of the Standing Committee of the Thirteenth National People's Congress of the People's Republic of China on 26 August 2019);
6. Land Administration Law of the People's Republic of China (Amended at the 12th Session of the Standing Committee of the Thirteenth National People's Congress of the People's Republic of China on 26 August 2019);
7. Law of the People's Republic of China on the Administration of Sea Areas (Adopted at the 24th meeting of the Standing Committee of the Ninth National People's Congress on 27 October 2001);
8. Asset Appraisal Law of the People's Republic of China (Adopted at the 21st session of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China on 2 July 2016);

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## APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY

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9. Enterprise Income Tax Law of the People's Republic of China (Amended at the 7th session of the Standing Committee of the Thirteenth National People's Congress of the People's Republic of China on 29 December 2018);
10. Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);
11. Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (Order No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance, 2016);
12. Notice on Relevant Issues Concerning the Agreement-based Transfer of State-owned Property Rights of Central Enterprises (No. 11 [2010] of the State-owned Assets Supervision and Administration Commission);
13. Rules on the Evaluation and Management of State-owned Assets (Order No.91 of the State Council);
14. Implementation Measures for the Rules on the Evaluation and Management of State-owned Assets (Guo Zi Ban Fa [1992] No.36);
15. Opinion from the Ministry of Finance on Reform of Administration Method of Valuation of State-owned Assets and Strengthening of Supervision and Administration of Asset Valuation'' (Guo Ban Fa [2001] No.102);
16. Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order No.12 of the State-owned Assets Supervision and Administration Commission of the State Council, 2005);
17. Notice on Relevant Issues Concerning Strengthening the Evaluation and Management of State-owned Assets of Enterprises (SASAC Property Rights [2006] No.274);
18. Notice on Matters Concerning the Review of the Appraisal Report of State-owned Assets of Enterprises (SASAC Property Rights [2009] No. 941);
19. Guidelines for Approval of Valuation Project of Assets of Central Enterprises (SASAC Property Rights [2010] No. 71);
20. Guidelines on the Recording of Enterprise State-owned Assets Valuation Projects (SASAC Property Rights [2013] No. 64);
21. Notice on Issuance of Adjustment of Collection Standards for Unoccupied Island Use Charges in Sea Areas (Ministry of Finance, SOA Cai Zong [2018] No. 15);

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22. Measures for the Administration of Natural Gas Pipeline Transmission Prices (for Trial Implementation) (Fa Gai Jia Ge Gui [2016] No. 2142);
23. Measures for the Supervision and Review of Natural Gas Pipeline Transmission Pricing Costs (for Trial Implementation) (Fa Gai Jia Ge Gui [2016] No. 2142);
24. Notice of the National Development and Reform Commission on Adjustment of Cross-Provincial Natural Gas Pipeline Transmission Fee (Fa Gai Jia Ge [2019] No. 561);
25. Letter from the Executive Office of the State Development Reform Commission on the Price Policy of Oil and Gas Pipeline Network during the Transition Period of the Reform of the Operational Mechanism of Oil and Gas Pipeline Network (Fa Gai Ban Jia Ge [2020] No. 185);
26. The approval of the local governments on the charging standards of LNG receiving stations;
27. Announcement on Continuing the Income Tax Policy for Western Development Enterprises (Announcement No. 23 of 2020 by Ministry of Finance, General Administration of Taxation and National Development and Reform Commission);
28. Interim Regulations of the People's Republic of China on Value Added Tax (Order No. 538 of the State Council);
29. Implementation Measures for the Interim Regulations of the People's Republic of China on Value Added Tax (Order No. 50 of the Ministry of Finance and the State Administration of Taxation);
30. Notice of the Ministry of Finance and the State Administration of Taxation on the Comprehensive Implementation of the Pilot Program for the Conversion of Business Tax to Value Added Tax (Finance Tax [2016] No. 36)
31. Announcement on Policies in Relation to the Deepening VAT Reform (Announcement 2019 No. 39 of Ministry of Finance, General Administration of Taxation and General Administration of Customs);
32. Other laws, regulations, rules and regulatory systems related to the valuation work, etc.

**(III) Basis of valuation criteria**

1. Basic Standard for Assets Valuation (Cai Zi [2017] No. 43);
2. Standard for Work Ethic of Assets Valuation (Zhong Ping Xie [2017] No. 30);
3. Standard for Practice of Assets Valuation – Assets Valuation Reports (Zhong Ping Xie [2018] No. 35);
4. Standard for Practice of Assets Valuation – Assets Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. Standard for Practice of Assets Valuation – Assets Valuation Files (Zhong Ping Xie [2018] No. 37);
6. Standard for Practice of Assets Valuation – Enterprise Value (Zhong Ping Xie [2018] No. 38);
7. Standard for Practice of Assets Valuation – Assets Valuation Method (Zhong Ping Xie [2019] No. 35);
8. Standard for Practice of Assets Valuation – Assets Valuation Entrustment Contract (Zhong Ping Xie [2017] No. 33);
9. Standard for Practice of Assets Valuation – Adoption of Expert Work and Relevant Reports (Zhong Ping Xie [2017] No. 35);
10. Standard for Practice of Assets Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37);
11. Standard for Practice of Assets Valuation – Real Estate (Zhong Ping Xie [2017] No. 38);
12. Standard for Practice of Assets Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
13. Guideline for the Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
14. Guidelines for Business Quality Control of Assets Valuation Institutions (Zhong Ping Xie [2017] No. 46);
15. Guiding Opinions on Types of Valuation of Assets (Zhong Ping Xie [2017] No. 47);
16. Guiding Opinions on Legal Ownership of Asset Valuation Targets (Zhong Ping Xie [2017] No. 48);

**(IV) Basis of asset ownership**

1. The certificates of land use rights and housing ownerships, such as the “Real Estate Property Certificate”, “State-owned Land Use Certificate” and “House Ownership Certificate” reported by the assessed unit and its subsidiaries;
2. Motor Vehicle Travel Permit;
3. Important asset purchase contracts or certificates;
4. Other references.

**(V) Basis of price determination**

1. Regulations on the Other Expenses and Related Expenses of China National Petroleum Corporation Construction Projects (2012 Edition) (China National Petroleum Corporation);
2. Petroleum Construction and Installation Engineering Budget Quota (2013 Edition) Dynamic Adjustment 2015 (China Petroleum Engineering Cost Management Center);
3. Petroleum Construction and Installation Engineering Estimated Indicators (2015 Edition)” (China Petroleum Engineering Cost Management Center);
4. Quota of Petroleum Construction and Installation Engineering (2015 Edition)” (China Petroleum Engineering Cost Management Center);
5. Notice of CNPC on the Comprehensive Implementation of the VAT Relevant Matters of Engineering Construction Projects after the Pilot Reform (July 2016) (China National Petroleum Corporation);
6. Long-distance Natural Gas Pipeline Project Estimate Index, Engineering Quantity List (February 2018) (Sinopec Group Petroleum Engineering Cost Management Center);
7. Petrochemical Engineering Construction Design Budget Preparation Method (July 2018) (China Petrochemical Corporation);
8. Petrochemical Engineering Construction Cost Quota (July 2018) (China Petrochemical Corporation);
9. The market price information of the construction engineering materials where the assets are located at of the Valuation Benchmark Date;
10. 2019 Mechanical and Electrical Product Price Information Inquiry System (Institute of Mechanical Industry Information);

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11. The interest rate on the loan market on 20 December 2019 as quoted by the National Interbank Center authorized by The People's Bank of China;
12. The benchmark exchange rate of RMB announced by the State Administration of Foreign Exchange on 31 December 2019;
13. Relevant materials of price information database of China United Assets Appraisal Group Co., Ltd.;
14. Other references.

### (VI) Other references

1. The audit report of the valuated unit issued by PricewaterhouseCoopers Zhongtian LLP (PwC ZT Te Shen Zi (2020) No. 2735);
2. The profit forecast provided by the valuated unit;
3. Code for Real Estate Valuation (GB-T50291-2015);
4. Regulations for Urban Land Valuation (GB-T18508-2014);
5. Technical Specifications for Land Price Valuation for the Use of State-owned Construction Land Use Right (Guo Tu Zi Ting Fa [2018] No.4);
6. Guiding Opinions on Valuation of Land Price for Allocation of State-owned Construction Land Use Right (Trial for Implementation) (Natural Resources Office Letter [2019] No. 922);
7. Accounting Standards for Business Enterprises – Basic Standards (Order No. 33 of Ministry of Finance);
8. 38 specific standards including Accounting Standards for Business Enterprises No. 1 – Inventories (Cai Hui [2006] No.3);
9. Accounting Standards for Business Enterprises – Application Guide (Cai Hui [2006] No. 18);
10. Handbook of Common Methods and Parameters of Assets Valuation (China Machine Press 2011 Edition);
11. Investment Valuation ([US] written by Damodaran, [Canada] translated by Lin Qian, Tsinghua University Press;
12. Valuation: Measuring and Managing the Value of Companies, 3rd Edition ([US] written by Copeland, T., translated by Hao Shaolun, Xie Guanping, Publishing House of Electronics Industry);

13. Relevant statistical data of wind information financial terminal;
14. Relevant statistical data of Bloomberg database;
15. Other references.

## **VII. VALUATION METHOD**

### **(I) Selection of Valuation Method**

In accordance with the provisions of assets valuation criteria, the valuation of enterprise value can adopt three methods, namely the income method, market method and asset-based method. The income method refers to estimating the expected income that the valuated unit can obtain in the future and converting it into the present value at the expected rate of return, which its valuation target is the overall profitability of the enterprise, that is, the value of the overall enterprise is evaluated through the idea of “seeking profits”. The basic conditions for its application are: the enterprise has the foundation and conditions for continuous operation, there is a relatively stable relation between operation and income, and future income and risks can be predicted and quantified. The market method adopts a market comparison approach, that is, using the value of a traded enterprise or a listed company that is the same or similar to the valuated unit as reference, through comparative analysis with the valuated unit and the reference, and necessary adjustments to the valuation idea to estimate the overall value of the valuated unit. The asset-based method refers to the idea of determining the value of the valuation target on the basis of a reasonable appraisal of the assets and liabilities of the enterprise.

The purpose of this valuation is to transfer assets. The asset-based method reflects the value of relevant assets and liabilities from the perspective of asset purchase and construction, and provides a basis for the establishment of business accounts, operation management and evaluation after the realization of economic behavior. Therefore, the asset-based method is suitable to be adopted for this valuation.

This valuation object is related to the oil and gas pipeline transmission business-related assets held by the company. It has continued operations in the historical year and has good profitability. It has the ability to continue to develop profitability in the future. Historical data can be used as a reference and combine the company’s current status to quantify its future risks and benefits, so the adoption of income method is appropriate for this valuation.

The relevant assets of the oil and gas pipeline transmission business included in this valuation have certain differences from other enterprises in terms of asset size, asset distribution, operating characteristics, profitability, etc., and it is impossible to find the value or listing of a traded enterprise that is the same or similar to the valuated unit as a reference, so this evaluation does not choose the market method for valuation.

In summary, it is determined that the asset-based method and the income method are adopted for this valuation.

## **(II) Introduction to Asset-based Method**

The asset-based method refers to a valuation idea that determines the value of the valuation target based on a reasonable valuation of the value of various assets and liabilities.

The valuation method of relevant assets and liabilities of the company and subsidiaries involved in this valuation is as follows:

### **I. Current assets**

#### *(1) Monetary funds: including cash, bank deposits and other monetary funds.*

For currency funds with RMB as the currency, the book value is valued after verification. Foreign currency deposits are converted into Renminbi as the appraised value based on the exchange rate of the foreign currency quoted on the Valuation Benchmark Date.

#### *(2) Accounts receivable (accounts receivable, other receivables)*

For the assessment of accounts receivable, on the basis of the verification of the accounts receivable, the appraisers will use historical data and the current investigation to understand the situation, and analyze the amount, the time and reason of arrears, the situation of payment recovery, the arrears' funds, credit, operation and management status, etc. Accounts receivable adopts the individual identification method and aging analysis method to estimate the risk loss of assessment. For employee reserve funds, employee deductions, related party transactions and transactions within the group, the possibility of assessing the risk of bad debt losses is zero. If there is high possible that part of the payments cannot be recovered from external parties, and it is difficult to determine whether the amount will be recovered or not, refer to the method of calculating the bad debt reserve of the enterprise's accountant to estimate the estimated risk of loss. The assessment value is determined by the sum of accounts receivable minus the assessment risk of loss. The provision for bad debts is valued as zero in accordance with the relevant provisions of the valuation.

#### *(3) Prepayments*

The valuation personnel examined the relevant contracts, material supply agreements and other documents to understand the services received and the goods received during the period from the Valuation Benchmark Date to the valuation site survey. Determine the appraised value based on the verified book value.



(4) *Inventories*

Inventories are mainly raw materials, and the specific valuation method is as follows:

The raw materials are mainly special pipes, oil products, power equipment, general equipment, bearings, valves and other spare parts for various specifications and models related to oil and gas pipeline transmission services. The book value of raw materials consists of the purchase price and reasonable expenses. For some raw materials with long age and large price fluctuations, the appraised value is confirmed according to the current market price; for raw materials with short storage age and confirmed to be usable normally with little change in price and raw materials with normal turnover, the book unit price is close to the market price on the benchmark date plus a reasonable fee, and the estimated value is determined based on the verified book value.

(5) *Other current assets*

Other current assets are mainly retained tax credits. The appraisers conducted specific analysis on the reasons for the formation of other current assets and checked the relevant accounting books and vouchers. The appraised value is confirmed by the book value after verification.

**2. *Non-current asset***

(1) *Fixed assets – housing and building assets*

Based on the purpose of this valuation, combined with the characteristics of the housing and building assets to be valued, the housing and building assets included in the scope of this valuation mainly include the housing and building assets independently constructed by the company. For the self-built assets of houses and buildings, the replacement cost method is adopted for valuation.

The replacement cost method is to use the current conditions to repurchase or construct the entire assets under a brand new state estimation required for cost estimation. Usually, the full replacement price of a building is calculated in accordance with the amount of construction work and the current fixed standard, construction fees, and loan interest rate based on the construction project data and completion settlement data, while the new rate is determined comprehensively in accordance with the service life and the site survey of the building, and the net appraised value of the building is calculated. The basic calculation formula is:

Valuation value of housings and buildings = full replacement price × residual ratio

① Determination of replacement full price

Since the company is a general VAT taxpayer, the entire replacement price of the assets of housings and buildings in this valuation does not include tax.

The full replacement price generally consists of three parts: the construction and installation cost, pre-construction costs and other expenses, and capital costs. The calculation formula is as follow:

Full replacement price (excluding tax) = construction and installation cost (excluding tax) + prior period and other expenses (excluding tax) + capital cost

A. Determination of construction and installation cost

For key projects with budgeting accounts data, the budget account adjustment method is adopted, that is, the appraiser calculates the project based on the amount of budget accounts, referring to the current quota standard, and the construction and installation costs of such projects are calculated in accordance with the market price information of the civil construction materials in the area where the assessed unit is located on the Valuation Benchmark Date.

For key projects without estimates and budgets data, budget quotas for similar projects are adopted, pro forma engineering quantities are reprogrammed, and the construction and installation cost of the projects to be evaluated is calculated based on the relevant quotas and price documents applicable on the Valuation Benchmark Date.

For construction projects with generally small value, the appraiser refers to the budget quota, construction quota or estimated index of the cost of the same type of construction and installation project, and obtains the construction cost of the construction project to be evaluated after corrections are made in accordance with the differences in construction cost such as floor height, column distance, span, decoration standards, water and electricity facilities, etc.

B. Determination of pre-construction costs and other expenses

According to the national standards, industry and local construction management departments prescribed various fee rate standards and administrative charging policy documents, determine the upfront expenses and other expenses.

C. Determination of capital costs

According to the reasonable construction period of the valuated unit, the loan interest rate is determined with reference to the loan market quoted interest rate announced by the National Interbank Funding Center on 20 December 2019, based on the total construction and installation costs, pre-construction and other expenses, the capital cost is calculated based on the average investment of funds. The calculation formula is as follow:

Capital cost = [construction project construction cost (tax inclusive) + prior period and other expenses (tax inclusive)] × reasonable construction period × loan interest rate × 1/2

② Determination of the residual ratio

This valuation respectively assessed the useful life of various buildings by referring to the economic life of the buildings with different structures, and through on site prospection of each construction (structure), prospection of the foundation of the construction (structure), loading structural parts (beam, panel, pillar), wall, floor, house exterior part, door and windows, wall coating, suspending ceiling, water intake and drainage, ventilation, electricity and lighting etc. according to the “Basis of reference for Identifying the Degree of Ageing of Buildings” and “Scoring Scale and Revised Factor of Different Percentages in New Conditions of Buildings” released by the former Urban and Rural Environmental Construction & Protection Department by taking into account the utilization status, repair and maintenance situations of the building. Then determining the residual ratio according to the following formula:

$$\text{Residual ratio} = \text{usable life time} / (\text{used life time} + \text{usable life time}) \times 100\%$$

③ Determination of appraised value

Valuation value = full replacement price (excluding tax) × residual ratio

(2) *Fixed assets – equipment assets*

Pursuant to the purpose of this valuation, in accordance with the principle of continuous use, based on market prices, combined with the characteristics of the equipment included in the valuation scope and the information collected, the replacement cost method is mainly used for valuation.

1) Determination of the full replacement price

A. Long-distance oil and gas pipeline

Full replacement price = pipe purchase cost + construction cost + pre-construction and other costs + construction compensation cost + capital cost

① Pipe purchase cost

The purchase cost of pipes is an important part of the value of fixed assets. In the construction of long-distance pipelines, the method of feeding materials is generally adopted. The valuation needs to analyze the types, materials, grades and consumption of long-distance transmission

pipeline materials based on final accounts data or project completion drawings, etc., and then determine the purchase cost of the pipeline materials according to the market price of the corresponding steel products on the benchmark date without tax.

② Construction cost

The construction cost of the long-distance pipeline is an important part of the asset value, which is mainly composed of the line construction fee, anti-corrosion construction fee, cross-over construction fee, line accessory facility construction fee and communication facility construction fee. Among which, the cross-over construction fee feated is treated individually in the course of pipeline construction and needs to be calculated separately.

This valuation is based on the principle of market-based prices. For those who have clearly defined standards for Sinopec, they will be estimated according to the corresponding quota standard. If there is no specific quota standard, refer to the local quota standard and combine the price adjustments of various personnel, materials and machines on the Valuation Benchmark Date to measure the target asset.

③ Pre-construction and other costs

For the pre-construction expenses based on the investment amount, according to the actual pre-expenses and other expenses incurred by each company, combined with the increase and decrease of the relevant charge items by the nation, the calculation items are appropriately determined. For local fees, collect the relevant fee documents executed locally on the Valuation Benchmark Date, and re-calculate and determine on such basis.

The preliminary and other expenses mainly include feasibility study fees, project construction management fees, survey and design fees, project supervision fees, and joint trial operation fees.

④ Construction compensation cost

For the intangible assets – land use rights formed in the construction compensation costs, in the corresponding subject valuation, in order to avoid double calculation, it is not considered here. Other compensation costs for the intangible

assets that have not been formed, such as temporary land use compensation fees and passing right compensation fees etc., the appraised value shall be determined after adjusting the changes in the land price index in accordance with the construction period and the Valuation Benchmark Date.

⑤ Capital cost

The capital cost is calculated according to the overall reasonable construction period of the project, and the reasonable cost of funds is calculated according to the loan market quoted interest rate announced by the National Interbank Center on 20 December 2019.

B. Domestic machinery and equipment

Full replacement price = equipment purchase price + transportation and miscellaneous fees + installation and commissioning fee + basic fee + pre-construction and other expenses + capital cost– deferred VAT

According to the tax policy issued by the state, the value-added input tax paid by enterprises for fixed assets purchased in accordance with regulations can be deducted (including value-added tax for imported equipment). The assessment unit this time is a general taxpayer enterprise that can be deducted from VAT. This valuation adopts the tax-exclusive price to determine the replacement price.

① Purchase price

It is mainly determined by inquiring prices from manufacturers or trading companies, or by referring to price information such as the 2019 Mechanical and Electrical Product Price Information Inquiry System (Institute of Mechanical Industry Information), and by referring to the recent contract prices of similar equipment. For a few devices whose purchase price cannot be found, the purchase price is determined by using the price change rate of the same type of equipment in the same generation.

For non-standard special equipment, according to the settlement and final accounts data provided by the enterprise, the recalculation algorithm is used to determine the replacement price on the Valuation Benchmark Date.

② Transportation and miscellaneous fees

Based on the purchase price (tax inclusive), according to the loading and unloading, transportation, storage, insurance and other related expenses incurred between the manufacturer and the location of the equipment, it is calculated at different rates of miscellaneous fees. If the purchase price includes transportation costs, transportation and miscellaneous fees will no longer be counted.

③ Installation and commissioning fees

According to the characteristics, weight, and difficulty of installation of the equipment, based on the purchase price (tax inclusive), it is calculated at different installation and commissioning rates.

Installation and commissioning fees and small, non-installable equipment are already included in the purchase price, and installation and commissioning fees are not considered.

④ Basic fees

Individual benchmark refers to settlement data on the basis of the basic fee reference rate provided in the “Valuation Common Data and Parameter Manual”, combined with the actual expenditure of the valuated unit and determined by analysis.

If the equipment does not require a separate foundation or the foundation has been considered in the construction of the housings, the book value has been reflected in the building and the equipment base cost is not considered.

⑤ Pre-construction and other expenses

Calculated with reference to relevant national, local, and industry related charging regulations, including construction unit management fees, project supervision fees, and engineering survey and design fees.

⑥ Capital cost

According to the bank loan interest rate implemented on the Valuation Benchmark Date, it is assumed that the capital is evenly invested during the construction period to calculate the cost of funds.

Capital cost = (equipment purchase price + transportation and miscellaneous fees + installation and commissioning fees + basic fees + pre-construction and other expenses) × loan interest rate × construction period × 0.5

C. Transportation vehicles

Determining the current tax-included purchase price of transportation vehicles based on local vehicle market sales information and other recent vehicle market price data, and on such basis, the vehicle purchase tax and new car registration license procedure charges are included in the Interim Regulations on Vehicle Purchase Tax of the People's Republic of China.

The valuation unit this time is a general taxpayer enterprise that can be deducted from VAT. This valuation adopts the tax-exclusive price to determine the replacement price. The calculation formula is as follow:

Full replacement price = current tax-free purchase price + vehicle purchase tax + new car registration fee

For vehicles that have been discontinued or have no substitute product market sales price, refer to the secondary market price to determine their full replacement price.

D. Electronic equipment

According to the local market information and other recent market price data such as hc360.com, the full replacement price is determined on the basis of its purchase price.

E. Handling of special conditions

For some equipment that has been discontinued or has exceeded the economic life span, the market method is used for valuation, and the net price of the equipment is directly determined based on the secondary market transaction data on the Valuation Benchmark Date.

The installation, commissioning and reconstruction costs of the equipment are not appraised separately, but included in the valuation of the corresponding equipment.

For end-of-life equipment, the appraised value is determined based on the recoverable net income.



2) Determination of residual ratio

A. Residual ratio of long-distance oil and gas pipelines

Through on-site investigation, understanding the working environment and existing technical status of the long-distance pipeline, and consulting the recent technical data, related repair records and operation records, periodic inspection reports, etc., combined with industry experience statistical data, the useful life and residual ratio are determined, the calculation formula is as follow:

$$\text{Residual ratio} = \text{usable life} / (\text{usable years} + \text{used years}) \times 100\%$$

Among which, the judgment and determination of the usable life mainly consider the following factors:

- ① the difference between the designed useful period and the used period of the pipeline construction;
- ② cost and time for pipeline renewal and overhaul;
- ③ pipeline operation records, periodic inspection reports, remaining life prediction reports, etc.

B. Residual ratio of machinery and equipment

For special equipment and general machinery and equipment, based on the economic life of the equipment and the number of years of use, through the on-site investigation and understanding of the use and technical status of the equipment, it is determined that the years it can still be used.

$$\text{Consolidated residual ratio} = \text{usable life} / \text{usable years} + \text{used years} \times 100\%$$

C. Residual ratio of vehicles

For transportation vehicles, in accordance with the Provisions on the Criteria for Compulsory Discard of Motor Vehicles (Order of Ministry of Commerce, NDRC, Ministry of Public Security and Ministry of Environmental Protection No. 12, 2012), the residual ratio is determined according to the following method and whichever is the smaller shall be the final residual ratio, namely:

$$\text{Residual ratio of service life} = (1 - \text{used life} / \text{regulations or economic life}) \times 100\%$$

Mileage residual ratio =  $(1 - \text{mileage travelled} / \text{prescribed mileage traveled}) \times 100\%$

Residual ratio = Min (residual ratio of service life, mileage residual ratio) + a

a: Adjustment factor for special vehicle conditions

D. Residual ratio of electronic equipment

The residual ratio was determined by adopting the serviceable method.

Residual ratio =  $\text{serviceable life} / (\text{actual serviceable life} + \text{serviceable life}) \times 100\%$

3) Determination of appraised value

Valuation value = full replacement price  $\times$  residual ratio

(3) *Construction in progress*

The valuation adopts the cost method to appraise the construction in progress. In order to avoid double valuation of assets and omission of asset value, combining the characteristics of constructions in progress, the following valuation methods are adopted for each type and specific situation of construction in progress:

1) Completed projects

The completed construction in progress is valued according to the fixed asset valuation method, namely:

Estimated value of completed projects = full replacement price  $\times$  residual ratio

2) Unfinished projects

① for projects under construction within half a year from the benchmark date, according to the amount reported in the project under construction, after checking and verifying the accounts, the residual value of unreasonable expenditures is excluded as the appraised value.

② for projects under construction for more than half a year from the benchmark date, if the book value does not include the capital cost, the capital cost needs to be added. If the

book value already includes the capital cost, the capital cost will be recalculated based on the replacement expenditure amount and the reasonable construction period.

- ③ if the book value is significantly different from the price level on the Valuation Benchmark Date, the construction cost will be adjusted according to the price level on the Valuation Benchmark Date.

*(4) Right-of-use assets*

The appraisers reviewed the lease contracts, detailed accounts and vouchers of the related right-of-use assets, verified the formation of the right-of-use assets and the content of equity, understood the initial cost composition of the right-of-use assets, the lease period and the remaining lease term, etc., and conducted an interview with the management of the company to value the right-of-use assets using the lease discount method based on the type and characteristics of the right-of-use assets.

*(5) Intangible assets – land use rights*

For intangible assets-land use rights included in the scope of this valuation, the valuation team analyzed the applicability of different valuation methods based on the location, nature of the land, use conditions and local land market conditions of the valuation target, and eventually determined a reasonable valuation method and its basic idea.

After verification, valuation target is land for pipeline transportation. In recent years, there are many similar land acquisition cases in the area of the parcel to be estimated, and the cost of acquiring and developing the land has a more accurate basis. Therefore, the cost approximation method is suitable for valuation.

*(6) Deferred tax assets*

For valuation of deferred tax assets, conformity among the sub-ledger, general ledger, balance in the statements and the valuation schedule will be verified, and account records such as the account balance, occurrence time, business content and others will be reviewed to verify the truthfulness and completeness of the deferred tax assets. Based on verification, the book value after verification is determined as the appraised value.

### **3. Liabilities**

Through the review and verification of the actual debtor, the amount of each liability after the valuation purpose was realized, and the appraised value was determined based on the items and amount of liabilities that the property owners were actually required to assume after the valuation purpose was realized.

**(III) Introduction of the income method****1. Overview**

According to relevant requirements of the State Administration authorities, Standard for Practice of Assets Valuation – Enterprise Value as well as valuation practices for similar transactions internationally and domestically, the capital value of equity interests in the valuated unit has been valued by adopting the Discounted Cash Flow (DCF) method based on income sources in this valuation.

The DCF method is a method of assessing the value of assets by discounting the expected future net cash flow of an enterprise into its present value. Its basic idea is that the assessed value is arrived by estimating the expected net cash flow of assets in the future and discounting it into the present value by adopting an appropriate discount rate. The applicable basic conditions are as follows: the enterprise shall possess the bases and conditions as a going concern, and there is a relatively stable relation between operation and income, and the future income and risk shall be predictable and quantifiable. The greatest difficulty in adopting the discounted cash flow method is the prediction of the expected future cash flow and the objectivity and reliability in collecting and processing data. When the prediction of the expected future cash flow is objective and fair and the discount rate is reasonable, the valuation results are relatively objective.

**2. Basic idea of valuation**

Based on the due diligence and the asset composition and main business characteristics of the valuation target, this valuation estimates the valuation target's equity capital value with reference to the its accounting statements. The basic idea of this valuation is:

- (1) According to the development trend of the historical operation and the estimated expected income (net cash flow) of primary business category, it is discounted to the value of operating assets;
- (2) Cash assets (liabilities) including monetary funds, dividends receivable and payable as at the benchmark date, and assets such as doubtful or idle equipment not taken into account in estimating the expected income (net cash flow), will be classified as surplus or non-operating assets (liabilities) subsisted as at the benchmark date. The value of this category will be appraised separately;

- (3) The enterprise value of the valuation target is obtained by aggregating the values of the above assets and liabilities. The capital value of equity interests in the valuation target attributable to the parent is arrived after deducting the value of interest bearing debts and equity interests of minority shareholders as at the Valuation Benchmark Date.

### 3. Valuation model

#### (1) Basic model

The basic valuation model in this valuation is:

$$E = B - D \quad (1)$$

In the formula:

E: value of shareholders' equity (net assets) of the valuation subject;

B: enterprise value of the valuation target;

$$B = P + I + C \quad (2)$$

P: value of operating assets of the valuation target;

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{r(1+r)^n} \quad (3)$$

In the formula:

$R_i$ : expected income for the  $i$ th year in future (free cash flow) of the valuation target;

$r$ : discount rate;

$n$ : future operating period of the valuation target;

I: long-term investment value as at the Valuation Target Benchmark Date;

C: value of surplus or non-operating assets (liabilities) as at the Valuation Target Benchmark Date;

$$C = C_1 + C_2 \quad (4)$$

$C_1$ : value of current surplus or non-operating assets (liabilities) as at the Valuation Target Benchmark Date;

$C_2$ : value of non-current surplus or non-operating assets (liabilities) as at the Valuation Target Benchmark Date;

D: value of interest bearing debts of the valuation target;

(2) *Income Indicator*

In this valuation, the enterprise free cash flow is taken as the income indicator for operating assets of the valuation target. Its basic definitions are as follows:

R = net profit + depreciation and amortisation + interest on interest bearing debts after tax – additional capital (5)

The expected future free cash flow of the valuation target is estimated in accordance with the operation history and future market development. The free cash flow for the future operating period is discounted and aggregated to calculate the value of operating assets of the enterprise.

(3) *Discount rate*

In this valuation, the Weighted Average Cost of Capital (WACC) model is applied to determine the discount rate “r”:

$$r = r_d \times w_d + r_e \times w_e \quad (6)$$

In the formula:

$W_d$ : debt ratio of the valuation target;

$$w_d = \frac{D}{(E + D)} \quad (7)$$

$W_e$ : equity ratio of the valuation subject;

$$w_e = \frac{E}{(E + D)} \quad (8)$$

$r_d$ : interest bearing debt ratio after tax;

$r_e$ : cost of equity capital; in this valuation, the Capital Asset Pricing Model (CAPM) is applied to determine the cost of equity capital “ $r_e$ ”;

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon \quad (9)$$

In the formula:

$r_f$ : risk-free return rate;

$r_m$ : market expected return rate;

$\epsilon$ : characteristic risk-adjusted factor of the valuation target;

$\beta_e$ : expected market risk factor of equity capital of the valuation target;

$$\beta_e = \beta_u \times (1 + (1-t) \times \frac{D}{E}) \quad (10)$$

$\beta_u$ : unleveraged market risk factor of a comparable company;

$$\beta_u = \frac{\beta_i}{1 + (1-t) \frac{D_i}{E_i}} \quad (11)$$

$\beta_i$ : expected average market risk factor of shares (assets) in comparable companies;

$$\beta_i = 34\%K + 66\%\beta_x \quad (12)$$

In the formula:

K: average risk value for future period in the stock market, normally assuming K=1;

$\beta_x$ : historical average market risk factor of shares (assets) in comparable companies;

$D_i$ ,  $E_i$ : the interest bearing debts and the equity capital of comparable companies, respectively.

## **(VIII) IMPLEMENTATION AND PROCEDURE OF VALUATION**

The entire valuation is conducted in four stages:

### **(I) Preparation**

1. In early November 2019, the client convened intermediary coordination meetings of the project, and reached an agreement with related parties through negotiations in respect of the purpose of this valuation, the Valuation Benchmark Date and the scope of valuation, and prepared a working plan of this assets valuation.
2. We worked together with the enterprise in verifying assets and preparing assets valuation declaration lists. In late November 2019, the valuation team visited the site to have a general understanding of assets in the scope of valuation, prepared for assets valuation, assisted the enterprise in reporting assets in the scope of valuation and collected documents and information required for assets valuation.

**(II) On-site Valuation**

According to the overall time schedule of this project, on-site valuation is from late November 2019 to March 2020. Based on the valuation method determined in this valuation, the valuation project groups are mainly divided into the asset-based method group and the income method group.

1. The asset-based method group focuses on the investigation and verification of assets within the valuation scope reported by the enterprise. Its main work is as follows:
  - (1) Listen to the general introduction to the enterprise and the history and current status of assets to be valued made by relevant staff from the client and the valuated unit, getting to know more about the financial system, the operating status and the technical status of fixed assets;
  - (2) Verify and identify the assets declaration list provided by the enterprise, verify data in relevant financial records of the enterprise and work with the enterprise to make adjustments for discovered problems;
  - (3) Conduct on-site valuation and checking of tangible assets in accordance with the assets declaration list;
  - (4) Inspect and collect the documentary evidence of title rights of assets to be valued included in the valuation scope, check the ownership information provided by the valuated unit, and verify the ownership of these assets. To count the defects of assets, the valuated unit is engaged to verify and confirm whether these assets belong to the enterprise and whether there are any disputes over property rights;
  - (5) Determine specific valuation methods for each type of assets to be valued with reference to the actual status and characteristics of assets included in the valuation scope;
  - (6) Make preliminary valuation estimation for assets and liabilities within the valuation scope after checking and verifying relevant information.
2. The main work of the income method group is to conduct interviews with the management, disclose statistics inquiries, historical data and statistics, etc. It focuses on the understanding of the historical operation of the enterprise, and make judgment of the possible development trend of the enterprise in a certain period of time in future through understanding its past, present status and the situation of the industry in which it operates. Its main work is to understand and analyse the followings:
  - (1) The background of economic behavior of this valuation is primarily the explanation of the client and the valuated unit on matters of this valuation, their history and development, and others;



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**APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY**

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- (2) Legal conditions in relation to the going concern of the valuation target, primarily including the valuation target's articles of association, investment agreements, contracts, and others;
- (3) General position of assets and liabilities of the valuation target;
- (4) Accounting system, fixed assets depreciation method, inventory cost accounting and inventory delivery accounting method, and others of the valuation target;
- (5) Business type, historical operating results, and others of the valuation target;
- (6) Debts, conditions of borrowings and debt servicing of the valuation target in recent years;
- (7) Conditions of account receivables and payables of the valuation target;
- (8) Conditions of connected transactions of the valuation target in the recent years;
- (9) Tax rates, tax expenses and taxation conditions of the valuation target;
- (10) Conditions of income from primary business, cost, and expenses of the valuation target;
- (11) Operation plans and strategies in the next few years, including market demand, pricing strategies, production capacity planning, product update and modification, sales plans, cost control, financing, investment plans, future income/cost structures of its primary business and their changes;
- (12) General conditions of key competitors, including market position, development strategies, production volume, price and market share, and others;
- (13) Main operational advantages and risks, including the advantage and risk relating to national policies, the advantage and risk of products (technology), the advantage and risk of market (industry) competition, financial (liability) risk, foreign exchange risk, and others;
- (14) Expected additional investment plans and feasibility research on the project, and others;
- (15) Audited balance sheets, profit and loss statements, cash flow statements, product income breakdowns and cost breakdowns in recent years;

(16) Conditions in relation to external long-term investments and subsidiaries;

(17) Other conditions in relation to this valuation.

### **(III) Compilation of Valuation**

The preliminary results of various assets and liabilities were analysed and summarized for the adjustment, modification and perfection of the valuation results, and then submitted to the Company for internal review.

### **(IV) Submission of Report**

Based on the aforementioned work, the preliminary assets valuation report was drafted and opinions on the valuation results were exchanged with the client. Upon an individual analysis of relevant opinions, changes and adjustments were made in accordance with the internal assets valuation report review system and procedures of the valuation firm, and eventually the formal asset valuation report was issued.

### **(IX) VALUATION ASSUMPTION**

The work of the valuation team is based on to the following assumptions in this valuation:

#### **(I) General Assumptions**

##### ***1. Assumption of Trading***

It is assumed that all the assets to be valued are being transacted. The valuation team values the assets price by simulating a market transaction with reference to, among others, trading conditions of assets to be valued. It is one of the most basic premises and assumptions for a feasible assets valuation.

##### ***2. Assumption of Open Market***

It is assumed that the transaction of assets of both parties traded or to be traded in the market rank *pari passu* and both parties have been provided with sufficient opportunities and time to acquire market information for the purpose of making rational judgment on the function, use and transaction price of the assets. The assumption of open market is on the basis that the assets can be traded in the open market.

##### ***3. Assumption of Going Concern***

It is assumed that the valuation method, parameter and basis used in the valuation are determined on the basis that the assets under valuation will be utilised continuously for current purposes and under the prevailing style, scope, frequency and environment, or will be used under changing conditions.

**(II) Special Assumptions**

1. There is no material change to the People's Republic of China's prevailing macro-economic situation, financial and industrial policies, and others.
2. There is no material change to other applicable taxation policies and tax rates and other social and economic conditions in which the valuation target is operating.
3. The future management team of the valuation target duly performs its duties and maintains the existing operation style on a going concern.
4. Each asset under valuation is based on the actual stock on the Valuation Benchmark Date, and the current market price of relevant assets is based on the effective price in the People's Republic of China on the Valuation Benchmark Date;
5. This valuation assumes that the basic information and financial information provided by the client and the valuated unit are true, accurate and complete;
6. The scope of valuation is only based on the valuation declaration list provided by the client and the valuated unit, without considering any contingent assets and contingent liabilities that may subsist beyond the list provided by the client and the valuated unit;
7. In view of the frequent changes or material changes in the enterprise's monetary funds or its bank deposits, and others during its operation, the financial cost valuation of this report does not take into account the interest income generated by deposits of the enterprise and any uncertain gains and losses including foreign exchange gains and losses, etc. If there are changes of the aforementioned conditions, the valuation results would generally cease to be effective.
8. It is assumed that the estimated cash inflow of the valuation target after the Valuation Benchmark Date is the average inflow, and the cash outflow is the average outflow.

If there are changes of the aforementioned conditions, the valuation results would generally cease to be effective.

**(X) VALUATION CONCLUSION**

China United Assets Appraisal Group Co., Ltd. was entrusted by Sinomart KTS Development Limited to perform necessary procedures based on relevant laws, rules and regulations on assets valuation with the principle of being independent, fair, scientific and objective in the valuation of the market value of net assets of Sinopec Yu Ji Pipeline Company Limited as at 31 December 2019. The asset-based method and the income method were applied in this valuation. Based on the aforementioned valuation, the valuation conclusion is as follows:

**(I) Valuation Conclusion of the Asset-based Method**

As at the Valuation Benchmark Date, the book value, appraised value, appreciation value, and appreciation rate of the total assets of Sinopec Yu Ji Pipeline Company Limited were RMB4,043.2984 million, RMB4,496.1679 million, RMB452.8695 million and 11.2%, respectively;

The book value, appraised value, impairment value and impairment rate of total liabilities were RMB1,788.8028 million, 1,787.2747 million, RMB1.5281 million and 0.09%, respectively;

The book value, appraised value, appreciation value and appreciation rate of total equity of shareholders were RMB2,254.4956 million, 2,708.8932 million, RMB454.3976 million and 20.16%, respectively.

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**Summary of Results of Assets Valuation**

Valuation Benchmark Date: 31 December 2019

*Unit: RMB ten thousand*

No.	Item	Book Value	Valuation Value	Appreciation Value	Appreciation Rate (%)
1	Current Assets	24,101.27	23,975.33	-125.94	-0.52
2	Non-current Assets	380,228.57	425,641.46	45,412.89	11.94
3	Fixed Assets	354,885.57	399,196.89	44,311.32	12.49
	of which: Long-distance				
4	Pipelines	290,086.39	331,479.86	41,393.47	14.27
	Construction in				
5	Progress	25,308.20	25,019.78	-288.42	-1.14
6	Intangible Assets	–	1,389.99	1,389.99	
	of which: Land use				
7	rights	–	1,389.99	1,389.99	
8	Right-of-use Assets	5.84	5.84	–	–
9	Deferred Tax Assets	28.96	28.96	–	–
10	Total Assets	404,329.84	449,616.79	45,286.95	11.20
11	Current Liabilities	178,676.53	178,676.53	–	–
12	Non-current Liabilities	203.75	50.94	-152.81	-75.00
13	Total Liabilities	178,880.28	178,727.47	-152.81	-0.09
14	Owners' equity	225,449.56	270,889.32	45,439.76	20.16

**(II) Valuation results of income approach**

As of the Valuation Benchmark Date, the book value of the net assets of Sinopec Yu Ji Pipeline Company Limited was RMB2,254,495,600, the net assets after the valuation by income approach were RMB3,220,388,400, and the increased amount was RMB965,892,800, with an appreciation rate of 42.84%.

**(III) Selection of the valuation conclusion**

The net assets after the valuation by income approach were RMB3,220,388,400, the net assets after the valuation by asset-based approach were RMB2,708,893,200, and the differences between the two approaches were RMB511,495,200, with a discrepancy rate of 18.88%.

The main reason for the discrepancy in the valuation results of two approaches is that the consideration perspectives of two valuation approaches are different. The asset-based approach is considered from the way of reacquiring assets and reflects the replacement cost of the existing assets of the enterprise while the income approach is considered from the perspective of the company's future profitability and reflects the comprehensive profitability of various assets of the enterprise.

## APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY

As the natural gas pipeline transmission business of Sinopec Yu Ji Pipeline Company Limited has an absolute advantage in the pipeline industry within Shandong Province, and all pipelines are operating normally, the oil and gas resources and users are secured with stable and predictable future revenue to reflect the value of the valuation target in a more objective manner, as a result, the valuation result of income approach is selected as the final valuation result.

I.e.: the valuation result of all equity value of the shareholders of Sinopec Yu Ji Pipeline Company Limited was RMB3,220,388,400.

### (IV) Other matters

The discount rate adopted by the income approach on Sinopec Yu Ji Pipeline Company Limited is calculated in accordance with the WACC model, the discount rate for stable years is 7.77%, and fluctuation of the discount rate will affect the valuation of income approach. Upon calculation, the sensitivity analysis of the discount rate corresponding to the valuation of income approach is as follow:

*Unit: RMB ten thousand*

Item	10%	5%	Discount		10%
	decrease	decrease	rate for	5% increase	increase
			stable years		
Discount rate	0.0699	0.0738	0.0777	0.0816	0.0855
Valuation	346,534.92	334,004.51	322,038.84	310,604.55	299,670.70
Scope of change	24,496.08	11,965.67	-	-11,434.29	-22,368.14
Rate of change	7.61%	3.72%	-	-3.55%	-6.95%

For the income from natural gas pipeline transmission business, the National Development and Reform Commission published the “Measures for the Administration of Natural Gas Pipeline Transmission Prices (for Trial Implementation)” and the “Measures for the Supervision and Review of Natural Gas Pipeline Transmission Pricing Costs (for Trial Implementation) (Fa Gai Jia Ge Gui [2016] No. 2142)” (the “Measures”) on 9 October 2016, which clarified a new pricing method and standard for interprovincial pipeline for natural gas. The Measures clearly stipulate that, the pipeline transmission price shall be formulated based on the “permitted cost plus reasonable gain principle, i.e. to determine the total annual permitted income and verify the pipeline transmission price through factors including verifying the permitted cost of the pipeline transmission enterprise, regulating the permitted gain, considering the taxes, etc., that is, if the company’s future annual revenue is determined based on the effective asset size and permitted cost of the company, the revenue will be principally affected by the scale of the company’s effective asset size. Having considered the company’s effective assets are in fixed amount, so the future annual income is relatively fixed, and therefore, sensitivity analysis will no longer be conducted on the revenue.

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## APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY

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The costs are calculated based on the depreciation of fixed assets, electricity costs and external labor expenses. Firstly, depreciation is determined on the original cost of the fixed assets and the depreciation policy which is relatively accurate. Secondly, the electricity costs are mainly from the use of gas compression machinery with steady transmission capacity and standard specifications and function, which the electricity costs will be relatively steady. Thirdly, the external labor expenses are subject to contract and policy which are relatively fixed, and therefore, sensitivity analysis will no longer be conducted on the cost.

### XI. SPECIAL NOTES

#### (I) Defects in Property Rights

##### 1. Land use property rights and defects

The land use rights on the long-haul pipeline of Sinopec Yu Ji Pipeline Company Limited and the buildings and structures at some of the stations are verified in the accounts the subsidiary of Yu Ji, Sinopec Yu Ji Pipeline Company Limited pays the corresponding usage fee every year according in the form of service fees.

There is one parcel of land use rights included in the scope of valuation with an area of 35,189.54 m<sup>2</sup>, which has not yet obtained the land title certificate. The valuated unit undertakes that, it owns the property rights of the above-mentioned land use rights, the future expenses for acquiring the certificate and corresponding legal liabilities will be borne by the valuated unit. Specific details are as follows:

No.	Name of Land Parcel	Type of rights	Land usage	Degree of development	Area (m <sup>2</sup> )	Original booked value (RMB)
1	Land on Anyang Station	Allocation	Pipeline transmission	Ground leveling and access to water, electricity, telecommunication, road and sewage	35,189.54	13,311,400.00

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**2. Defects in property rights**

There are 9 buildings with defects included in the scope of valuation with gross floor area of 6,116.15m<sup>2</sup>, and all have not yet obtained land title certificates. The valuated unit undertakes that, it owns the property rights of the above-mentioned land use rights and the corresponding legal liabilities will be borne by the valuated unit. Specific details are as follows:

No.	Name of Property	Structure	Year and Month of Completion	Unit	Gross Floor Area
1	Power distribution room	Brick and Concrete	2013-09	m <sup>2</sup>	40.00
2	Boiler room	Brick and Concrete	2011-05	m <sup>2</sup>	46.35
3	Air blower room (an integrated treatment device)	Brick and Concrete	2011-05	m <sup>2</sup>	40.00
4	Shift dormitory at Pingyao Station	Brick and Concrete	2015-11	m <sup>2</sup>	1,505.70
5	Transformer substation building at Pingyao Station	Brick and Concrete	2015-11	m <sup>2</sup>	2,626.00
6	Compressor room at Pingyao Station	Color Steel Envelope	2015-11	m <sup>2</sup>	1,575.00
7	Air compressor room at Pingyao Station	Brick and Concrete	2015-11	m <sup>2</sup>	188.40
8	Boiler room at Pingyao Station	Brick and Concrete	2015-11	m <sup>2</sup>	71.70
9	Tool room at Pingyao Station	Brick and Concrete	2015-11	m <sup>2</sup>	23.00



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### 3. *In respect of vehicles, machineries and equipment:*

Sinopec Yu Ji Pipeline Company Limited owns a total of 89 vehicles, of which 66 vehicles have their names on the title deed holder of license of vehicles not in line with the current name of the company, the title deed holder of these vehicles is Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation, and no transfer of ownership have been registered. The valuated unit undertakes that, it owns the property rights of the above-mentioned vehicles and the corresponding legal liabilities will be borne by the valuated unit. Specific details are as follows:

No.	License plate	Name and model of vehicle	Manufacturer	Date of purchase	Title deed holder
1	Lu A2277H	Nissan ZN6493HBG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-09	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
2	Lu AA179P	Nissan ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
3	Lu AA175N	Nissan Paladin ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
4	Lu A259Q0	Nissan ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
5	Lu A261Q7	Nissan ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
6	Lu A257Q8	Nissan Paladin ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
7	Lu A260Q9	Nissan Paladin ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
8	Lu AA855Y	Pajero CFA2031H	GAC Changfeng Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
9	Lu AA755Y	Mitsubishi Pajero CFA2031H	Hunan Changfeng Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
10	Lu AA655Y	Mitsubishi Pajero CFA2031H	Hunan Changfeng Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation

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No.	License plate	Name and model of vehicle	Manufacturer	Date of purchase	Title deed holder
11	Lu AA775Y	Mitsubishi CFA2031H	Hunan Changfeng Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
12	Lu AC078A	Mitsubishi CFA2031H	Hunan Changfeng Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
13	Lu AA075L	Leopaard Pajero CFA2031G	Hunan Changfeng Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
14	Lu AP377M	Toyota Prado SCT6492E4	Sichuan Faw Toyota Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
15	Lu AK779Z	Toyota PradoSCT6492E4	Sichuan Faw Toyota Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
16	Lu AK776E	Toyota Prado SCT6492E4	Sichuan Faw Toyota Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
17	Lu A18950	Toyota Coaster SCT6703TRB53L	Sichuan Faw Toyota Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
18	Lu AA665Y	Pajero CFA2031H	Hunan Changfeng Motor Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
19	Lu AA885P	Buick MPVSGM6527AT	Shanghai General (Shenyang) Beisheng Auto Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
20	Lu A638G7	Buick MPV SGM6527AT	Shanghai General (Shenyang) Beisheng Auto Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
21	Lu A080S7	Nissan Paladin ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
22	Lu A081S7	Nissan Paladin ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
23	Lu A070S6	Nissan Paladin ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation

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No.	License plate	Name and model of vehicle	Manufacturer	Date of purchase	Title deed holder
24	Lu A867T6	Nissan ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
25	Lu A875T3	Nissan Paladin ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
26	Lu A887T2	Nissan Paladin ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
27	Lu A861T1	Nissan Paladin ZN6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-11	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
28	Lu A586W3	PaladinZN 6453WAG3	Zhengzhou Nissan Automobile Co., Ltd.	2010-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
29	Lu A233W0	JMC Van JX5041XXYXSGA2	Jiangxi Jiangling Special-purpose Vehicle Plant	2011-06	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
30	Lu A220W0	JMC Van JX5041XXYXSGA2	Jiangxi Jiangling Special-purpose Vehicle Plant	2011-06	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
31	Lu A19651	XCMG Crane Truck XZJ5130JSQD	XCMG Group Construction Machinery Co., Ltd.	2011-06	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
32	Lu A19717	XCMG Crane Truck XZJ5130JSQD	XCMG Group Construction Machinery Co., Ltd.	2011-06	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
33	Lu Ak589Q	Toyota Prado SCT6493E4	Sichuan Faw Toyota Motor Co., Ltd.	2011-06	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
34	Lu A9955N	Nissan Paladin ZN6454WAG4	Zhengzhou Nissan Automobile Co., Ltd.	2011-07	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
35	Lu A9779N	Nissan Paladin ZN6454WAG4	Zhengzhou Nissan Automobile Co., Ltd.	2011-07	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
36	Lu A1262M	Paladin ZN6454WAG4	Zhengzhou Nissan Automobile Co., Ltd.	2011-07	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation

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No.	License plate	Name and model of vehicle	Manufacturer	Date of purchase	Title deed holder
37	Lu A0363T	Paladin ZN6454WAG4	Zhengzhou Nissan Automobile Co., Ltd.	2011-10	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
38	Lu A7153J	Nissan ZN6494H2G3	Zhengzhou Nissan Automobile Co., Ltd.	2011-10	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
39	Lu A0922S	Nissan ZN6494H2G3	Zhengzhou Nissan Automobile Co., Ltd.	2011-10	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
40	Lu AL0251	Breakdown Lorry GY5161XQX	Suzhou Jiangnan Mechanical & Electrical Industry Company Limited	2011-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
41	Lu A1751X	Pajero CFA2031H	GAC Changfeng Motor Co., Ltd.	2011-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
42	Lu A3397X	Pajero CFA2031H	GAC Changfeng Motor Co., Ltd.	2011-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
43	Lu A3300X	Pajero CFA2031H	GAC Changfeng Motor Co., Ltd.	2011-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
44	Lu A3503X	Nissan Navara ZN6494H2G4	Zhengzhou Nissan Automobile Co., Ltd.	2011-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
45	Lu A0157Y	Nissan Navara ZN6494HBG4	Zhengzhou Nissan Automobile Co., Ltd.	2011-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation

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No.	License plate	Name and model the vehicle	Manufacturer	Date of purchase	Title deed holder
46	Lu A0139Y	Nissan ZN3464WAG4	Zhengzhou Nissan Automobile Co., Ltd.	2011-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
47	Lu A2153V	Paladin ZN6454WAG4	Zhengzhou Nissan Automobile Co., Ltd.	2011-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
48	Lu A0262Y	Nissan Paladin ZN6454WAG4	Zhengzhou Nissan Automobile Co., Ltd.	2011-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
49	Lu AN557L	Audi A6 FV7201TFCVTG	FAW-Volkswagen Automotive Co., Ltd.	2012-07	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
50	Lu AEL072	Toyota Prado SCT6493E4	Sichuan Faw Toyota Motor Co., Ltd.	2012-07	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
51	Lu A3586H	Buick MPV SGM6527AT	Shanghai General Beisheng Auto Co., Ltd.	2013-01	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
52	Lu ARJ029	Beijing Jeep IC4NJDCB	Belvedere Plant	2013-08	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
53	Lu AL0106	XCMG Crane Truck XZJ5130JSQD	XCMG Group Construction Machinery Co., Ltd.	2013-08	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
54	Lu AE655F	Pajero JE4NR52M	Pajero Manufacturing Co., Ltd.	2013-08	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
55	Lu AB1779	JMC Ford Transit JX6641T-N3	Jiangling Motors Corporation, Ltd.	2013-09	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
56	Lu ARJ583	Isuzu Van NKR77LLCWCJAXS	Qingling Motors Co. Ltd	2013-09	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
57	Lu ARF562	Isuzu Van NKR77LLCWCJAXS	Qingling Motors Co. Ltd	2013-09	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
58	Lu ARJ538	Isuzu NKR77LLCWCJ	Qingling Motors Co. Ltd	2013-09	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation

## APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY

No.	License plate	Name and model of vehicle	Manufacturer	Date of purchase	Title deed holder
59	Lu AWW703	Ford Kuga CAF6450A43	Changan Ford Automobile Co., Ltd.	2013-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
60	Lu A9197M	Toyota Prado SCT6492E4	Sichuan Faw Toyota Motor Co., Ltd.	2011-07	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
61	Lu AL0606	HOWO ZZ2167M5227D1	China National Heavy Duty Truck Group Co., Ltd.	2013-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
62	Lu AL0609	Hangtian Breakdown Lorry SJH5150XZM	Suzhou Jiangnan Mechanical & Electrical Industry Company Limited	2013-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
63	Lu AL0633	Hangtian Breakdown Lorry SJH5150XZM	Suzhou Jiangnan Mechanical & Electrical Industry Company Limited	2013-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
64	Lu AH1661	JMC Ford Transit JX6581T-M4	Jiangling Motors Corporation, Ltd.	2014-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
65	Lu AH1662	JMC Ford Transit JX6581T-M4	Jiangling Motors Corporation, Ltd.	2014-12	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation
66	Lu AU8853	JMC Ford Transit JX6581TA-M5	Jiangling Motors Corporation, Ltd.	2017-10	Natural Gas Yu Ji Pipeline Branch Company of China Petroleum & Chemical Corporation

Save for the above-mentioned matters, no material defects in property rights affecting the valuation conclusion were identified in the valuation.

### (II) Other matters required to be elaborated

1. The legal liability of the valuer and the valuation firm is to exercise professional judgement on determining the value of assets within the scope of valuation purpose as indicated in the report. It does not involve the making of any judgement by the valuer and the valuation firm on the economic behaviors corresponding to such valuation purpose. To a large extent, the valuation depends on the relevant information provided by the client and the valuated unit. Therefore, the valuation is based on the authenticity and legality of the documents related to relevant economic activity, title documents of ownership rights, certificates, accounting vouchers and legal documents provided by the client and valuation firm.
2. During the valuation process, the pipeline transmission price of the interprovincial gas transmission pipeline is forecasted in accordance with the provisions of the “Measures for the Administration of Natural Gas Pipeline

Transmission Prices (for Trial Implementation)” and the “Measures for the Supervision and Review of Natural Gas Pipeline Transmission Pricing Costs (for Trial Implementation) (Fa Gai Jia Ge Gui [2016] No. 2142)”, such documents have been implemented since 1 January 2017 with an effective period of 5 years. The pipeline transmission price of the interprovincial gas transmission pipelines on the Valuation Benchmark Date was the price verified in accordance with the above-mentioned documents in 2017. In accordance with the provisions of such documents, the pipeline transmission price, in principle, shall be verified and adjusted every 3 years. The year of 2020 should be a year for re-verifying the pipeline transmission price. In view of the reform of the oil and gas pipeline network operation mechanism, the National Development and Reform Commission issued the “Letter relating to the Oil and Gas Network Pipeline Price Policy during the Transition Period of the Reform of Oil and Gas Network Pipeline Operation Mechanism (Fa Gai Ban Jia Ge [2020] No. 185)” on 3 March 2020, to clarify “the maintenance of the overall stability of the price level of oil and gas network pipeline during the transition period of the reform, for those already have government pricing, shall continue to implement the price level as regulated by the government” and “the basic principle of the pricing of oil and gas network pipeline shall maintain unchanged”. Considering that 2020 is the year of restructuring of the oil and gas network pipeline, it is expected the above-mentioned trial measures will be revised in 2021 and the pricing re-verified in 2022, therefore, the valuation sets the transition period of the reform as 2020 to 2022, the pipeline transmission price of the interprovincial gas transmission pipeline shall continue to be forecasted in accordance with the provisions of the Fa Gai Jia Ge Gui [2016] No. 2142 document as from 2023. Users of this report are advised to pay attention.

3. For the inventories included in the scope of valuation on the benchmark date – a total 22.94 million cubic meters of cushion gas for pipeline, the valuation listed its value based on the book value of RMB47 million on the Benchmark Date. Subsequent to the Valuation Benchmark Date and up to the valuation report date, there was a significant fluctuation on the price of the oil and gas market. The parties to the transaction are advised to pay attention to the impact of such significant subsequent events on the valuation conclusion, and determine the transaction price with reference to the market price level on the asset settlement date.
4. The cost of funds involved in this valuation is calculated based on the loan prime rate (LPR) of the National Interbank Funding Center under the authority of the People’s Bank of China on the Valuation Benchmark Date, without taking into account of the impact of the reductions in the loan prime rate (LPR) of the National Interbank Funding Center on 20 February 2020 and 20 April 2020 respectively on the appraised value. Users of this report are advised to pay attention.

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## APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY

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5. Due to the large number of branches and valve rooms are involved in the scope of valuation, the on-site due diligence inspection of the valuation failed to carry out on-site stock taking or investigation in each location, and on-site investigation and sampling inspection were carried out only on selective representative valve room. For similar assets which have not been investigated, alternative procedures were adopted for valuation personnel to spot-check contracts with large amount, invoices, storage record, etc., with the pictures of on-site investigation and stock taking, important equipment as well as questionnaire on assets provided by personnel of the enterprise.
6. During the valuation process, the valuation personnel inspected the exterior of the assets in the category of building being valuated, and examined the interior and use of the building as much as possible, without undergoing any structural and material tests. When examining the equipment, due to reasons such as limitation of testing method, we mainly rely on the external observation by the valuation personnel, recent testing information provided by the valuated unit and inquiry to the related operating personnel to judge status of the equipment.
7. A number of buildings within the scope of valuation have not obtained the housing ownership certificates, the gross floor areas of which were reported by the enterprises based on the actual situation and confirmed by seal. The valuation personnel conducted valuation based on the reporting data, if it is not in line with the measurement area of the relevant measurement flats at the time when the valuated unit is handling the housing ownership certificates, the data of the land survey department shall prevail and corresponding adjustments shall be made on the valuation. Users of this report are advised to pay attention.
8. The valuation conclusion does not take into account of the impact of the relevant tax fees arising from the process of future transactions of the asset on the valuation conclusion, nor does it take into account of the changes in tax obligations that may arise from the increase or decrease in value. Users of this report are advised to pay attention.
9. The scope of valuation and the data, financial statements and relevant information used in the valuation are provided by the valuated unit. The valuated unit is responsible for the authenticity and completeness of the information provided.
10. The relevant title documents of ownership rights and related information are provided by the valuated unit. The valuated unit is responsible for the authenticity and legality of the information provided.
11. For the purpose of the asset valuation engagement, the valuer is responsible for valuing the valuation target and providing professional opinions, without the responsibility for decision-making. The user of the asset valuation report



shall understand and use the valuation conclusion properly, the valuation conclusion should not be regarded as a guarantee of the realizable value of the valuation target.

12. The profit forecast of the valuated unit obtained by the appraisal institution is the basis of the income approach used in the valuation report. The valuer has carried out the necessary investigation, analysis and judgement on the profit forecast of the valuated unit. After a number of discussions with the management of the valuated unit and its shareholders and the subsequent revision and improvement by the valuated unit, the valuation institution adopted the relevant data of the profit forecast provided by the valuated unit. Using the profit forecast of the valuated unit by the valuated institution does not guarantee the future profitability of the unit.
13. If, for an effective period after the Valuation Benchmark Date, there is a change in the quantity of assets or standard of valuation, it should be dealt with in accordance with the following principles:
  - (1) when there is a change in the quantity of assets, the valuated amount of the assets should be adjusted according to the original valuation method;
  - (2) When there is a change in the standard of valuation which has a significant impact on the asset valuation results, the client should promptly engage a qualified appraisal institution to re-determine the value of the assets;
  - (3) In the event of any change in the quantity of assets or the standard of valuation after the Valuation Benchmark Date, the client should give full consideration to the actual value of the assets and make corresponding adjustments.

## **XII. EXPLANATION OF LIMITATION ON USAGE OF THE VALUATION REPORT**

- (I) This valuation report shall be used only for the valuation purposes and applications specified herein. In addition, the valuation conclusion reflects the current fair value of the valuation target determined according to the open market principles in the context of the valuation purposes, without taking into account of the impact of possible undertaking of guarantee, security and any special additional payment of the price by the parties upon the valuation price. Moreover, the impact of changes in the state's macroeconomic policies, natural disaster and force majeure upon the prices of the assets are not considered in this report. If there are changes in the above-mentioned conditions and the other situations such as the going concern concept that had been applied in the valuation assignment, then the valuation conclusion will normally cease to be valid. The valuation firm is not liable for the relevant legal responsibilities for the invalidity of the valuation results due to changes in such conditions.

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## **APPENDIX II BUSINESS VALUATION REPORT OF THE TARGET COMPANY**

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The prerequisite of this valuation report is that the economic behavior involved is in compliance with the relevant stipulations of the laws and regulations of the state, and with the approval by the relevant authorities.

- (II) This valuation report is for the exclusive use by the users of the valuation report specified herein. The rights of use of the valuation report belong to the client, and we shall not make it available to other parties without the consent of the client.
- (III) All or part of the contents of this valuation report shall not be extracted, referred to or disclosed to the public media without the consent of our valuation firm (and subject to our review of the relevant contents), unless otherwise required by laws and regulations and or agreed among the parties concerned.
- (IV) In accordance with the laws and regulations related to asset valuation, asset reports involving valuation of business for legal compliance shall only be used upon the client's performance of the supervisory and management procedures regarding asset valuation as required by laws and regulations. The valuation results are effective from 31 December 2019 to 30 December 2020 for a term of one year. Re-valuation is required upon expiration of the one year period.

### **XIII. DATE OF THE ASSET VALUATION REPORT**

The date of the asset valuation report is 20 July 2020.

(NO BODY TEXT CONTAINED IN THIS PAGE)

**China United Assets Appraisal (Group) Co., Ltd.**

**Asset appraiser: Fan Shukui**

**Asset appraiser: Chen Zhihong**

**Asset appraiser: Jiang Weifeng**

**Asset appraiser: Wu Xiaoguang**

**Asset appraiser: Han Xiaowei**

**Asset appraiser: Nie Fengzhan**

**Asset appraiser: Gao Feng**

**Asset appraiser: Shen Zhenjiang**

20 July 2020

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*



羅兵咸永道

**INDEPENDENT AUDITOR'S ASSURANCE REPORT ON THE CALCULATIONS OF  
DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE  
BUSINESS VALUATION OF SINOPEC YU JI PIPELINE COMPANY LIMITED**

**TO THE BOARD OF DIRECTORS OF SINOPEC KANTONS HOLDINGS LIMITED**

We have completed our assurance engagement to report on the calculations of the discounted future estimated cash flows on which the business valuation (the “**Valuation**”) dated 20 July 2020 prepared by China United Assets Appraisal Group in respect of the appraisal of the fair value of the 100% equity interests in Sinopec Yu Ji Pipeline Company Limited (the “**Disposal Company**”) is based. The Valuation is set out in Appendix II of the circular of Sinopec Kantons Holding Limited (the “**Company**”) dated 7 August 2020 (the “**Circular**”) in connection with the disposal by the Company of a 100% equity interest in the Disposal Company. The Valuation based on the discounted future estimated cash flows 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 (the “**Listing Rules**”).

**Directors' Responsibility for the Discounted Future Estimated Cash Flows**

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and as set on pages 7 to 9 of the Circular. 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.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Auditor's Responsibilities**

It is our responsibility to report, as required by paragraph 29(2) of Appendix 1B of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Disposal Company.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we 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, has been properly compiled in accordance with the bases and assumptions as set out on pages 7 to 9 of the Circular. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

**Opinion**

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows, has been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company as set out on pages 7 to 9 of the Circular.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 7 August 2020



中国石化  
SINOPEC

**SINOPEC KANTONS HOLDINGS LIMITED**

**(中石化冠德控股有限公司)\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 934)**

21 July 2020

To Shareholders

Dear Sirs,

**MAJOR TRANSACTION IN RELATION TO THE DISPOSAL OF A  
WHOLLY-OWNED SUBSIDIARY**

We refer to the announcement of Sinopec Kantons Holdings Limited (the “**Company**”) dated 21 July 2020 in relation to the disposal of Sinopec Yu Ji Pipeline Company Limited, a wholly-owned subsidiary of the Company (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meaning when used herein.

We have reviewed and discussed the business valuation report (the “**Business Valuation Report**”) prepared by China United Assets Appraisal Group (“**China United**”) dated 20 July 2020, which forms the basis for determining the Consideration for the Disposal. We note that the discounted future estimated cash flows method adopted by China United has rendered the valuation in the Business Valuation Report a profit forecast (the “**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**”).

Pursuant to Rule 14.62 and Paragraph 29(2) of Appendix 1B of the Listing Rules, we have engaged PricewaterhouseCoopers, the Auditor of the Company, to report on whether the discount future estimated cash flows in connection with the business valuation of the Target Company, so far as the calculations are concerned, have been properly complied with by the Directors, in all material aspects in accordance with the bases and assumptions as set out in the Business Valuation Report.

We hereby confirm that the Profit Forecast has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**Sinopec Kantons Holdings Limited**  
**Chen Yaohuan**  
*Chairman*

\* For identification purpose only

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests 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 SFO) which (i) 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 and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed in paragraph 3 below, as at the Latest Practicable Date, none of the Directors were directors or employees of a company which had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## 3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors are aware, each of the following persons (other than a Director or chief executive of the Company or their respective associates) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

### Long position in the shares and in the underlying shares of the Company

Name of substantial shareholders	Capacity/Nature of interest	No. of shares/ underlying shares interested	Approximate percentage of shareholdings of the Company
SKI ( <i>Note 1</i> )	Beneficial owner	1,500,000,000	60.33% ( <i>Note2</i> )

*Notes:*

1. The entire issued share capital of SKI is held by China International United Petroleum & Chemicals Co., Ltd. (“UNIPEC”). The controlling interest in the registered capital of UNIPEC is ultimately held by China Petrochemical Corporation.
2. The percentage is calculated based on the total number of ordinary shares of the Company in issue as at 31 December 2019, which was 2,486,160,000.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

As at the Latest Practicable Date, Mr. Chen Yaohuan, Mr. Zhong Fuliang, Mr. Mo Zhenglin, Mr. Yang Yanfei, Mr. Zou Wenzhi, Mr. Wang Guotao and Mr. Ye Zhijun, being the executive Directors, are also directors of SKI.

#### **4. DIRECTORS’ SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or be determinable by the relevant member of the Group within one (1) year without payment of compensation (other than statutory compensation).

#### **5. DIRECTORS’ COMPETING INTERESTS**

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

#### **6. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS**

As at the Latest Practicable Date:

- (a) there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.
- (b) none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2019, being the date to which the latest audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.



## 7. EXPERT AND CONSENT

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

Name	Qualifications
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)  Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
China United Assets Appraisal Group	Independent Professional Valuer

Each of PricewaterhouseCoopers and China United Assets Appraisal Group has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter(s) and/or report(s) and/or valuation certificate(s) and/or opinion(s) and references to its name in the form and context in which it appear.

As at the Latest Practicable Date, each of the experts named above had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and had no interest, direct or indirect, in any assets which had been, since 31 December 2019, being the date to which the latest audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

## 8. MATERIAL CONTRACTS

As at the Latest Practicable Date, save for,

- (i) Share Purchase Agreement;
- (ii) Crude Oil Jetty and Storage Services Framework Master Agreement dated 21 October 2019 entered into between Huizhou Daya Bay Huade Petrochemical Company Ltd. (“**Huade Petrochemical**”), a wholly-owned subsidiary of the Company, Sinopec Corp. Guangzhou Branch, Sinopec Petroleum Reserve Company Limited and Sinopec Pipeline Storage and Transportation Company Limited Crude Oil Sales Branch Company for the provision of crude oil jetty and storage services;

- (iii) Sinopec Finance Financial Services Framework Master Agreement dated 21 October 2019 entered into between Huade Petrochemical, and Sinopec Finance Company Limited (“**Sinopec Finance**”) Guangzhou Branch for the provision of financial services within the PRC to Huade Petrochemical and its subsidiaries by Sinopec Finance Guangzhou Branch;
- (iv) Century Bright Financial Services Framework Master Agreement dated 21 October 2019 entered into between the Company and Sinopec Century Bright Capital Investment Limited (“**Century Bright**”) for the provision of financial services such as deposit and settlement outside the PRC to the Group by Century Bright;
- (v) Natural Gas Transmission Services Framework Master Agreement dated 21 October 2019 entered into between Sinopec Yu Ji Pipeline Company Limited (“**Yu Ji Pipeline Company**”) and China Petroleum & Chemical Corporation Natural Gas Branch Company (“**Sinopec Natural Gas Branch Company**”), Shanxi Energy Company Limited and Sinopec Changcheng Gas Investment Company Limited for the provision of natural gas pipeline transmission services;
- (vi) Comprehensive Outsourcing Framework Master Agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company for the provision of comprehensive services and products outsourcing to Yu Ji Pipeline Company by Sinopec Natural Gas Branch Company;
- (vii) Yu Ji Pipeline Financial Services Framework Master Agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Sinopec Finance for the provision of financial services within the PRC to Yu Ji Pipeline Company and its subsidiaries by Sinopec Finance; and
- (viii) Yu Ji Compression Project Framework Master Agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Sinopec Petroleum Engineering Corporation for the natural gas pipeline compression works,

there was no material contract (not being contracts entered into in the ordinary course of business), entered into by the members of the Group within the two years immediately preceding the issue of this circular.

## 9. LITIGATION

As at the Latest Practicable Date, save as disclosed in the Company’s announcements dated 15 November 2016, 21 March 2017 and 6 December 2019 in respect of two requests for arbitration notices received by Sinomart Development (the Company’s wholly-owned subsidiary) and PT West Point Terminal (Sinomart Development’s 95% owned subsidiary) on 11 November 2016 and later two arbitral awards on 4 December 2019 from the International Court of Arbitration of the International Chamber of Commerce, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

**10. GENERAL**

- (I) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (II) The principal place of business of the Company in Hong Kong is at 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.
- (III) The Hong Kong share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (IV) The joint company secretaries of the Company are Mr. Li Wenping, who has extensive experience in the management of listed companies, and has participated in trainings related to the monitoring of listed companies in 2019, and Mr. Lai Yang Chau, Eugene, who is a practising solicitor in Hong Kong.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business in Hong Kong of the Company at 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday (other than public holidays) from the date of this circular up to and including 21 August 2020:

- (I) the memorandum of association and bye-laws of the Company;
- (II) the annual reports of the Company for each of the financial years ended 31 December 2018 and 31 December 2019;
- (III) the material contracts referred to in the paragraph headed "8. Material Contracts" in this appendix;
- (IV) the letter of consent from PricewaterhouseCoopers and China United Assets Appraisal Group as referred to under the section headed "7. Expert and Consent" in this appendix;
- (V) this circular; and
- (VI) Business Valuation Report of the Target Company as set out in Appendix II of this circular.