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

If you have sold or transferred all your shares in CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED, you should at once hand this circular together with the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

**(1) REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS
(I) SANJIANG NEW MATERIAL STEAM SUPPLY AGREEMENT
(II) XING XING STEAM SUPPLY AGREEMENT
AND
(III) SANJIANG CHEMICAL STEAM SUPPLY AGREEMENT
(2) DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF ASSETS
AND
(3) NOTICE OF EGM**

Independent Financial Adviser



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

A notice convening the EGM to be held at 24/F, OfficePlus@WanChai, 303 Hennessy Road, Hong Kong on Tuesday, 20 December 2022 at 10:30 a.m. is set out on pages 84 to 87 of this circular.

Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the proxy form shall be deemed to be revoked.

In compliance with the Hong Kong Government's directive on social distancing, personal and environmental hygiene, and the guidelines issued by the Centre for Health Protection of the Department of Health on the prevention of coronavirus disease 2019 ("COVID-19"), the Company will implement the following precautionary measures at the EGM including, without limitation:

- compulsory body temperature screening;
- wearing of surgical face masks;
- no distribution of corporate gift or refreshment;
- mandatory health declaration — anyone subject to the Hong Kong Government's prescribed quarantine or who has travelled overseas within 14 days immediately before the date of the EGM will be denied entry into EGM venue; and
- appropriate seating arrangement in line with the guidance from the Hong Kong Government will be made.

30 November 2022

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PRECAUTIONARY MEASURES FOR THE EGM

In compliance with the Hong Kong Government's directive on social distancing, personal and environmental hygiene, and the guidelines issued by the Centre for Health Protection of the Department of Health ("CHP") on the prevention of coronavirus disease 2019 ("COVID-19"), the Company will implement precautionary measures at the EGM in the interests of the health and safety of our Shareholders, investors, directors, staff and other participants of the EGM (the "Stakeholders") which include without limitation:

- (1) Every attendee will be required to wear a surgical face mask throughout the EGM and inside the EGM venue. Attendees are advised to maintain appropriate social distance with each other at all times when attending the EGM.
- (2) There will be compulsory body temperature screening for all persons before entering the EGM venue. Any person with a body temperature of 37.5 degrees Celsius or above or any person which exhibits any flu-like symptoms may be denied entry into the EGM venue or be required to promptly leave the EGM venue.
- (3) No refreshment will be served, and there will be no corporate gift(s).
- (4) Attendees may be asked (i) if he/she has travelled outside of Hong Kong within 14 days immediately before the EGM; AND (ii) if he/she is subject to any Hong Kong Government prescribed quarantine requirement. Any person who responds positively to any of these questions will be denied entry into the EGM venue.
- (5) Anyone attending the EGM is reminded to observe good personal hygiene at all times.
- (6) Appropriate seating arrangement at the EGM venue in line with the guidance from the Hong Kong Government will be made.
- (7) In light of the continuing risks posed by the COVID-19 pandemic, and in the interests of protecting the Stakeholders, the Company is supportive of the precautionary measures being adopted and reminds Shareholders that physical attendance in the EGM is not necessary for the purpose of exercising voting rights. The Company strongly advises Shareholders to appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) as an alternative to attending the EGM in person.
- (8) Shareholders are advised to monitor the development of COVID-19. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement(s) on such measures as and when appropriate.
- (9) Health education materials and up-to-date development on COVID-19 can be found on the CHP website (www.chp.gov.hk) and the website of the Hong Kong Government on COVID-19 (www.coronavirus.gov.hk).

DEFINITIONS

For the purposes of this Circular, the following definitions apply throughout where the context admits unless otherwise stated:

“Announcement”	the announcement of the Company dated 23 September 2022 in relation to the entering into of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement
“Assets”	an aromatic extraction unit (芳烴抽提裝置) situated at Mei Fu Petrochemical including its ancillary surveillance and monitoring systems together with certain infrastructure attaching to the aromatic extraction unit as fixtures
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	board of Directors of the Company
“Company”	China Sanjiang Fine Chemicals Company Limited (中國三江精細化工有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EG”	ethylene glycol
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving (i) the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the proposed revised annual caps contemplated thereunder; and (ii) the Sale and Purchase Agreement and the transactions contemplated thereunder by the Independent Shareholders
“EO”	ethylene oxide
“Group”	the Company and its subsidiaries, from time to time

DEFINITIONS

“Hangzhou Haoming”	杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*), a company established in the PRC with limited liability on 26 March 1998, is owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han Jianping, the brother of Ms. Han, respectively and is therefore a connected person of the Company as at the Latest Practicable Date
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee, comprising all independent non executive Directors, formed to advise the Independent Shareholders in respect of (i) the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the proposed revised annual caps contemplated thereunder; and (ii) the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who are not involved or interested in the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement (i.e. Shareholders other than Mr. Guan and Ms. Han and their respective associates)
“Jiahua”	浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), a joint stock company established in the PRC with limited liability on 15 March 2000 and a company which is ultimately controlled by Mr. Guan and Ms. Han
“Jiahua Energy Chemical Co.”	浙江嘉化能源化工股份有限公司 (Zhejiang Jiahua Energy Chemical Co. Ltd.*) (formerly known as 浙江嘉化工業園投資發展有限公司 (Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.*)), a company established in the PRC with limited liability on 20 January 2001 and a non-wholly owned subsidiary of Jiahua and currently listed on the Shanghai Stock Exchange (stock code: 600273)
“Jianghao Investment”	嘉興港區江浩投資發展有限公司 (Jiaxing Gangqu Jianghao Investment Development Company Limited*), a company established in PRC with limited liability, and a company which is owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% respectively and is therefore a connected person of the Company as at the Latest Practicable Date

DEFINITIONS

“Latest Practicable Date”	25 November 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mei Fu Petrochemical”	浙江美福石油化工有限公司 (Zhejiang Mei Fu Petrochemical Co., Ltd*), a company established in the PRC with limited liability, is owned as to 33.00% by Sure Capital, 31.85% by Hangzhou Haoming, 18.00% by Jianghao Investment and 17.15% by Ningbo Yongsheng as at the Latest Practicable Date. Mr. Guan is a controlling shareholder of the Company and the spouse of Ms. Han, an executive Director of the Company. As Ms. Han is an executive Director and Mr. Guan is a controlling shareholder of the Company, Mei Fu Petrochemical is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company
“MPa”	a metric unit of pressure
“Mr. Guan”	Mr. Guan Jianzhong, a controlling Shareholder of the Company
“Ms. Han”	Ms. Han Jianhong, an executive Director and the spouse of Mr. Guan
“MT”	metric tonnes
“Ningbo Yongsheng”	寧波涌升石化有限公司 (Ningbo Yongsheng Petroleum Co. Ltd*), a company established in the PRC with limited liability and is owned as to 99% by Zhuo Dingguo* (卓定國) and 1% by Zhong Yan* (鍾燕), all of whom are independent from the Company and its connected person(s)
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau and Taiwan
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 23 September 2022 entered into between Sanjiang Chemical and Mei Fu Petrochemical pursuant to which Mei Fu Petrochemical has conditionally agreed to sell and the Company has conditionally agreed to purchase the Assets at a consideration of RMB117,840,000 (equivalent to approximately HK\$132,866,608)

DEFINITIONS

“Sanjiang Chemical”	三江化工有限公司 (Sanjiang Chemical Co. Ltd.*), a company established in the PRC with limited liability on 9 December 2003, which is an indirect wholly-owned subsidiary of the Company
“Sanjiang Chemical Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for the three years ending 31 December 2023
“Sanjiang New Material”	浙江三江化工新材料有限公司 (Zhejiang Sanjiang New Material Co., Ltd*), a company established in the PRC with limited liability on 23 December 2011, which is an indirect wholly-owned subsidiary of the Company
“Sanjiang New Material Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 1.3MPa) and medium pressure steam (i.e. 3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Sanjiang Chemical Steam Supply Agreement”	the supplemental agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 23 September 2022 to amend the existing annual caps in the Sanjiang Chemical Steam Supply Agreement
“Supplemental Sanjiang New Material Steam Supply Agreement”	the supplemental agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co. dated 23 September 2022 to amend the existing annual caps in the Sanjiang New Material Steam Supply Agreement
“Supplemental Xing Xing Steam Supply Agreement”	the supplemental agreement entered into between Xing Xing and Jiahua Energy Chemical Co. dated 23 September 2022 to amend the existing annual caps in the Xing Xing Steam Supply Agreement

DEFINITIONS

“Xing Xing”	浙江興興新能源科技有限公司 (Zhejiang Xingxing New Energy Technology Co., Ltd.*), a limited liability company established in the PRC and a non-wholly owned subsidiary of the Company, which is owned as to 87% by Sanjiang Chemical and as to 6%, 3%, 2% and 2% respectively by each of Mr. Guo Jinzong* (郭勁松), Mr. Guo Mingliang* (郭明良), Mr. Guo Mingdong* (郭明東) and Mr. Xin Zhangwei* (殷張偉), all of whom are third parties independent of the Company and its connected person
“Xing Xing Steam Supply Agreement”	the steam supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023
“%”	percent

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with “” is for identification purpose only.*



三江化工

SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

Executive Directors:

Ms. Han Jianhong
Mr. Rao Huotao
Ms. Chen Xian
Ms. Guan Siyi

Registered Office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Independent non-executive Directors:

Mr. Shen Kaijun
Ms. Pei Yu
Mr. Kong Liang

*Head Office and Principal place of
business in Hong Kong:*

Room 2202, 22/F
OfficePlus@WanChai
303 Hennessy Road
Hong Kong

30 November 2022

To the Shareholders

Dear Sir/Madam,

**(1) REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS
(I) SANJIANG NEW MATERIAL STEAM SUPPLY AGREEMENT
(II) XING XING STEAM SUPPLY AGREEMENT
AND
(III) SANJIANG CHEMICAL STEAM SUPPLY AGREEMENT
(2) DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF ASSETS
AND
(3) NOTICE OF EGM**

LETTER FROM THE BOARD

1. INTRODUCTION

Reference is made to the Announcement. As disclosed in the Announcement:

- (I) Pursuant to the Sanjiang New Material Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023. On 23 September, Jiahua Energy Chemical Co. and Sanjiang New Material entered into the Supplemental Sanjiang New Material Steam Supply Agreement to amend the existing annual caps for the Sanjiang New Material Steam Supply Agreement. Except for this revision, the principal terms of the Sanjiang New Material Steam Supply Agreement remain the same.
- (II) Pursuant to the Xing Xing Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023. On 23 September, Jiahua Energy Chemical Co. and Xing Xing entered into the Supplemental Xing Xing Steam Supply Agreement to amend the existing annual caps for the Xing Xing Steam Supply Agreement. Except for this revision, the principal terms of the Xing Xing Steam Supply Agreement remain the same.
- (III) Pursuant to the Sanjiang Chemical Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023. On 23 September, Jiahua Energy Chemical Co. and Sanjiang Chemical entered into the Supplemental Sanjiang Chemical Steam Supply Agreement to amend the existing annual caps for the Sanjiang Chemical Steam Supply Agreement. Except for this revision, the principal terms of the Sanjiang Chemical Steam Supply Agreement remain the same.
- (IV) On 23 September 2022, the Sanjiang Chemical (as purchaser) entered into the Sale and Purchase Agreement with Mei Fu Petrochemical (as vendor) pursuant to which Mei Fu Petrochemical has conditionally agreed to sell and Sanjiang Chemical has conditionally agreed to purchase the Assets at a consideration of RMB117,840,000 (equivalent to approximately HK\$132,866,608).

The purpose of this circular is to provide you with (i) further details of each of the (A) Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (B) the Sale and Purchase Agreement; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the advice from Lego Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders; (iv) a notice of the EGM and the form of proxy; and (v) other information required under the Listing Rules.

LETTER FROM THE BOARD

2. REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

The principal terms of each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement are set out as follows.

(I) Supplemental Sanjiang New Material Steam Supply Agreement

Date

23 September 2022

Parties

- (1) Jiahua Energy Chemical Co., a connected person of the Company, as supplier; and
- (2) Sanjiang New Material, an indirectly wholly-owned subsidiary of the Company.

Subject Matter

Under the Supplemental Sanjiang New Material Steam Supply Agreement, the existing annual caps are proposed to be revised as follows:

	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Existing annual caps	120,000	120,000
Revised annual caps	216,000	231,000

Except for the revision of the existing annual caps to the revised annual caps under the Supplemental Sanjiang New Material Steam Supply Agreement, all other principal terms (including the payment terms) under the Sanjiang New Material Steam Supply Agreement remain the same.

As disclosed in the circular of the Company dated 3 December 2020, the purchase price for low and medium pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Sanjiang New Material in respect of purchases under the Sanjiang New Material

LETTER FROM THE BOARD

Steam Supply Agreement shall be tallied on the end of each calendar month and, shall be payable by Sanjiang New Material on or before the end of the following month.

The Group will seek to employ the following measures to ensure that the price of low and medium pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang New Material pursuant to the Sanjiang New Material Steam Supply Agreement will be no less favourable than the price of supplying low and medium pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co: (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low and medium pressure steam of comparable quality; and (ii) all supply contracts regarding low and medium pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of low and medium pressure steam since the purchase prices of low and medium pressure steam payable by Sanjiang Chemical are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and (2) in the event that the prices of low and medium pressure steam that Jiahua Energy Chemical Co. charges Sanjiang New Material are higher than the weighted average purchase prices of such low and medium pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low and medium pressure steam that Jiahua Energy Chemical Co. charges Sanjiang New Material are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang New Material will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low and medium pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of low and medium pressure steam Jiahua Energy Chemical Co. offers to Sanjiang New Material are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

LETTER FROM THE BOARD

(II) Supplemental Xing Xing Steam Supply Agreement

Date

23 September 2022

Parties

- (1) Jiahua Energy Chemical Co., a connected person of the Company, as supplier; and
- (2) Xing Xing, an indirectly non wholly-owned subsidiary of the Company.

Subject Matter

Under the Supplemental Xing Xing Steam Supply Agreement, the existing annual caps are proposed to be revised as follows:

	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Existing annual caps	223,400	223,400
Revised annual caps	350,000	373,000

Except for the revision of the existing annual caps to the revised annual caps under the Supplemental Xing Xing Steam Supply Agreement, all other principal terms (including the payment terms) under the Xing Xing Steam Supply Agreement remain the same.

As disclosed in the circular of the Company dated 3 December 2020, the purchase price for high pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Xing Xing in respect of purchases under the Xing Xing Steam Supply Agreement shall be tallied on the end of each calendar month and, shall be payable by Xing Xing on or before the end of the following month. Under the Xing Xing Steam Supply Agreement, Jiahua Energy Chemical Co. is responsible for the installation and maintenance of the steam meter. Where either party to the Xing Xing Steam Supply Agreement is in doubt as to the accuracy of the reading of the meter, either party may appoint a competent and independent party to check and verify the meter reading.

LETTER FROM THE BOARD

The Group will seek to employ the following measures to ensure that the price of high pressure steam offered by Jiahua Energy Chemical Co. to Xing Xing pursuant to the Xing Xing Steam Supply Agreement will be no less favourable than the price of supplying high pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases high pressure steam of comparable quality; and (ii) all supply contracts regarding high pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of high pressure steam since the purchase prices of high pressure steam payable by Xing Xing are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
- (2) in the event that the prices of high pressure steam that Jiahua Energy Chemical Co. charges Xing Xing are higher than the weighted average purchase prices of such high pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of high pressure steam that Jiahua Energy Chemical Co. charges Xing Xing are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Xing Xing will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of high pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of high pressure steam Jiahua Energy Chemical Co. offers to Xing Xing are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

LETTER FROM THE BOARD

(III) Supplemental Sanjiang Chemical Steam Supply Agreement

Date

23 September 2022

Parties

- (1) Jiahua Energy Chemical Co., a connected person of the Company, as supplier; and
- (2) Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company.

Subject Matter

Under the Supplemental Sanjiang Chemical Steam Supply Agreement, the existing annual cap is proposed to be revised as follows:

	For the year ending 31 December 2023 RMB'000
Existing annual cap	765,300
Revised annual cap	982,000

Except for the revision of the existing annual cap to the revised annual cap under the Supplemental Sanjiang Chemical Steam Supply Agreement, all other principal terms (including the payment terms) under the Sanjiang Chemical Steam Supply Agreement remain the same.

As disclosed in the circular of the Company dated 3 December 2020, the purchase price for low, medium and high pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Sanjiang Chemical in respect of purchases under the Sanjiang Chemical Steam Supply Agreement shall be tallied on the end of each calendar month and, together with an extra 2% of the tallied usage amount of 0.8MPa low pressure steam by Sanjiang Chemical to cover the loss in transmission (which is a market practice and only applicable to the purchase of 0.8MPa low pressure steam), shall be payable by Sanjiang Chemical on or before the end of the following month.

LETTER FROM THE BOARD

The Group will seek to employ the following measures to ensure that the price of low, medium and high pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Chemical pursuant to the Sanjiang Chemical Supply Agreement will be no less favourable than the price of supplying low, medium and high pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low, medium and high pressure steam of comparable quality; and (ii) all supply contracts regarding low, medium and high pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of low, medium and high pressure steam since the purchase prices of low, medium and high pressure steam payable by Sanjiang Chemical are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
- (2) in the event that the prices of low, medium and high pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Chemical are higher than the weighted average purchase prices of such low, medium and high pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low, medium and high pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Chemical are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang Chemical will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low, medium and high pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of low, medium and high pressure steam Jiahua Energy Chemical Co. offers to Sanjiang Chemical are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF REVISING THE EXISTING ANNUAL CAPS AND THE BASIS FOR DETERMINING THE REVISED ANNUAL CAPS UNDER THE SUPPLEMENTAL SANJIANG NEW MATERIAL STEAM SUPPLY AGREEMENT, THE SUPPLEMENTAL XING XING STEAM SUPPLY AGREEMENT AND THE SUPPLEMENTAL SANJIANG CHEMICAL STEAM SUPPLY AGREEMENT

Set out in the table below are (i) the actual transaction amounts for the year ended 31 December 2021, the eight months ended 31 August 2022 and the nine months ended 30 September 2022; (ii) the original annual caps for each of the three years ending 31 December 2023; and (iii) the proposed revised annual caps for each of the two years ending 31 December 2023 for each of the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement (as amended by the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement).

	Sanjiang New Material Steam Supply Agreement	Xing Xing Steam Supply Agreement	Sanjiang Chemical Steam Supply Agreement
(i) Actual Transaction amount for the year ended 31 December 2021 (RMB'000)	97,924	210,613	165,384
(ii) Actual Transaction amount for the eight months ended 31 August 2022 (RMB'000)	105,856	184,303	96,259
(iii) Actual Transaction amount for the nine months ended 30 September 2022 (RMB'000)	113,900	203,841	119,726
(iv) Original annual cap for the year ended 31 December 2021 (RMB'000)	120,000	223,400	297,000
(v) Original annual cap for the year ending 31 December 2022 (RMB'000)	120,000	223,400	765,300
(vi) Original annual cap for the year ending 31 December 2023 (RMB'000)	120,000	223,400	765,300

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	Supplemental Sanjiang New Material Steam Supply Agreement	Supplemental Xing Xing Steam Supply Agreement	Supplemental Sanjiang Chemical Steam Supply Agreement
(vii) Proposed revised annual cap for the year ending 31 December 2022 (RMB'000)	216,000	350,000	—
(viii) Proposed revised annual cap for the year ending 31 December 2023 (RMB'000)	231,000	373,000	982,000

Upon review of the actual transaction amounts of low pressure (1.3MPa) and medium pressure steam (3.4MPa) supplied to Sanjiang New Material by Jiahua Energy Chemical Co. under the Sanjiang New Material Steam Supply Agreement, the actual transacted costs of high pressure steam (i.e. 4.6MPa) supplied to Xing Xing by Jiahua Energy Chemical Co. under the Xing Xing Steam Supply Agreement and the actual transacted costs of low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) supplied to Sanjiang Chemical by Jiahua Energy Chemical Co. under the Sanjiang Chemical Steam Supply Agreement, it is evident that the existing annual caps under the Sanjiang New Material Steam Supply Agreement and the Xing Xing Steam Supply Agreement will likely exceed. This is mainly due to the increase in unit prices of low pressure steam, medium pressure steam and high pressure steam as the manufacturing section in the PRC has revitalized which has driven up the market prices of energy and coals, including low pressure steam, medium pressure steam and high pressure steam, which is beyond the original expectation when determining the annual caps under the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement. Further, due to the price fluctuation of crude oil and natural gas/coal on a global basis and for the purpose of cost control by the Group, the commercial operation of the Group's 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis, which was initially scheduled to commence in late 2021, has been delayed and is only scheduled to commence in late 2022, whereby it is expected to finish ramp-up in early 2023 and will commence operation during 2023, therefore resulting in higher purchase volume of steam by Sanjiang Chemical for the year ending 31 December 2023 due to the Group's increased EO/EG production capacity in 2023. There is therefore an imminent need to increase the existing annual caps so that Sanjiang New Material, Xing Xing and Sanjiang Chemical are able to secure a steady supply of low pressure steam, medium pressure steam and high pressure steam at a reasonable and cost effective price (given the proximity of the production facilities between Jiahua Energy Chemical Co. and Sanjiang New Material and Xing Xing and Sanjiang Chemical) in order to fulfil their respective needs. In determining the revised amount of the annual caps under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement, besides taking into account the actual transaction amounts thereunder, consideration was made to the projected estimation in the

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increase usage of steam required once the Group's 6th phase EO/EG production facilities have finished ramped up with an inclusion of 5% as buffer for catering any further unexpected increase in demand of steam of the Group.

The Board would like to further elaborate that, in addition to the above:

- (i) the revised annual cap for the Supplemental Sanjiang New Material Steam Supply Agreement in 2022 represents approximately 36% premium to the annualized transaction amounts in 2022 (based on the actual transaction amounts for the eight months ended 31 August 2022), while the revised annual cap for 2023 represents approximately 7% increase as compared to the revised annual cap for 2022. The revised annual cap for the year ending 31 December 2022 is the sum of (i) the actual transaction amount for the first half of 2022 (being approximately RMB95,682,000); and (ii) the expected transaction amount for the second half of 2022 (being approximately RMB120,318,000), being multiple of the expected purchase amount and price of low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) by Sanjiang New Material from Jiahua Energy Chemical Co. Such amount represents approximately 10% increase in the purchase amount as compared to the actual transaction amount for the first half of 2022 and an increase of approximately RMB83,882,000 (being approximately 560%) as compared to the actual transaction amount for Q3 of 2022 due to the fact that more steam is expected to be purchased for the production plan (whereas for Q1 and Q2 of 2022, the Group had maintained a stable output of both EO and EG). This is due to the swing production mechanism put in place for adjusting the amount of EO and EG produced — if the market price of EG decreases, the allocated amount for production of EG will decrease and more EO will be produced, and under such production output ratio much more steam will have to be required to maintain and keep the production facility operating. Such swing production mechanism had undergone a continuous allocation process during Q3 of 2022, leading to a decrease in the volume of both EO and EG produced. As the Group expects the market price of EG will be relatively low and stable in Q4 of 2022, more EO is expected to be produced upon completion of the allocation process under the swing production mechanism thus resulting in an expected increase in the amount of steam (being approximately 560%) required for the production of EO in the amount of approximately RMB83,882,000 at maximum capacity.

The historical purchase amount of low pressure steam (1.3MPa) purchased by Sanjiang New Material has increased substantially during the first half of 2022 as compared to the first half of 2021. Such increase in purchase volume was due to the fact that (i) more steam was required to generate sufficient heat for chemical reaction following replacement of catalyst of the production facilities conducted in October 2021; and (ii) the increase in volume of EO produced by the Group for the first half of 2022. The expected steam volume to be purchased by Sanjiang New Material from Jiahua Energy Chemical Co. for the second half of 2022 under the revised annual caps is comparable to its actual purchase amount for the first half of 2022. The expected average unit price of steam to be purchased by Sanjiang New Material was arrived at based on the average transacted unit price of steam for the first half of 2022 plus an expected price increment of 15%, which was determined with reference to the historical transacted

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price of steam. The average unit price of the low pressure steam (1.3MPa) and medium pressure steam (3.4Mpa) purchased by Sanjiang New Material from Jiahua Energy Chemical Co. has shown significant growth for the second half of 2021 as compared to the first half of 2021, while the overall growth in average unit price has slowed down during the first half of 2022 as compared to the second half of 2021. Taking into consideration the historical price trend, the percentage of price increment adopted for the second half of 2022 in determining the revised annual cap for the year ending 31 December 2022 is within the range of average of the historical price increment of both low pressure steam (1.3MPa) and medium pressure steam (3.4Mpa) during the aforesaid comparative periods. As the Company expects the purchase volume by Sanjiang New Material and the average unit price of steam will remain stable in 2023, the revised annual cap for the year ending 31 December 2023 was determined based on (i) the expected purchase volume of steam by Sanjiang New Material in 2023, which is equivalent to its expected purchase volume in 2022; and (ii) the expected average unit price of steam, which is the same price as that adopted in computing the revised annual cap for the year ending 31 December 2022. The approximately 7% increase in the revised annual cap for 2023 as compared to the revised annual cap for 2022 is determined mainly on the expected percentage increase in inflation rate (2%) and the 5% buffer as mentioned above.

- (ii) the revised annual cap for the Supplemental Xing Xing Steam Supply Agreement in 2022 represents approximately 26% premium to the annualized transaction amounts in 2022 (based on the actual transaction amounts for the eight months ended 31 August 2022), while the revised annual cap for 2023 represents approximately 7% increase as compared to the revised annual cap for 2022. The revised annual cap for the year ending 31 December 2022 is the sum of (i) the actual transaction amount for the first half of 2022 (being approximately RMB152,196,000); and (ii) the expected transaction amount for the second half of 2022 (being approximately RMB197,804,000), being multiple of the expected purchase amount and price of high pressure steam (4.6Mpa) by Xing Xing. Such amount represents approximately 13% increase in the purchase amount as compared to the actual transaction amount for the first half of 2022 and an increase of approximately RMB94,514,000 (being approximately 183%) as compared to the actual transaction amount for Q3 of 2022 mainly due to the increase in demand for high pressure steam as an upstream raw material to catch up with the decreased production during Q3 of 2022. The Group adjusts its production capacities in terms of producing ethylene and propane from time to time depending on the market price of methanol. If the price of methanol increases, the Group will lower the production amount and source ethylene and propane from independent third parties. The Group maintained a stable output as the price of methanol was stable during Q1 and Q2 of 2022. As the price of methanol increased during Q3 of 2022, the Group has used less high pressure steam and sourced ethylene and propane from independent third parties directly leading to a decrease in the allocated usage during Q3 of 2022. As the Group expects the price of methanol to lower in Q4 of 2022, it is expected that more high pressure steam will be used for the production of ethylene and propane and sourcing from independent third parties will decrease and thus the Group had commenced its allocation process to increase the use of high pressure steam near the end of Q3 of 2022. The expected increase in the amount of high pressure steam will be

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approximately RMB94,514,000 at maximum production capacity due to the expected increase in volume of high pressure steam to be purchased (an increase of approximately 183%) with the expected average unit price of steam remaining relatively stable for Q4 of 2022.

The expected purchase volume of steam for 2022 is comparable to the actual purchase volume of steam for 2021 by Xing Xing, and the actual purchase volume for the first half of 2022 represented around 47% of the expected purchase volume for the full year of 2022. The expected average unit price of steam to be purchased by Xing Xing was arrived at based on the average transacted unit price of steam for the first half of 2022 plus an expected price increment of 15%, which was determined with reference to the historical transacted price of steam. The historical actual average unit price of the high pressure steam (4.6MPa) purchased by Xing Xing from Jiahua Energy Chemical Co. has shown significant growth for the second half of 2021 as compared to the first half of 2021, while the overall growth in average unit price has slowed down for the first half of 2022 as compared to the second half of 2021. Taking into consideration the historical price trend, the percentage of price increment adopted for the second half of 2022 in determining the revised annual cap for the year ending 31 December 2022 is below the average historical price increment of the high pressure steam (4.6MPa) during the aforesaid comparative periods.

As the Company expects the purchase volume by Xing Xing and the average unit price of steam will remain stable in 2023, the revised annual cap for the year ending 31 December 2023 was determined based on (i) the expected purchase volume of steam by Xing Xing in 2023, which is equivalent to its expected purchase volume in 2022; and (ii) the expected average unit price of steam, which is the same price as that adopted in computing the revised annual cap for the year ending 31 December 2022. The approximately 7% increase in the revised annual cap for 2023 as compared to the revised annual cap for 2022 is determined mainly on the expected percentage increase in inflation rate (2%) and the 5% buffer as mentioned above.

- (iii) the revised annual cap for the Supplemental Sanjiang Chemical Steam Supply Agreement in 2023 represents approximately 580% increase as compared to the annualized transaction amount in 2022 (based on the actual transaction amounts for the eight months ended 31 August 2022). The revised annual cap for the Supplemental Sanjiang Chemical Steam Supply Agreement represents approximately 28% increase as compared to the annual cap for the year ending 31 December 2022. Both the annual cap for the year ending 31 December 2022 and the original annual cap for the year ending 31 December 2023 have taken into account the commencement of the Group's 6th phase EO/EG production facilities. However, taking into account that (A) the average unit price of medium pressure steam (3.4MPa) and low pressure steam (1.3MPa) purchased by Sanjiang Chemical from Jiahua Energy Chemical Co. has shown significant growth for the second half of 2021 as compared to the first half of 2021, while the overall growth in average unit price has slowed down for the first half of 2022 as compared to the second half of 2021, thus the expected average unit price of steam to be purchased by Sanjiang Chemical which was arrived at based on the average transacted unit price of steam for the first half of 2022 was estimated to include an

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expected price increment of 15% which is within the historical range of the average price increment of both medium pressure steam (3.4MPa) and low pressure steam (1.3MPa) during the aforesaid comparative periods; (B) the expected increase in average unit price of high pressure steam (4.6MPa), which was determined based on the average transacted unit price of high pressure steam (4.6MPa) purchased by Xing Xing from Jiahua Energy Chemical Co. (being an expected price increment of 15% offset by the reduced use of chemicals by approximately 9% due to the efforts of the Company in enhancing energy efficiency with new technology in the Group's 6th phase EO/EG production facilities); (C) the expected percentage increase in inflation rate (2%) and the 5% buffer as mentioned above; and (D) the Group's 6th phase EO/EG production facilities will finish ramp up during the year ending 31 December 2023 thus allowing the Group to reach the maximum annual consumption level of steam in the first quarter of 2023, the Company believes that an approximately 28% increase in the revised annual cap for the year ending 31 December 2023 as compared to the annual cap for the year ending 31 December 2022 is fair and reasonable.

In determining the revised annual caps under the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement, the parties have also taken into account the assumption that during the remaining term of the Sanjiang New Material Steam Supply Agreement, Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement (as amended by the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement), there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the Group.

As at the Latest Practicable Date, the respective existing annual caps under the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement have not been exceeded and it is expected that the actual transaction amounts will not exceed the existing annual caps before approval from Independent Shareholders is obtained for revising the existing annual caps under the Sanjiang New Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Supply Agreement respectively.

The Directors (excluding the independent non-executive Directors whose views will be given taking into account the advice to be obtained from an independent financial adviser) are of the view that the terms and conditions of each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and that the entry into of each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement is in the interests of the Company and its Shareholders as a whole.

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3. DISCLOSEABLE AND CONNECTED TRANSACTION

The principal terms of the Sale and Purchase Agreement are set out as follows.

Date

23 September 2022

Parties

- (1) Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company, as purchaser; and
- (2) Mei Fu Petrochemical, a connected person of the Company, as vendor

Subject matter

Pursuant to the Sale and Purchase Agreement, Mei Fu Petrochemical has conditionally agreed to sell and Sanjiang Chemical has conditionally agreed to purchase the Assets at a consideration of RMB117,840,000 (equivalent to approximately HK\$132,866,608).

Conditions precedent

Completion is conditional upon the fulfilment of the certain conditions precedent which include, among other things, the following:

- (i) the Independent Shareholders approving the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM; and
- (ii) the completion of the ramp-up of the Group's 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and its ancillary upstream production facilities by no later than 31 March 2023 and being in a position to commence operation thereafter.

Both condition precedents cannot be waived by either parties. As at the Latest Practicable Date, both condition precedents have not been fulfilled.

Consideration and Terms of Payment

The consideration for the acquisition of the Assets payable by Sanjiang Chemical under the Sale and Purchase Agreement is RMB117,840,000 (equivalent to approximately HK\$132,866,608), 50% of the consideration shall be payable by Sanjiang Chemical upon the signing of the Sale and Purchase Agreement and the remaining 50% of the consideration shall be paid on completion.

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In the event that any of the condition precedents cannot be fulfilled on or before 31 March 2023 (“**Long Stop Date**”), the parties may then agree to extend the Long Stop Date to no later than 30 June 2023, failing which, Mei Fu Petrochemical shall refund the 50% consideration paid by Sanjiang Chemical and the Sale and Purchase Agreement shall be terminated and none of the parties shall have any further claim or cause of action against the other party. 50% of the consideration was paid by Sanjiang Chemical to Mei Fu Petrochemical upon signing of the Sale and Purchase Agreement.

Mei Fu Petrochemical has provided its management accounts for the eight months ended 31 August 2022 to the Company. Upon reviewing the audited financial statement of Mei Fu Petrochemical for the year ended 31 December 2021 and the unaudited management accounts of Mei Fu Petrochemical for the eight months ended 31 August 2022, the Company is satisfied that Mei Fu Petrochemical will have sufficient funds to refund the 50% consideration in the event that the Sale and Purchase Agreement is terminated as the cash level and net asset value of Mei Fu Petrochemical are significantly in excess of the amount paid by Sanjiang Chemical to Mei Fu Petrochemical as at both 31 December 2021 and 31 August 2022.

The consideration would be financed by the internal resources of the Group.

Basis of consideration

The consideration was determined after arm’s length negotiations between Sanjiang Chemical and Mei Fu Petrochemical on normal commercial terms primarily with reference to the appraised value of the Assets of RMB117,840,000 (equivalent to approximately HK\$132,866,608) rendered by CHFT Advisory and Appraisal Limited, an independent valuer, as at 31 August 2022, using the cost approach and in particular, the replacement cost method. The Assets were constructed by Mei Fu Petrochemical at approximately RMB162,280,000 (equivalent to approximately HK\$182,973,465) in 2014.

Completion

Completion shall take place 5 business days (i) after the commencement of the operation of the Group’s 6th phase EO/EG production facilities and ancillary upstream level production facilities; and (ii) after receipt of a confirmation from the board of directors of Mei Fu Petrochemical to Sanjiang Chemical confirming the completion of the isolation of the Assets from its production processes, whichever is later. At Completion, Mei Fu Petrochemical shall deliver the title of the Assets to Sanjiang Chemical. Given the proximity of the location of Sanjiang Chemical and Mei Fu Petrochemical (within a distance of 5 miles), both Sanjiang Chemical and Mei Fu Petrochemical agreed that the Assets would not be dismantled upon completion for relocation to the premises of Sanjiang Chemical but will remain at Mei Fu Petrochemical with Mei Fu Petrochemical granting an exclusive right of way to Sanjiang Chemical to enter into the premises where the Assets are situated for an annual fee of RMB1,557,415.50 pursuant to an undertaking letter issued by Mei Fu Petrochemical to Sanjiang Chemical granting such exclusive right of way to Sanjiang

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Chemical. Taking into account that the expected economic useful life the Assets is around 20 years, the costs of dismantling and relocating the Assets to the premises of Sanjiang Chemical will be significantly higher (approximately RMB54,000,000) and time consuming (which is expected to take more than 1 year's time), together with the total estimated amount of tax savings per year (as set out in the section headed "Reasons For and Benefits of Entering Into The Sale and Purchase Agreement" below) allowing the Assets to remain as Mei Fu Petrochemical will be in the interests of the Company and its shareholders as a whole.

Upon Completion, the Company will be responsible for the operation and safeguarding of the Assets. The Company will conduct security checks and station staff at the entrance of the premises of the Assets to ensure that the only the staff of the Company will have an exclusive right to enter into the premises where the Assets are situated.

Information on the Assets

The Assets to be acquired by Sanjiang Chemical pursuant to the Sale and Purchase Agreement is an aromatic extraction unit situate at Mei Fu Petrochemical including its ancillary surveillance and monitoring systems together with certain infrastructure attaching to the aromatic extraction unit as fixtures. Sanjiang Chemical had not generated by-product output of mixed aromatics in the past as it did not possess the necessary equipment. The device comprising the Assets uses mixed aromatics as raw material (500,000 tonnes per year) and after processing these with liquid-liquid extraction technology with sulfolane as solvent and upon completion of the relevant aromatics extraction and separation process to produce benzene, toluene and mixed xylene (400,000 tonnes per year) together with by-products such as raffinate (which is used for further deep processing). The device comprising the Assets operates 8,400 hours per year with an operation flexibility of between 50% to 120%. The device comprising the Assets can operate at a maximum utility rate of 120% depending on the amount of chemicals needed but will have to operate at a minimum utility rate of 50% so as to ensure that there is no suspension in the chemical combustion process. The device comprising the Assets have been in smooth operation as at the Latest Practicable Date.

As at 31 August 2022, the book value of the Assets amounted to approximately RMB111,786,556 (equivalent to approximately HK\$126,032,766) in aggregate. As at 31 August 2022, the appraised value for the Assets was RMB117,840,000 (equivalent to approximately HK\$132,866,608).

Details of the valuation of the Assets held by Mei Fu Petrochemical appraised by CHFT Advisory and Appraisal Limited as at 31 August 2022 are set out below. Shareholders may refer to Appendix I for the valuation report rendered by CHFT Advisory and Appraisal Limited.

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Valuation
methodology:

The valuer decided to adopt cost approach, and in particular, the replacement cost method. Generally, replacement cost is the cost that is relevant to determining the price that a market participant would pay as it is based on replicating the utility of the asset, not the exact physical properties of the asset. Usually, replacement cost is adjusted for physical deterioration and all relevant forms of obsolescence. After such adjustments, this can be referred to as depreciated replacement cost.

The key steps in the replacement cost method are:

- (i) calculate all of the costs that would be incurred by a typical market participant seeking to create an asset providing equivalent utility;
- (ii) determine whether there is any depreciation related to physical, functional and economic obsolescence associated with the subject asset; and
- (iii) deduct total depreciation from the total costs to arrive at a value for the subject asset.

Valuation
Assumptions:

The assumptions considered in the valuation included, but were not limited to, the following:

- (i) the assumption that the Assets are in good operating condition; and
- (ii) the general petrochemical market will show stable growth in the coming projection period.

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Valuation key parameters:

Economic Useful Life

The valuer has obtained a breakdown schedule of the Assets and discussed the economic useful life of different categories of Assets with the management. Per management's opinion and the valuer's experience, the economic useful life of the Assets is as below:

Item (note)	Useful Life
Petroleum Infrastructure	20 years
Machine Spare Parts & Accessories	20 years
Monitoring and Control System	20 years

Source: MARSHALL & SWIFT/BOECKH, LLC

Note: For Installation and Engineering Project and Others, as the nature of such items represent the labor cost incurred rather than tangible assets acquired, the replacement cost of such items are primarily determined by pricing level. The concept of economic useful life is not appropriate to be applied on such items and the replacement cost of these items is not relevant to its economic useful life.

Purchase Cost

The valuer has adopted the trending method to estimate the purchase cost of the Assets as at the 31 August 2022, being the valuation date. The valuer noticed that the most Assets were purchased from 2014 to 2018.

Based on the domestic supply price index published National Bureau of Statistics of China, the Price Indices for Investment in Fixed Assets from 2013 to 2021 is 100.3, 100.5, 98.2, 99.4, 105.8, 105.4, 102.6, 99.1 and 106.9 respectively. The valuer has re-calculated the market value of the fixed assets based on the above price index.

Deterioration and Obsolescence

The valuer has considered three types of deterioration and obsolescence in this valuation: physical deterioration, functional obsolescence and economic obsolescence.

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Physical deterioration is a form of depreciation where loss in value or usefulness of a property is due to the using up or expiration of its useful life caused by wear and tear, deterioration, exposure to various elements, physical stresses, and similar factors. For physical deterioration, the valuer has calculated the effective depreciation of the fixed assets, based on its economic useful life and actual used life. The economic useful life is determined mainly with reference to the Life Expectancy Guidelines table, published by MARSHALL & SWIFT/BOECKH, LLC.

Functional obsolescence is a form of depreciation in which the loss in value or usefulness of a property is caused by inefficiencies or inadequacies of the property itself, when compared to a more efficient or less costly replacement property that new technology has developed. For functional obsolescence, the valuer understood that Mei Fu Petrochemical did not have outdated equipment as the petrochemical industry is quite traditional, and all Mei Fu Petrochemical's Assets have been properly placed and used. So functional obsolescence is not applied.

Economic obsolescence is a form of depreciation where the loss in value of asset is caused by factors external to the asset. For economic obsolescence, the valuer noticed that the business environment of the Company is relatively stable. Common risk factor such as policy change, industry demand, fluctuation in raw material price, etc, are not expected to happen for Mei Fu Petrochemical. So economic obsolescence is not applied.

Based on the communication with CHFT Advisory and Appraisal Limited, the Directors understand that the cost approach, and in particular, the replacement cost method has been used and the cost approach, and in particular, the replacement cost method is universally considered as the most accepted valuation approach for valuing most forms of assets. The Directors agree with the valuer that the cost approach, and in particular, the replacement cost method was appropriate for the valuation of the Assets. The valuer relied to a very considerable extent on the information provided by the Company and had no reason to doubt the truth and accuracy of the information provided to them by the Company. The valuer has also sought confirmation from the Company that no material factors have been omitted from the information supplied.

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The valuer considered that they had been provided with sufficient information to arrive an informed view, and the valuer had no reason to suspect that any material information has been withheld.

Subsequent to 31 August 2022 and up to the Latest Practicable Date, the Directors have been informed that there had been no material changes in the condition of the Assets.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT

The Assets have not been leased and used by the Group prior to the entering into of the Sale and Purchase Agreement. The Group' 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis has a by-product output of mixed aromatics of 261,000MT per year and the direct sales of mixed aromatics to market would be subject to consumer tax, which is estimated to be representing approximately 20% of the revenue of mixed aromatics. The device comprising the Assets uses mixed aromatics as raw material (500,000 tonnes per year) and convert mixed aromatics into chemicals, toluene and mixed xylene and other downstream products that are not subject to consumer tax and the Group believes it is a substantial saving for the Group on a long term basis for acquiring the Assets. It is estimated that the Group will be able to save approximately RMB2,100 per tonne for consumer tax savings in respect of the chemicals, toluene and mixed xylene and other downstream products once the Assets are acquired. The total estimated amount of tax savings per year would be approximately RMB377 million as the annual production of those chemicals, toluene and mixed xylene and other downstream products is expected to be approximately 250,000 tonnes per year in total. In addition, as mentioned above, the costs of dismantling and relocating the Assets to the premises of Sanjiang Chemical is significantly higher and time consuming than allowing the Assets to remain at Mei Fu Petrochemical. Accordingly, the Board is of the view that the entering into of the Sale and Purchase Agreement is in the interests of the Company and its Shareholders as a whole after taking into account of the operation costs of the Assets, the cost of converting mixed aromatics into chemicals, toluene and mixed xylene and other downstream products, and the different selling price of mixed aromatics and chemicals, toluene and mixed xylene and other downstream products and the annual fee of RMB1,557,415.50 payable by Sanjiang Chemical to Mei Fu Petrochemical in respect of the exclusive right of way granted.

4. INFORMATION ON THE CONNECTED PERSONS

Jiahua Energy Chemical Co. is a limited company established in the PRC and is principally engaged in the business of production and trading of desalinated water, steam, chlor-alkali, ortho-para, fatty alcohol and sulfuric acid. Jiahua Energy Chemical Co. is currently listed on the Shanghai Stock Exchange (stock code: 600273). Other than Jiahua, there are no other shareholders who individually hold more than 10% or above interests in Jiahua Energy Chemical Co..

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Mei Fu Petrochemical is a limited company established in the PRC and is principally engaged in the production and sale of propylene chemical light fuel, clean light fuel, liquefied petroleum gas, heavy fuel, oil and dry gas, propane, MTBE, sulfur, asphalt and lubricants. Mei Fu Petrochemical is owned as to 33.00% by Sure Capital, 31.85% by Hangzhou Haoming, 18.00% by Jianghao Investment and 17.15% by Ningbo Yongsheng.

5. INFORMATION OF THE COMPANY AND THE GROUP

The principal activities of the Group are the manufacture and supply of ethylene oxide, ethylene glycol, polypropylene, methyl tert-butyl ether and surfactants in the PRC. The Group was also engaged in the provision of processing services for polypropylene, methyl tert-butyl ether and surfactants to its customers and the production and supply of other chemical products such as C4, pentene and industrial gases, namely oxygen, nitrogen and argon in the PRC.

6. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Jiahua Energy Chemical Co. is owned as to approximately 36.77% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. Mei Fu Petrochemical is owned as to approximately 82.85% by Mr. Guan indirectly through a number of investment holding companies controlled by Mr. Guan. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company and Jiahua Energy Chemical Co. and Mr. Guan is an executive Director and a controlling shareholder of Mei Fu Petrochemical, Jiahua Energy Chemical Co. and Mei Fu Petrochemical are therefore each an associate of Mr. Guan and Ms. Han and are thus each a connected person of the Company and the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules whereas the Sale and Purchase Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, each of (i) the proposed revised annual caps for each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement for the two years ending 31 December 2023; and (ii) the proposed revised annual cap of the Supplemental Sanjiang Chemical Steam Supply Agreement for the year ending 31 December 2023 are aggregated as they were entered into between members of the Group, as purchaser, and a connected person (i.e. Jiahua Energy Chemical Co.) as supplier and they are of a similar nature relating to the purchase of steam by members of the Group from the same connected person (i.e. Jiahua Energy Chemical Co.) with similar pricing mechanism. The amount of revised annual caps on an aggregated basis, for the year ending 31 December 2022 and 31 December 2023 is RMB566,000,000 and RMB1,586,000,000 respectively.

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As one or more of the applicable ratios in respect of (i) the aggregated proposed revised annual caps of each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement for the two years ending 31 December 2023 and the proposed revised annual cap of the Supplemental Sanjiang Chemical Steam Supply Agreement for the year ending 31 December 2023 is more than 5%; and (ii) the Sale and Purchase Agreement is more than 5% but less than 25%, the transactions contemplated under the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and the Sale and Purchase Agreement constitute a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules. Accordingly, each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement is subject to the reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules whereas the Sale and Purchase Agreement is subject to reporting, announcement, annual review and the independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Ms. Han was interested in each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and she therefore abstained from voting on the board resolutions of the Company approving each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and none of them were required to abstain from voting on the board resolutions of the Company in respect thereof.

7. GENERAL

The Company will seek Independent Shareholders' approval for, if thought fit, approving, among other things, the entering into (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement; and (ii) the proposed revised annual caps for the two years ending 31 December 2023 for the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement and the Supplemental Xing Xing Steam Supply Agreement and the proposed revised annual cap for the year ending 31 December 2023 under the Supplemental Sanjiang Chemical Steam Supply Agreement at the EGM.

LETTER FROM THE BOARD

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether the terms of (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and Shareholders as whole.

8. THE EGM

The Company will convene the EGM at 10:30 a.m. on Tuesday, 20 December 2022 at 24/F, OfficePlus@WanChai, 303 Hennessy Road, Wan Chai, Hong Kong at which ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, approving, among other things, (i) the entering into each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement; and (ii) the proposed revised annual caps for the two years ending 31 December 2023 for the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the proposed revised annual cap for the year ending 31 December 2023 under the Supplemental Sanjiang Chemical Steam Supply Agreement. A notice of the EGM is set out on pages 84 to 87 of this circular.

A form of proxy for use at the EGM is also enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the proxy form shall be deemed to be revoked.

9. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, the resolutions put to the vote at the EGM will be taken by way of poll. The chairman of the EGM will explain the detailed procedures for conducting a poll at the commencement of the EGM. After the conclusion of the EGM, the poll results will be published on the respective websites of the Stock Exchange and the Company.

LETTER FROM THE BOARD

As at the Latest Practicable Date, 516,496,000 shares of the Company (representing approximately 43.40% of the issued shares of the Company as at the Latest Practicable Date) were held by Sure Capital Holdings Limited (“**Sure Capital**”) which was wholly-owned by Yihao Development Limited which was held under the Yihao Trust, the trustee of which was Vistra Trust (Singapore) Pte. Ltd (“**Vistra Singapore**”). The Yihao Trust was established by Mr. Guan and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Mr. Guan, Ms. Han, Ms. Guan and Vistra Singapore are deemed to be interested in such shares under the SFO.

Accordingly, each of Mr. Guan, Ms. Han, Ms. Guan and Vistra Singapore are required to abstain from voting at the EGM under the Listing Rules in respect of the resolutions approving, among other things, (i) the entering into each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement; and (ii) the proposed revised annual caps for the two years ending 31 December 2023 for the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the proposed revised annual cap for the year ending 31 December 2023 under the Supplemental Sanjiang Chemical Steam Supply Agreement. As each of Mr. Guan, Ms. Han, Ms. Guan and Vistra Singapore are deemed to be interested in 516,496,000 shares, such number of Shares held by Sure Capital shall be required to abstain from voting at the EGM.

10. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 15 December 2022 to Tuesday, 20 December 2022 (both days inclusive) for the purpose of ascertaining the right of Shareholders to attend and vote at the EGM to be held on Tuesday, 20 December 2022. In order to qualify for attending and voting at the EGM, all transfers documents accompanied by the relevant share certificates must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 14 December 2022.

11. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 32 to 33 of this circular and the letter from Lego Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders set out on pages 35 to 62 of this circular in connection with (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement; and (ii) the proposed revised annual caps for the two years ending 31 December 2023 for the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the proposed revised annual cap for the year ending 31 December 2023 under the Supplemental Sanjiang Chemical Steam Supply Agreement and the principal factors and reasons considered by Lego Corporate Finance Limited in arriving at such advice.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice from Lego Corporate Finance Limited, considers that (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement; and (ii) the proposed revised annual caps for the two years ending 31 December 2023 for the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the proposed revised annual cap for the year ending 31 December 2023 under the Supplemental Sanjiang Chemical Steam Supply Agreement were entered into on normal commercial terms and the terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Accordingly, the Directors, including the Independent Board Committee, recommend the Shareholders to vote in favour of the ordinary resolutions to approve (i) the entering into each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement; and (ii) the proposed revised annual caps for the two years ending 31 December 2023 for the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the proposed revised annual cap for the year ending 31 December 2023 under the Supplemental Sanjiang Chemical Steam Supply Agreement at the EGM as set out in the notice of the EGM.

12. ADDITIONAL INFORMATION

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

13. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

Yours faithfully
By Order of the Board
China Sanjiang Fine Chemicals Company Limited
Han Jianhong
Chairlady and executive Director



三江化工

SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

30 November 2022

To the Independent Shareholders

**(1) REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS
(I) SANJIANG NEW MATERIAL STEAM SUPPLY AGREEMENT
(II) XING XING STEAM SUPPLY AGREEMENT
AND
(III) SANJIANG CHEMICAL STEAM SUPPLY AGREEMENT
(2) DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF ASSETS
AND
(3) NOTICE OF EGM**

Dear Sir or Madam,

We refer to the circular of the Company dated 30 November 2022 (the “**Circular**”) to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, whether the terms of (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and Shareholders as whole. Lego Corporate Finance Limited has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement.

Your attention is drawn to the “Letter from the Board” set out on pages 6 to 31 of the Circular which contains, *inter alia*, information about the terms of (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement and the “Letter from Lego Corporate Finance Limited” set out on pages 35 to 62 of the Circular which contains its advice in respect of (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement together with the principal factors taken into consideration.

Having considered the terms of (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement and having taken into account the factors and reasons considered by and the advice from Lego Corporate Finance Limited as stated in their letter dated 30 November 2022, we consider that the terms of (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement and the transactions thereunder are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms so far as the interests of the Independent Shareholders are concerned; and the entering into of (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement are in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to ratify and approve (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement.

Yours faithfully,
For and on behalf of
The Independent Board Committee

Mr. SHEN Kaijun

Ms. PEI Yu

Mr. KONG Liang

Independent non-executive Directors

LETTER FROM LEGO CORPORATE FINANCE LIMITED

The following is the full text of the letter from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and the respective transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



30 November 2022

To: *The Independent Board Committee and the independent Shareholders of
China Sanjiang Fine Chemicals Company Limited*

Dear Sir or Madam,

**(1) REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS
(I) SANJIANG NEW MATERIAL STEAM SUPPLY AGREEMENT
(II) XING XING STEAM SUPPLY AGREEMENT
AND
(III) SANJIANG CHEMICAL STEAM SUPPLY AGREEMENT
(2) DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF ASSETS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and the respective transactions contemplated thereunder, details of which are set out in the section headed “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 30 November 2022 (the “**Circular**”), of which this letter forms apart. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

LETTER FROM LEGO CORPORATE FINANCE LIMITED

On 23 September 2022, Jiahua Energy Chemical Co. and Sanjiang New Material entered into the Supplemental Sanjiang New Material Steam Supply Agreement to amend the existing annual caps for the Sanjiang New Material Steam Supply Agreement. Except for this revision, all other principal terms of the Sanjiang New Material Steam Supply Agreement remain the same. On 23 September 2022, Jiahua Energy Chemical Co. and Xing Xing entered into the Supplemental Xing Xing Steam Supply Agreement to amend the existing annual caps for the Xing Xing Steam Supply Agreement. Except for this revision, all other principal terms of the Xing Xing Steam Supply Agreement remain the same. On 23 September 2022, Jiahua Energy Chemical Co. and Sanjiang Chemical entered into the Supplemental Sanjiang Chemical Steam Supply Agreement to amend the existing annual caps for the Sanjiang Chemical Steam Supply Agreement. Except for this revision, all other principal terms of the Sanjiang Chemical Steam Supply Agreement remain the same.

On 23 September 2022, Sanjiang Chemical (as purchaser) entered into the Sale and Purchase Agreement with Mei Fu Petrochemical (as vendor) pursuant to which Mei Fu Petrochemical has conditionally agreed to sell and Sanjiang Chemical has conditionally agreed to purchase the Assets at a consideration of RMB117,840,000 (equivalent to approximately HK\$132,866,608).

As at the Latest Practicable Date, Jiahua Energy Chemical Co. is owned as to approximately 36.77% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. Mei Fu Petrochemical is owned as to approximately 82.85% by Mr. Guan indirectly through a number of investment holding companies controlled by Mr. Guan. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company and Jiahua Energy Chemical Co. and Mr. Guan is an executive Director and a controlling shareholder of Mei Fu Petrochemical, Jiahua Energy Chemical Co. and Mei Fu Petrochemical are therefore each an associate of Mr. Guan and Ms. Han and are thus each a connected person of the Company. Accordingly, the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules whereas the transactions contemplated under the Sale and Purchase Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules, which are therefore subject to reporting, announcement, annual review and the independent shareholders' approval requirements.

The EGM will be convened for the purpose of considering and, if thought fit, approving (i) the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the proposed revised annual caps contemplated thereunder; and (ii) the Sale and Purchase Agreement by the Independent Shareholders.

LETTER FROM LEGO CORPORATE FINANCE LIMITED

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Shen Kaijun, Ms. Pei Yu and Mr. Kong Liang, has been established to consider the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the transactions contemplated under the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement, any relationships or services provided between the Group and Lego Corporate Finance Limited that would affect our independence. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group. Accordingly, we are independent under Rule 13.84 of the Listing Rules and qualified to give independent advice in respect of the terms of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and the respective transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have reviewed, *inter alia*, the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement, the annual report of the Company for the year ended 31 December 2021 (the “**Annual Report 2021**”) and the interim report of the Company for the six months ended 30 June 2022 (the “**Interim Report 2022**”). We have also reviewed certain information provided by the management of the Company relating to the operations, financial condition and prospects of the Group. We have assumed that all the information provided and representations and opinions expressed to us by the Directors and/or the management of the Group for which they are solely and wholly responsible for, or contained or referred to in the Circular were true, accurate and complete in all respects as at the date hereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date thereof and may be relied upon. We have

LETTER FROM LEGO CORPORATE FINANCE LIMITED

also assumed that all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM. The Company shall inform the Independent Shareholders as soon as practicable if there is any material change to such information in accordance with the Listing Rules on or before the date of the EGM.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and the respective transactions contemplated thereunder, we have considered the following principal factors and reasons.

(1) Continuing Connected Transactions — Revision of Annual Caps Under The Supplemental Sanjiang New Material Steam Supply Agreement, The Supplemental Xing Xing Steam Supply Agreement, The Supplemental Sanjiang Chemical Steam Supply Agreement

1. Reasons for the revision of existing annual caps

As stated in the Letter from the Board, upon review of the latest utilisation rates of the existing annual caps based on the actual transaction amount of low pressure steam, medium pressure steam and high pressure steam purchased by Sanjiang New Material and Xing Xing from Jiahua Energy Chemical Co. for the first half of 2022, it is anticipated that the existing annual caps under the Sanjiang New Material Steam Supply Agreement and the Xing Xing Steam Supply Agreement for the two years ending 31 December 2023 will likely be exceeded. This is mainly due to the increase in unit prices of low pressure steam, medium pressure steam and high pressure steam as the manufacturing section in the PRC has revitalized which has driven up the market prices of energy and coals, including low pressure steam, medium pressure steam and high pressure steam. Based on our independent research, we noticed from an article available from the National Bureau of Statistics of the PRC in January 2022 that the

LETTER FROM LEGO CORPORATE FINANCE LIMITED

price of energy commodity has risen rapidly since the third quarter of 2021. Due to the continuous rise of coal price, the price of industrial steam has also been affected and increased correspondingly. As disclosed in the said article, the purchase price of steam of a company which uses steam as its main source of raw material, has surged from RMB165 per ton in July 2021 to RMB360 per ton in December 2021, showing an increase of approximately 118.18%. Such increase is beyond the original expectation when determining the approved annual caps under the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement.

Further, due to the price fluctuation of crude oil and natural gas/coal on a global basis and for the purpose of cost control by the Group, the commercial operation of the Group's 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis, which was initially scheduled to commence in late 2021, has been delayed and is only scheduled to finish ramp-up in early 2023 and will commence operation during 2023, therefore resulting in higher purchase volume of steam by Sanjiang Chemical for the year ending 31 December 2023 due to the Group's increased EO/EG production capacity in 2023.

There is therefore an imminent need to increase the existing annual caps so that each of Sanjiang New Material, Xing Xing and Sanjiang Chemical is able to secure a steady supply of low pressure steam, medium pressure steam and high pressure steam at a reasonable and cost effective price (given the proximity of the production facilities between Jiahua Energy Chemical Co. and Sanjiang New Material and Xing Xing and Sanjiang Chemical) in order to fulfil their respective operational needs.

In view of that the existing annual caps may not be sufficient to meet the Group's business needs for the years ending 31 December 2022 and/or 2023, we are of the view that the entering into of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement for the purpose of revising the existing annual caps are in the interests of the Company and the Independent Shareholders as a whole.

2. Principal terms under the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement

On 21 December 2020, the Company convened an extraordinary general meeting during which, among others, transactions contemplated under the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement (including the respective existing annual caps for the three years ending 31 December 2023) were approved by the then independent Shareholders. The Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement, which respectively supplements the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement, were entered solely for the purpose of revising the existing annual caps. Save for the revision of the existing annual caps, all other terms and conditions of the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement (including the respective pricing basis and payment terms) remain unchanged. For details of the principal terms of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement, please refer to the section headed “REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS” in the Letter from the Board.

LETTER FROM LEGO CORPORATE FINANCE LIMITED

3. The Revised Annual Caps

Set out in Table 1 below are (i) the approved annual caps in respect of the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement for two years ending 31 December 2023; (ii) the historical actual transaction amount for the period from 1 January 2022 to 30 September 2022; and (iii) the revised annual caps (“**Revised Annual Caps**”) under the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement, respectively:

Table 1: Summary of the approved annual caps, historical transaction amount and the Revised Annual Caps

Nature of transaction	Approved annual caps for the year ending 31 December		Historical transaction amount (before tax) for the period from 1 January 2022 to 30 September 2022	Revised Annual Caps for the year ending 31 December	
	2022	2023	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Purchase of steam by Sanjiang New Material under the Sanjiang New Material Steam Supply Agreement	120,000	120,000	113,900	216,000	231,000
Purchase of steam by Xing Xing under the Xing Xing Steam Supply Agreement	223,400	223,400	203,841	350,000	373,000
Purchase of steam by Sanjiang Chemical under the Sanjiang Chemical Steam Supply Agreement	765,300	765,300	119,726	—	982,000

Based on the table above, annual caps for the two years ending 31 December 2023 are revised in respect of the Sanjiang New Material Steam Supply Agreement and the Xing Xing Steam Supply Agreement while annual cap for the year ending 31 December 2023 only is revised in respect of the Sanjiang Chemical Steam Supply Agreement. As advised by the management of the Company, the Revised Annual Caps were primarily determined with reference to (i) the expected unit prices of low pressure steam, medium pressure steam and high pressure steam in the PRC; and (ii) the expected purchase amount of steam by Sanjiang New Material and Xing Xing for the two years ending 31 December 2023 and the expected increase in steam purchase to be required by Sanjiang Chemical for the year ending 31 December 2023 arising from the expected increase in the Group’s EO/EG production capacity in 2023 due to the shift in commencement of commercial operation of the Group’s 6th phase EO/EG production facilities from 2022 to 2023.

LETTER FROM LEGO CORPORATE FINANCE LIMITED

In assessing the fairness and reasonableness of the determination of the Revised Annual Caps, we have obtained and reviewed the underlying computations of the Revised Annual Caps as prepared by the management of the Company.

Purchase of steam by Sanjiang New Material from Jiahua Energy Chemical Co. for the two years ending 31 December 2022 and 2023

As shown in Table 1 above, it is notable that based on the actual transaction amount for the first nine months in 2022, the utilisation rate of the existing annual caps for the year ending 31 December 2022 and 2023 amounted to approximately 94.92%. Based on our review of the computations of the Revised Annual Caps provided by the Company, we note that the Revised Annual Cap for the year ending 31 December 2022 is the sum of (i) the actual transaction amount for the first half of 2022; and (ii) the expected transaction amount for the second half of 2022, being multiple of the expected purchase amount of low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) by Sanjiang New Material from Jiahua Energy Chemical Co. and the expected average unit price of steam for the second half of 2022.

Based on our review of the historical purchase amount of steam by Sanjiang New Material, it is notable that its purchase of low pressure steam (1.3MPa) has increased substantially by around 118% during the first half of 2022 as compared to the first half of 2021. Upon enquiry with management of the Company, we understand such increase in purchase volume was due to the fact that (i) more steam was required to generate sufficient heat for chemical reaction following replacement of catalyst of the production facilities conducted in October 2021; and (ii) the increase in volume of EO produced by the Group for the first half of 2022. We note that the expected steam volume to be purchased by Sanjiang New Material from Jiahua Energy Chemical Co. for the second half of 2022 under the Revised Annual Caps included a buffer of no more than 10% from its actual purchase amount for the first half of 2022, which we consider fair and reasonable. We further note that the expected average unit price of steam to be purchased by Sanjiang New Material was arrived at based on the actual average transacted unit price of steam for the first half of 2022 plus an expected price increment of 15%, which was determined with reference to the historical transacted price of steam. As part of our independent assessment, we have reviewed the historical actual unit price of the low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) purchased by Sanjiang New Material from Jiahua Energy Chemical Co. as provided by the Company and it is notable that the average unit price has shown significant growth for the second half of 2021 as compared to the first half of 2021, while the overall growth in average unit price has slowed down during the first half of 2022 as compared to the second half of 2021. Taking into consideration the historical price trend, it is observed that the percentage of price increment adopted for the second half of 2022 in determining the Revised Annual Cap for the year ending 31 December 2022 is within the range of average of the historical price increment of both low pressure steam (1.3MPa) and medium pressure steam (3.4Mpa) during the aforesaid comparative periods, which we

consider fair and reasonable. Accordingly, in view of the buffer of around 10% in purchase volume and the expected increment of 15% in unit price during the second half of 2022, the expected transaction amount for the second half of 2022 of RMB120,000,000 represents an increase of approximately 25% as compared to the actual transaction amount for the first half of 2022. As per management of the Company, the monthly transaction amount is expected to be higher during the fourth quarter of 2022 due to the fact that more steam is expected to be purchased for the production plan (whereas the Group had maintained a stable output of both EO and EG during the first half of 2022). This is due to the swing production mechanism put in place for adjusting the amount of EO and EG produced such that if the market price of EG decreases, the allocated amount for production of EG will decrease and more EO will be produced, and under such production output ratio much more steam will have to be required to maintain and keep the production facility operating. Such swing production mechanism had undergone a continuous allocation process during the third quarter of 2022, leading to a decrease in the volume of both EO and EG produced. As the Group expects the market price of EG will be relatively low in the fourth quarter of 2022, more steam will be allocated for the production of EO upon completion of the allocation process under the swing production mechanism and therefore the expected production amount of EO will increase accordingly. We also note that the growth of expected average monthly transaction amount for the fourth quarter of 2022 as compared to the actual average monthly transaction amount for the first nine months of 2022 is in line with the historical corresponding trend in 2021, which we consider fair and reasonable.

As the Company expects the purchase volume by Sanjiang New Material and the average unit price of steam will remain stable in 2023, the Revised Annual Cap for the year ending 31 December 2023 was determined based on (i) the expected purchase volume of steam by Sanjiang New Material in 2023, which is equivalent to its expected purchase volume in 2022; and (ii) the expected average unit price of steam, which is the same price as that adopted in computing the Revised Annual Cap for the year ending 31 December 2022. As we note from the Sanjiang New Material Steam Supply Agreement that the determination of steam price is dependent on the prevailing market price of coal, we have therefore performed researches on the same. According to 《國家發展改革委進一步完善煤炭市場價格形成機制促進煤炭價格回歸合理區間》 which became effective from May 2022, as well as the 《中華人民共和國國家發展和改革委員會公告(2022年第4號)》 respectively published by the National Development and Reform Commission on 25 February 2022 and 30 April 2022, it is stated that China would take measures to stabilise coal price and prevent price gouging, including but not limited to setting coal's reasonable price range in terms of medium and long-term transaction and spot prices, where prices beyond such range without justification would be considered as price gouging and may result in further investigation. The National Development and Reform Commission would also pay close attention to price changes and the supply and demand situation in the coal markets as well as strengthen the supervision on coal's medium and long-term contracts to ensure coal's price is trading within a reasonable range. As such, it is expected that the

coal price, and accordingly steam price would be generally stable with reasonable fluctuation in the medium to long run. As such, we consider that setting the expected unit price for 2023 being equivalent to that adopted for 2022 is fair and reasonable. Notwithstanding the steam price and volume to be purchased in 2023 are expected to maintain at a consistent level as that of 2022, the Revised Annual Cap for the year ending 31 December 2022 has included the actual transacted amount for the first half of 2022 and the expected transaction amount for the second half of 2022 which showed an increase of around 26% from the actual transacted amount for the first half of 2022 due to the additional price increment of 15% and buffer of expected purchase volume of around 9%, the Revised Annual Cap for the year ending 31 December 2023 of RMB231,000,000 has resulted in an increase of approximately 6.94% from the Revised Annual Cap for the year ending 31 December 2022, which we consider to be fair and reasonable.

In light of the above, we are of the view that the determination of the Revised Annual Caps for the two years ending 31 December 2022 and 2023 under the Supplemental Sanjiang New Material Steam Supply Agreement is fair and reasonable.

Purchase of steam by Xing Xing from Jiahua Energy Chemical Co. for the two years ending 31 December 2022 and 2023

As shown in Table 1 above, based on the actual transaction amount for the first nine months in 2022, the utilisation rate of the existing annual caps for the year ending 31 December 2022 and 2023 amounted to approximately 91.24%. Based on our review of the computations of the Revised Annual Caps provided by the Company, we note that the Revised Annual Cap for the year ending 31 December 2022 is the sum of (i) the actual transaction amount for the first half of 2022; and (ii) the expected transaction amount for the second half of 2022, being multiple of the expected purchase amount of high pressure steam (4.6MPa) by Xing Xing and the expected average unit price of steam for the second half of 2022.

Based on our review of the historical purchase amount of steam by Xing Xing from Jiahua Energy Chemical Co., we note that the expected purchase volume of steam for 2022 showed an increase of around 10% as compared to the actual purchase volume of steam for 2021 by Xing Xing while the expected purchase volume for the second half of 2022 showed an increase of around 13% as compared to the actual purchase volume for the first half of 2022. We learnt from the Company that the increase in expected demand in 2022 as compared to 2021 is primarily due to repair of certain parts of equipment during the fourth quarter of 2021 and the first quarter of 2022 which resulted in less volume of steam purchased during such period. As repair of the relevant equipment has completed, the Company expects the purchase demand to increase correspondingly during the second half of 2022, which we consider fair and reasonable. We further note that the expected average unit price of steam to be purchased by Xing Xing was arrived at based on the average transacted unit price of steam for the first half of 2022

plus an expected price increment of 15%, which was determined with reference to the historical transacted price of steam. As part of our independent assessment, we have reviewed the historical actual unit price of the high pressure steam (4.6MPa) purchased by Xing Xing from Jiahua Energy Chemical Co. provided by the Company and we noted that the average unit price has shown significant growth for the second half of 2021 as compared to the first half of 2021, while the overall growth in average unit price has slowed down for the first half of 2022 as compared to the second half of 2021. Taking into consideration the historical price trend, we note that the percentage of price increment adopted for the second half of 2022 in determining the Revised Annual Cap for the year ending 31 December 2022 is below the average historical price increment of the high pressure steam (4.6MPa) during the aforesaid comparative periods, which we consider fair and reasonable. Accordingly, in view of the expected increase of around 13% in purchase volume and the expected increment of 15% in unit price during the second half of 2022, the expected transaction amount for the second half of 2022 of RMB198,000,000 represents an increase of approximately 30% as compared to the actual transaction amount for the first half of 2022. As per management of the Company, the monthly transaction amount of high pressure steam is expected to be higher during the fourth quarter of 2022. The Group adjusts its production capacities in terms of producing ethylene and propane from time to time depending on the market price of methanol. If the price of methanol increases, the Group will lower the production amount and source ethylene and propane from independent third parties. The Group maintained a stable output as the price of methanol was stable during the first half of 2022. As the price of methanol increased during the third quarter of 2022, the Group has used less high pressure steam and sourced ethylene and propane from independent third parties directly, leading to a decrease in the allocated usage during the third quarter of 2022. We have made reference to the historical price trend of methanol in 2021 and noted that the market price of methanol has decreased from approximately RMB3,600 per tonne to RMB2,400 per tonne from October to December 2021. As the Group expects the market price of methanol to lower during the fourth quarter of 2022, more high pressure steam is required to produce ethylene and propane while sourcing from independent third parties will decrease and thus the Group had commenced its allocation process to increase the use of high pressure steam near the end of the third quarter of 2022, and therefore the expected purchase amount of steam will increase accordingly, which is fair and reasonable.

As the Company expects the purchase volume by Xing Xing and the average unit price of steam will remain stable in 2023, the Revised Annual Cap for the year ending 31 December 2023 was determined based on (i) the expected purchase volume of steam by Xing Xing in 2023, which is equivalent to its expected purchase volume in 2022; and (ii) the expected average unit price of steam, which is the same price as that adopted in computing the Revised Annual Cap for the year ending 31 December 2022. While the determination of steam price is subject to the prevailing market price of coal, as described in the above sub-section, the market price of coal in China, and hence the steam price, are not expected to experience substantive fluctuation in the medium to long term. We therefore

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consider that setting the expected unit price for 2023 being equivalent to that adopted for 2022 is fair and reasonable. Notwithstanding the steam price and volume to be purchased in 2023 are expected to maintain at a consistent level as that of 2022, the Revised Annual Cap for the year ending 31 December 2022 has included the actual transacted amount for the first half of 2022 and the expected transaction amount for the second half of 2022 which showed an increase of around 30% from the actual transacted amount for the first half of 2022, the Revised Annual Cap for the year ending 31 December 2023 of RMB373,000,000 has resulted in an increase of approximately 6.57% from the Revised Annual Cap for the year ending 31 December 2022, which we consider to be fair and reasonable.

In light of the above, we are of the view that the determination of the Revised Annual Caps for the two years ending 31 December 2022 and 2023 under the Supplemental Xing Xing Steam Supply Agreement is fair and reasonable.

Purchase of steam by Sanjiang Chemical from Jiahua Energy Chemical Co. for the year ending 31 December 2023

Based on our review of the computations of the Revised Annual Caps provided by the Company, we note that the Revised Annual Cap underlying the Supplemental Sanjiang Chemical Steam Supply Agreement for the year ending 31 December 2023 represents the multiple of the expected respective purchase volume of low pressure steam (1.3Mpa), medium pressure steam (3.4MPa) and high pressure steam (4.6MPa) by Sanjiang Chemical and the corresponding expected average unit price for 2023.

The Group's 6th phase EO/EG production facilities with 1,000,000MT output on annual basis is expected to complete ramp-up in early 2023 and commence operation during 2023. As a result of increased EO/EG production capacity, the Group's consumption of steam shall increase significantly, therefore leading to corresponding increase in steam purchase to be required by Sanjiang Chemical for the year ending 31 December 2023. As a result of the aforesaid operation of the 6th phase EO/EG production facilities, Sanjiang Chemical shall make purchase of high pressure steam (4.6MPa) and low pressure steam (1.3MPa) in 2023, in addition to the existing purchase of medium pressure steam (3.4MPa) and low pressure steam (1.3MPa).

Based on our enquiry with management of the Company, we learnt that the expected purchase volume of medium pressure steam (3.4MPa) in 2023 is determined based on the required level of steam consumption for the production of methyl tert-butyl ether and ethylene oxide by Sanjiang Chemical when running the existing production facilities in full capacity. We also note that the expected purchase volume of low pressure steam (1.3MPa) in 2023 is comparable to the historical purchase volume of such steam by Sanjiang Chemical in 2021. Nonetheless, we note that the actual volume of medium pressure steam (3.4MPa) and low pressure steam (1.3MPa) purchased by Sanjiang Chemical in

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the first half of 2022 represents respective decreases as compared to the first half of 2021. As advised by the Company, we understand that such decrease was primarily due to the suspension of various phases of facilities for the production of ethylene oxide during March to June 2022 for maintenance purpose and such facilities had resumed operation as at the Latest Practicable Date. The purchase volume of medium pressure steam (3.4MPa) and low pressure steam (1.3MPa) for the year ending 31 December 2023 was estimated on the basis that such production facilities operate at full capacity in 2023. We understand from the Company that such maintenance work has been and will be conducted every one to two years to ensure optimal operation of the production facilities and that such facilities are expected to be operated at full capacity shortly after completion of maintenance work. Considering the maintenance work has been conducted during the first half of 2022 and completed as at the Latest Practicable Date, we consider it is fair and reasonable to assume the production facilities to run at full capacity in 2023. With respect to the additional purchase of high pressure steam (4.6MPa) and low pressure steam (1.3MPa) following the Group's increased EO/EG production capacity in 2023, we were given to understand that such expected purchase volume of steam is within the maximum annual consumption level of steam by the relevant production facilities, which we consider fair and reasonable. We have further enquired with management of the Company and learnt that the 6th phase EO/EG production facilities are close to the final stage of construction, where final inspection procedure is being conducted including pipeline inspection and is expected to be completed by end of 2022. Accordingly, it is expected that the facilities would complete ramp-up and reach the maximum annual consumption level of steam in the first quarter of 2023.

We further note that the expected average unit price of steam to be purchased by Sanjiang Chemical was arrived at based on the average transacted unit price of steam for the first half of 2022 plus an expected price increment of 15%, which was determined with reference to the historical price of steam. As part of our independent assessment, we have reviewed the historical actual unit price of the medium pressure steam (3.4MPa) and low pressure steam (1.3MPa) purchased by Sanjiang Chemical from Jiahua Energy Chemical Co. provided by the Company and noted that the average unit price has shown significant growth for the second half of 2021 as compared to the first half of 2021, while the overall growth in average unit price has slowed down for the first half of 2022 as compared to the second half of 2021. Taking into consideration the historical price trend, we note that the percentage of price increment adopted in determining the Revised Annual Cap for the year ending 31 December 2023 is within the historical range of the average price increment of both medium pressure steam (3.4MPa) and low pressure steam (1.3MPa) during the aforesaid comparative periods, which we consider fair and reasonable. As regards the expected average unit price of high pressure steam (4.6MPa), we note that the Company has estimated such price based on the average transacted unit price of high pressure steam (4.6MPa) purchased by Xing Xing from Jiahua Energy Chemical Co., which we consider such price reference to be fair and reasonable. Accordingly, notwithstanding that the existing annual cap for the year ending 31 December 2023 has already

considered the new EO/EG production facilities to operate at full capacity, the Revised Annual Cap of RMB982,000,000 represents an increase of approximately 28.32% as compared to the existing annual cap of RMB765,300,000 for the year ending 31 December 2023, which is due to the increase in expected average unit price due to the increase in actual unit price by around 91% during the first half of 2022 than previously estimated and the additional price increment of 15% expected for 2023 as compared to the actual average unit price of the first half of 2022 having considered the historical price trend, which we consider fair and reasonable.

In light of the above, we are of the view that the determination of the Revised Annual Cap for the year ending 31 December 2023 under the Supplemental Sanjiang Chemical Steam Supply Agreement is fair and reasonable.

4. *Internal control measures and annual review*

As disclosed in the Letter from the Board, the Group continue to implement the following internal control measures in respect of the continuing connected transactions contemplated under the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement (as supplemented by the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement).

- (i) The Group will seek to employ the following measures to ensure that the price of low and medium pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang New Material pursuant to the Sanjiang New Material Steam Supply Agreement will be no less favourable than the price of supplying low and medium pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:
 - (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low and medium pressure steam of comparable quality; and (ii) all supply contracts regarding low and medium pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of low and medium pressure steam since the purchase prices of low and medium pressure steam payable by Sanjiang New Material are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
 - (2) in the event that the prices of low and medium pressure steam that Jiahua Energy Chemical Co. charges Sanjiang New Material are higher than the weighted average purchase prices of such low and medium

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pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low and medium pressure steam that Jiahua Energy Chemical Co. charges Sanjiang New Material are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang New Material will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low and medium pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of low and medium pressure steam Jiahua Energy Chemical Co. offers to Sanjiang New Material are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

- (ii) The Group will seek to employ the following measures to ensure that the price of high pressure steam offered by Jiahua Energy Chemical Co. to Xing Xing pursuant to the Xing Xing Steam Supply Agreement will be no less favourable than the price of supplying high pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:
 - (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases high pressure steam of comparable quality; and (ii) all supply contracts regarding high pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of high pressure steam since the purchase prices of high pressure steam payable by Xing Xing are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
 - (2) in the event that the prices of high pressure steam that Jiahua Energy Chemical Co. charges Xing Xing are higher than the weighted average purchase prices of such high pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of high pressure steam that Jiahua Energy Chemical Co. charges Xing Xing are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Xing Xing will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of high pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of

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high pressure steam Jiahua Energy Chemical Co. offers to Xing Xing are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

- (iii) The Group will seek to employ the following measures to ensure that the price of low, medium and high pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Chemical pursuant to the Sanjiang Chemical Supply Agreement will be no less favourable than the price of supplying low, medium and high pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:
- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low, medium and high pressure steam of comparable quality; and (ii) all supply contracts regarding low, medium and high pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of low, medium and high pressure steam since the purchase prices of low, medium and high pressure steam payable by Sanjiang Chemical are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
 - (2) in the event that the prices of low, medium and high pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Chemical are higher than the weighted average purchase prices of such low, medium and high pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low, medium and high pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Chemical are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang Chemical will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low, medium and high pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of low, medium and high pressure steam Jiahua Energy Chemical Co. offers to Sanjiang Chemical are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

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The Board will also continue to review on a regular basis the Group's internal control system and its effectiveness in this regard.

According to the requirements of the Listing Rules, the Company's external auditors shall provide a letter to the Board confirming, among others, that the transactions under the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement (as supplemented by the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement) are conducted in accordance with their terms and that the respective revised annual caps not being exceeded and the independent non-executive Directors shall conduct an annual review on the pricing and the annual caps of the continuing connected transactions, details of which must be included in the Company's subsequent published annual reports and accounts. The Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transaction or the annual caps not being exceeded.

In view of the above and having also considered that the above internal control measures are generally similar to those adopted by other listed companies in Hong Kong for monitoring continuing connected transactions, we are of the view that there are appropriate and adequate internal control measures in place to govern the conduct of the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement (as supplemented by the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement) and to safeguard the interests of the Independent Shareholders as a whole.

(2) Discloseable Transaction and Connected Transaction — Acquisition of Assets

1. Financial information of the Group

The Group is principally engaged in the manufacture and supply of ethylene oxide ("EO"), ethylene glycol ("EG"), propylene, polypropylene ("PP"), methyl tert-butyl ether ("MTBE") and surfactants in the PRC. The Group was also engaged in the provision of processing services for PP, MTBE and surfactants to its customers and the production and supply of other chemical products such as carbon four ("C4"), crude pentene and industrial gases, namely oxygen, nitrogen and argon in the PRC.

Set out in Table 2 below is certain financial information of the Group for the two years ended 31 December 2020 and 2021 as extracted from the Annual Report 2021, and for the six months ended 30 June 2021 and 2022 as extracted from the Interim Report 2022, respectively.

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Table 2: Financial information of the Group

	For the six months ended		For the year ended	
	30 June		31 December	
	2022	2021	2021	2020
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4,864,325	4,776,597	9,498,708	8,322,716
(Loss)/Profit for the period/year	(75,258)	350,521	376,153	1,214,197
(Loss)/Profit attributable to equity holders of the parent	(62,689)	327,621	380,611	1,122,931
		As at		
		30 June	As at 31 December	
		2022	2021	2020
		<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets		11,980,233	10,760,640	8,079,597
Current assets		4,652,852	3,517,607	2,939,060
Current liabilities		9,289,605	7,539,114	5,023,455
Net current liabilities		(4,636,753)	(4,021,507)	(2,084,395)
Non-current liabilities		2,738,589	1,998,567	1,203,511
Net assets		4,604,891	4,740,566	4,791,691

For the year ended 31 December 2021

For the year ended 31 December 2021, the total revenue of the Group amounted to approximately RMB9,498.71 million, representing an increase of approximately 14.13% as compared to that of approximately RMB8,322.72 million for the year ended 31 December 2020. According to the Annual Report 2021, we note that the growth in revenue was primarily attributable to the increase in sale of (i) EG as the Group increased the EG output capacity of the 5th phase EO/EG production facilities which in turn increased the sales volume of EG when compared to the previous year; and (ii) PP due to the combined effects of the increase in average selling price of PP resulted from the price volatility of major commodities and decrease in sale volume of PP.

For the year ended 31 December 2021, the Group recognised profit attributable to equity holders of the parent of approximately RMB380.61 million, showing a decrease of approximately 66.11% from that of approximately RMB1,122.93 million for the previous year. With reference to the Annual Report 2021, we note that such decrease in profit was mainly resulted from the decrease in overall gross profit margin due to (i) the weather issue in

USA during the first quarter of 2021, which led to suspension of production of certain major oil-cracking plants in USA which prompted the price increments of ethylene and propylene during the first half of 2021, and accordingly deteriorated the gross profit margins of EO line of business and PP line of business of the Group; and (ii) the imposition of energy consumption and intensity dual control system as required by the PRC authorities during the third quarter of 2021, which led to the volatility of the coal pricing and therefore the volatility of Methanol pricing and the increase in energy cost, as Methanol accounted for approximately 70% of the Group's feedstock procurement.

As at 31 December 2021, the Group's net current liabilities and net assets amounted to approximately RMB4,021.51 million and RMB4,740.57 million, respectively. Based on the Annual Report 2021, we note that the increase in net current liabilities as at 31 December 2021 was mainly due to the increase in bank loans repayable within one year and the increase in trade and bills payables.

For the six months ended 30 June 2022

For the six months ended 30 June 2022, the total revenue of the Group amounted to approximately RMB4,864.33 million, representing a slight increase of approximately 1.84% as compared to that of approximately RMB4,776.60 million for the six months ended 30 June 2021. According to the Interim Report 2022, we note that the slight increase in revenue was mainly due to both the average selling price and production capacities of the Group's major products namely EO and PP remained at a similar level as compared to the previous corresponding period.

For the six months ended 30 June 2022, the Group recognised loss attributable to equity holders of the parent of approximately RMB62.69 million, as opposed to the profit attributable to equity holders of the parent of approximately RMB327.62 million for the previous corresponding period. According to the Interim Report 2022, we note that such loss-making performance was mainly attributable to (i) the decrease in overall gross profit margin of the Group due to the decreases in gross profit margins of major line of businesses namely EO line of business, EG line of business and PP line of business as a result of the combined effects of (a) the price increments of methanal and ethylene which accounted for around 80% of the Group's feedstock procurement as a result of certain global emergencies which led to higher average market prices of upstream feedstocks; and (b) the ongoing impacts of COVID-19 pandemic which led to lower demands from downstream level as EO, EG and PP are tied to the demands of a variety of products/industries like cleaning and detergents, cement, textiles, packings, etc. and the COVID-19 pandemic prevention measures disrupted the trades, productions and logistics; and (ii) the increase in other expenses from inclusion of certain one-off items in relation to (a) foreign exchange losses resulted from the depreciation of RMB against USD; and (b) the provision of impairment for silver catalyst as a result of price fluctuation of silver.

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As at 30 June 2022, the Group's net current liabilities and net assets amounted to approximately RMB4,636.75 million and RMB4,604.89 million, respectively.

2. Information of Mei Fu Petrochemical and the Assets

Jiahua Energy Chemical Co. is a limited company established in the PRC and is principally engaged in the business of production and trading of desalinated water, steam, chlor-alkali, ortho-para, fatty alcohol and sulfuric acid. Jiahua Energy Chemical Co. is currently listed on the Shanghai Stock Exchange (stock code: 600273). Other than Jiahua, there are no other shareholders who individually hold more than 10% or above interests in Jiahua Energy Chemical Co.. Mei Fu Petrochemical is a limited company established in the PRC and is principally engaged in the production and sale of propylene chemical light fuel, clean light fuel, liquefied petroleum gas, heavy fuel, oil and dry gas, propane, MTBE, sulfur, asphalt and lubricants.

The Assets to be acquired by Sanjiang Chemical pursuant to the Sale and Purchase Agreement is an aromatic extraction unit situated at Mei Fu Petrochemical including its ancillary surveillance and monitoring systems together with certain infrastructure attaching to the aromatic extraction unit as fixtures. Sanjiang Chemical had not generated by-product output of mixed aromatics in the past as it did not possess the necessary equipment. The device comprising the Assets uses mixed aromatics as raw material (500,000 tonnes per year) and after processing these with liquid-liquid extraction technology with sulfolane as solvent and upon completion of the relevant aromatics extraction and separation process to produce benzene, toluene and mixed xylene (400,000 tonnes per year) together with by-products such as raffinate (which is used for further deep processing). The device comprising the Assets operates 8,400 hours per year with an operation flexibility of between 50% to 120%. The device comprising the Assets can operate at a maximum utility rate of 120% depending on the amount of chemicals needed but will have to operate at a minimum utility rate of 50% so as to ensure that there is no suspension in the chemical combustion process. The device comprising the Assets have been in smooth operation as at the Latest Practicable Date.

As at 31 August 2022, the book value of the Assets amounted to approximately RMB111,786,556 (equivalent to approximately HK\$126,032,766) in aggregate. As at 31 August 2022, the appraised value of the Assets was RMB117,840,000 (equivalent to approximately HK\$132,866,608).

3. Reasons for and benefits of entering into the Sale and Purchase Agreement

As disclosed in the Letter from the Board, the Group's 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis which is expected complete ramp-up by no later than 31 March 2023, has a by-product output of mixed aromatics of 261,000MT per year, among other products, and the direct sales of mixed aromatics to the market would be subject to consumer tax in the PRC. The device comprising the Assets uses mixed aromatics as raw material and convert mixed

aromatics into chemicals, toluene and mixed xylene and other downstream products for sale that are not subject to consumer tax. Hence, the Group believes the acquisition of the Assets would enable a substantial saving for the Group on a long-term basis. Based on the amount of mixed aromatics and other chemicals that will be subject to the prescribed consumer tax of approximately RMB2,100 per tonne, it is estimated that the Group will be able to save potential payment of consumer tax of approximately RMB377 million per year.

On the other hand, we have reviewed the cost comparison between the two scenarios, being the sales of chemicals to be converted from mixed aromatics using the device and the direct sales of mixed aromatics by the Group, the calculation has been arrived with reference to, among others, the market prices of the relevant chemicals and mixed aromatics from 卓創資訊 (<http://www.chem99.com/>), an online portal of commodity price recognised by The Department of Price of the National Development and Reform Commission of the PRC, and JLC (金聯創) (<http://www.315i.com/>), a leading provider of market intelligence and pricing solutions for energy products and commodities in the PRC. We further note that the net effect taking into account the consideration of the Assets, the expected annual operating cost of the device comprising the Assets as well as the expected annual sales of chemicals to be converted from mixed aromatics using the device represents an excess over the expected income to be generated from the direct sales of mixed aromatics by the Group without using the device. Considering that the Assets, which shall be used to facilitate the conversion of mixed aromatics that will be produced by the Group's new production facilities, would help the Group to save cost and therefore potentially enhance its earnings, and the acquisition of the Assets is conditional upon such new production facilities being in a position to commence operation at full capacity, we concur with the Directors' view that the acquisition of the Assets is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. Principal terms of the Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, Mei Fu Petrochemical has conditionally agreed to sell and Sanjiang Chemical has conditionally agreed to purchase the Assets at a consideration of RMB117,840,000 (equivalent to approximately HK\$132,866,608). For further details of the principal terms of the Sale and Purchase Agreement, please refer to the section headed "DISCLOSEABLE AND CONNECTED TRANSACTION" in the Letter from the Board.

As stated in the Letter from the Board, the consideration for the acquisition of the Assets (the "**Consideration**") was determined primarily with reference to the appraised value of the Assets of RMB117,840,000 (equivalent to approximately HK\$132,866,608) as at 31 August 2022 (the "**Valuation Date**") as set out in the valuation report (the "**Valuation Report**") prepared by CHFT Advisory and Appraisal Limited (the "**Valuer**"), an independent valuer, using the cost approach and in particular, the replacement cost method.

4.1 Consideration

In assessing the fairness and reasonableness of the consideration for the Assets, we have primarily made reference to the appraised value of the Assets which formed the primary basis of the consideration. As part of our independent due diligence, we have reviewed the Valuation Report and discussed with the Valuer regarding, among others, its relevant qualifications and experiences, independence, valuation standards and methodology adopted in the Valuation Report.

Expertise and independence of the Valuer

According to the information provided by the Valuer and our independent research conducted from the public domain, we learnt that the Valuer is a professional appraisal and consultancy firm which comprised of professionals with more than 25 years of valuation experiences having served both public and private companies including more than 300 listed companies across Hong Kong, Singapore, US and the UK, providing professional valuation, real estate advisory, business consultancy and sustainability advisory services.

The Valuer confirmed that it is an independent third party to the Company, Jiahua Energy Chemical Co., Mei Fu Petrochemical and their respective connected persons as at the Latest Practicable Date. In addition, we have reviewed the terms of the engagement letter of the Valuer with respect to the Valuation Report and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report.

Valuation standards and methodology

As confirmed by the Valuer, during the course of the valuation, it has complied with “RICS Valuation — Global Standards” published by the Royal Institution of Chartered Surveyors and the “International Valuation Standards” published by the International Valuation Standards Council. We note from the Valuation Report that the Valuer has adopted the replacement cost approach in valuing the Assets, which provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence. We further understand from the Valuer that it has considered three valuation methodologies namely the cost approach, market approach and income approach in appraising the Assets. Given that the Assets did not constitute a complete production unit such that the income generated therefrom was difficult to be allocated to the Assets, and that most of the components forming the Assets do not have an active second-hand market, the Valuer considered that the income approach and the market approach inappropriate, and adopted the replacement cost approach for appraisal of

the Assets, where the Assets can be obtained by replacement and the cost of replacement and depreciation of the Assets can be reasonably estimated. We are advised by the Valuer that it is of common market practice to adopt the replacement cost approach for valuation of assets similar to the Assets.

The Assets

We note from the Valuation Report that the list of fixed assets comprising the Assets are broadly categorised into (i) petroleum infrastructure; (ii) installation and engineering project; (iii) machine spare parts and accessories; (iv) monitoring and control system; and (v) others (which are mainly supervision, testing and evaluation fee and audit fee). As part of our independent assessment, we have selected the major components from the list of the fixed assets namely the petroleum infrastructure and the installation and engineering project which, in aggregate, represented more than 60% of the total cost of the list of fixed assets. We then obtained from the Company and reviewed the procurement and service contracts concerning the fixed asset components and noted that the costs provided by Mei Fu Petrochemical and adopted in the Valuation Report are substantially in line with the amounts underlying the sample contracts.

With respect to petroleum infrastructure, machine spare parts and accessories and monitoring and control system, we note that the Valuer has computed the replacement costs as at the Valuation Date based on the respective cost of such assets, the year of purchase and adjusted by the relevant price index with reference to the average domestic supply price indices officially published by the National Bureau of Statistics of the PRC which we consider such source of information to be reliable. We further understand from the Valuer that given the nature of installation and engineering project and other assets involves the labour cost incurred rather than tangible assets acquired, we note that the replacement cost of such items are primarily determined based on the price level of labour with reference to the historical labour costs as available from “Jobui” (職友集) (<http://www.jobui.com>), a well-known online recruitment platform established in the PRC that provides job search service, company search service, salary check and trend, among others. According to the Valuer, we understand that the average historical salary data by industry groups as extracted from “Jobui” (職友集) reflects the macroeconomic situation and market fluctuation, and such source of reference for the labour costs is commonly adopted by other similar valuation practices, which we consider fair and reasonable.

The replacement costs of these assets (excluding those belonging to installation and engineering project and other assets) are then multiplied by the respective residue ratios based on the economic useful life and the actual used life of the relevant assets to give the fair value. We note that the Valuer has applied the economic useful life of 20 years to petroleum infrastructure, machine space parts and accessories and monitoring and control system with reference to the Life Expectancy Guidelines table as published by Marshall & Swift-Boeckh LLC, an appraisal guide for developing replacement costs and depreciated values of properties. Based on our independent search, we note that Marshall & Swift-Boeckh LLC is a provider of building cost information, residential and commercial analytics and business management services for property insurance companies, financial services organisations and the public sector, which uses proprietary data, algorithms and platforms that leverage replacement and repair cost estimates, analytics and other related services. As further advised by the Valuer, most of the useful lives for depreciable assets in the Life Expectancy Guidelines table published by Marshall & Swift-Boeckh LLC are extracted from the U.S. Treasury Department Internal Revenue Service Publication 534 titled “Depreciation” and such guidelines are commonly used in estimating the useful life of asset when conducting valuation practices. As mentioned above, as the installation and engineering project and other assets are labour-related and therefore, the concept of economic useful life is not appropriate to be applied on such items. As such, the replacement costs of such assets represent their fair value. The aggregate fair value of the Assets amounted to RMB117,840,000.

During our review of the Valuation Report and discussions with the Valuer, we have not identified any major factors that cause us to cast doubt on the fairness and reasonableness of the principal bases and assumptions adopted in establishing the appraised value of the Assets.

As part of our independent assessment and for cross-checking purpose, we have attempted to identify the prevailing market prices of aromatic extraction units similar to the Assets from the public domain. However, we are unable to identify any publicly available price information of similar aromatic extraction units. Given that the device comprising the Assets uses liquid-liquid extraction technology with sulfolane as solvent for conversion of mixed aromatics, we have extended our search to cover solvent extraction units for industrial application. We have made reference to the relevant pricing information as set out in Made-in-China.com, a comprehensive service platform that provides latest price information of products manufactured in China which is developed and operated by Focus Technology Co., Ltd. being a leading Internet carrier in the PRC listed on the Shenzhen Stock Exchange, which we consider a reliable source of information. Based on our research, we note that the consideration of the Assets per tonne of capacity is within the range of market price per tonne of capacity of other solvent extraction units. It should be noted that given the

LETTER FROM LEGO CORPORATE FINANCE LIMITED

difference between the Assets and the identified solvent extraction units in terms of applications, outputs and specifications, the aforesaid analysis is for additional reference only.

Taking into account that the Consideration is equivalent to the appraised value of the Assets of RMB117,840,000, we are of the view that the Consideration is fair and reasonable.

4.2 Payment terms

As disclosed in the Letter from the Board, 50% of the Consideration shall be payable by Sanjiang Chemical upon the signing of the Sale and Purchase Agreement and the remaining 50% of the Consideration shall be paid on completion. In the event that any of the condition precedents cannot be fulfilled on or before 31 March 2023 (“**Long Stop Date**”), the parties may then agree to extend the Long Stop Date to no later than 30 June 2023, failing which Mei Fu Petrochemical shall refund the amount of Consideration paid by Sanjiang Chemical, and the Sale and Purchase Agreement shall be terminated and none of the parties shall have any further claim or cause of action against the other party. 50% of the Consideration which amounted to RMB58,920,000 was paid by Sanjiang Chemical to Mei Fu Petrochemical upon signing of the Sale and Purchase Agreement. In assessing any credit risk which may arise from the upfront payment of Consideration by the Group, we have obtained and reviewed the audited financial statement of Mei Fu Petrochemical for the year ended 31 December 2021 and the unaudited management accounts of Mei Fu Petrochemical for the eight months ended 31 August 2022 and noted that, the cash level and net asset value of Mei Fu Petrochemical are significantly in excess of the amount of Consideration paid by Sanjiang Chemical as at both 31 December 2021 and 31 August 2022.

Notwithstanding that the Company has paid 50% of Consideration upon signing of the Sale and Purchase Agreement, considering (i) that such upfront payment is refundable to the Company in the event that the transaction could not be completed in accordance with the Sale and Purchase Agreement; and (ii) the relatively abundant cash resources and liquidity of Mei Fu Petrochemical which may suggest the credit risk relating to the upfront payment of 50% of the Consideration is immaterial, we are of the view that the payment terms of the Consideration are fair and reasonable.

4.3 Arrangement following completion

We further note that following completion, the Assets will remain at Mei Fu Petrochemical with Sanjiang Chemical having an exclusive right to enter into the premises where the Assets are situated pursuant to an undertaking letter issued by Mei Fu Petrochemical to Sanjiang Chemical granting such exclusive right to Sanjiang Chemical. Upon completion, the Company will be responsible for the operation and safeguarding of the Assets. In addition, the Company will conduct security checks and station staff at the entrance of the premises of the Assets to ensure that only the staff of the Company will have an exclusive right to enter into the premises where the Assets are situated. We have obtained from the Company and reviewed the costs estimated to be incurred in the event that the Company uninstalls and relocates the Assets from Mei Fu Petrochemical to other premises following completion. We note that the estimated total relocation cost of approximately RMB54.2 million which primarily consisted of land acquisition cost of approximately RMB11.9 million for stationing the Assets based on the market unit rate of similar premises and the relevant installation cost of the Assets of approximately RMB39.7 million, is in excess of the annual fee to be paid to Mei Fu Petrochemical during the remaining useful life of the Assets. As our independent work done, we note that the unit rate adopted in estimation of the land acquisition cost is within the range of the recently transacted unit rates of land located within the same district (i.e. Pinghu City, Jiaying City, Zhejiang Province, the PRC) as the premises of Mei Fu Petrochemical and are of similar nature, being industrial land for equipment manufacturing usage, as published on 中國土地市場網 (www.landchina.com), a website operated and managed under the Ministry of Natural Resources of the PRC.

In respect of the expected installation cost of the Assets, we note that the Company has made reference to an assessment report issued in October 2022 by Zhongjing Engineering Software Technology Co., Ltd. as engaged by Mei Fu Petrochemical for the purpose of setting out the respective cost estimations for the construction and installation of the Assets. Notwithstanding that the total installation cost estimations involved the installation work for different components including but not limited to the stationary equipment, structures, engineering equipment, pipe piles and electricity, the respective costs of which were primarily determined based on the associated labor costs, the required quantities of components and with reference to, among others, 石油化工安裝工程概算指標 (Petrochemical Installation and Construction Budget Benchmark*) and 石油化工安裝工程費用定額 (Petrochemical Installation and Construction Cost Quota*) issued by Sinopec Group, a state-owned leading petroleum and petrochemical group in the PRC and that those guidelines were widely used in

the industry. Zhongjing Engineering Software Technology Co., Ltd. is primarily engaged in the engineering and construction design of petrochemical projects with solid experience in the petrochemical engineering field. Considering the basis and guidelines adopted in the assessment report and the experience of Zhongjing Engineering Software Technology Co., Ltd, we consider the reference of the expected installation cost of the Assets to the aforesaid assessment report to be fair and reasonable.

Having considered that (i) the title of the Assets shall have been transferred from Mei Fu Petrochemical to Sanjiang Chemical upon completion in accordance with the Sale and Purchase Agreement; (ii) the close proximity between the operating premises of Sanjiang Chemical and Mei Fu Petrochemical being within a distance of 5 miles; (iii) Mei Fu Petrochemical has undertaken to grant Sanjiang Chemical an exclusive right to enter into the premises where the Assets are situated for an annual fee of RMB1,557,415.50 following completion, which was determined primarily based on the acquisition cost of Mei Fu Petrochemical in respect of such land premises; (iv) the additional cost expected to be incurred by the Company in the event that the Company relocates the Assets following completion which is expected to outweigh the annual fee payable to Mei Fu Petrochemical for maintaining the Assets at Mei Fu Petrochemical; and (v) appropriate internal control procedures will be in place following completion so as to ensure the exclusive accessibility to the Assets by the Company as well as to safeguard the Assets, we are of the view that the arrangement that the Assets will remain at Mei Fu Petrochemical following the completion is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In light of the above, we are of the view that the principal terms of the Sale and Purchase Agreement (including the consideration, payment terms, completion arrangement and the annual fee involved in stationing the Assets at Mei Fu Petrochemical) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. *Financial effects of the acquisition of the Assets*

As the Group will fund the consideration by its internal resources, the cash level of the Group will decrease which will in turn increase the net current liabilities of the Group, while it is expected that there will not be any material effect on the total assets and net asset value of the Group upon completion of the Acquisition. It is also expected that the Acquisition will not have any material impact on the earnings of the Group immediately following completion of the acquisition of the Assets.

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the view that the entering into of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement is in the ordinary and usual course of business of the Group, and the terms of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and the respective transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the accounting and investment banking profession.

** for identification purpose only*

The following is the text of a letter, and valuation certificate, prepared for the purpose of incorporation in this circular received from CHFT Advisory and Appraisal Limited, an independent valuer, in connection with its valuation as at 31 August 2022 of the Assets to be acquired by the Group. Terms defined in this appendix applies to this appendix only.

Our Ref: VC/RWA/31132/2022

From:

CHFT Advisory and Appraisal Limited

1601, 16/F, Sun House, 90 Connaught Road Central, Hong Kong

Date of Report: 26 September 2022

To: Board of the Directors

China Sanjiang Fine Chemicals Company Limited

Dear Sirs/Madams,

RE: Valuation of a batch of fixed assets

In accordance with an instruction from China Sanjiang Fine Chemicals Company Limited (the “**Instructing Party**” or the “**China Sanjiang**”), we hereby provide a valuation on the market value basis of a batch of fixed assets (the “**Fixed Assets**”) of Zhejiang Meifu Petrochemical Company Limited (the “**Company**” or the “**Zhejiang Meifu**”) as at 31 August 2022 (the “**Valuation Date**”).

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Fixed Assets of the Company. The valuations comply with “RICS Valuation — Global Standards” published by the Royal Institution of Chartered Surveyors (“**RICS**”), and the “International Valuation Standards” (“**IVS**”) published on 31 July 2021 by the International Valuation Standards Council.

The purpose of this report is to express an independent opinion on the market value of the Fixed Assets of Zhejiang Meifu as at the Valuation Date. This report outlines our latest findings and valuation conclusion, and is prepared solely for the management of the Instructing Party to address the Company’s transaction reference only.

1 BACKGROUND OF THE COMPANY

Zhejiang Meifu Petrochemical Company Limited was founded in 2003 by the GSP Singapore Petroleum Holdings Limited. It mainly engages in production and sale of propylene chemical light fuel, clean light fuel, liquefied petroleum gas, heavy fuel, oil and dry gas, propane, MTBE, sulfur, asphalt and lubricants.

China Sanjiang Fine Chemicals Company Limited was founded in 2009. China Sanjiang is principally engaged in the manufacture and supply of ethylene oxide (“EO”), ethylene glycol (“EG”), propylene, polypropylene (“PP”), methyl tert-butyl ether (“MTBE”) and surfactants in the PRC. China Sanjiang is also engaged in the provision of processing services for PP, MTBE and surfactants to its customers and the production and supply of other chemical products such as carbon four (“C4”), crude pentene and industrial gases, namely oxygen, nitrogen and argon in the PRC.

2 SCOPE OF WORK

In conducting this valuation exercise, our scope of work includes:

- Co-ordinated with the Company representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Company, including the legal documents, licenses, financial statements, etc. made available to us;
- Discussed with the management of the Company to understand the history, construction plan, operations plan for valuation purpose;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;
- Investigated into the information of the Company made available to us and considered the basis and assumptions of our conclusion of value;
- Designed an appropriate valuation model to analyze the market data and derived the estimated market value of the Fixed Assets; and
- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the Fixed Assets should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party, the Company and its authorized representatives.

3 VALUATION METHODOLOGY

There are three generally accepted valuation approaches. The valuation approaches are sourced from International Valuation Standard 105 — Valuation Approaches and Methods.

3.1 Cost Approach

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

The cost approach should be used as the primary basis for a valuation under the following circumstances:

- market participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a market participant would not be willing to pay a significant premium for the ability to use the subject asset immediately;
- the asset is not income-generating (directly or indirectly) and the unique nature of the asset makes using an income approach or market approach unfeasible, and
- the basis of value being used is fundamentally based on replacement cost, such as reinstatement value.

3.2 Market Approach

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. When reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach.

The market approach should be used as the primary basis for a valuation under the following circumstances:

- the asset has recently been sold in a transaction appropriate for consideration under the basis of value;
- the asset or substantially similar assets are actively publicly traded; and
- there are frequent or recent observable transactions in substantially similar assets.

3.3 Income Approach

The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

The income approach should be used as the primary basis for a valuation under the following circumstances:

- the income-producing ability of the asset is the critical element affecting value from a market participant perspective; and
- reliable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparable.

3.4 Selection of Assessment Methodology

We have considered the income approach, market approach and cost approach to calculate the market value of the Fixed Assets. For income approach, we noticed that the Fixed Assets did not constitute a complete production unit, and the income generated by the whole business was difficult to be allocated to the Fixed Assets. For market approach, we noticed that most of the Fixed Assets do not have an active second-hand market.

We finally decided to adopt cost approach, and in particular, the replacement cost method. Generally, replacement cost is the cost that is relevant to determining the price that a market participant would pay as it is based on replicating the utility of the asset, not the exact physical properties of the asset. Usually, replacement cost is adjusted for physical deterioration and all relevant forms of obsolescence. After such adjustments, this can be referred to as depreciated replacement cost.

The key steps in the replacement cost method are:

- calculate all of the costs that would be incurred by a typical market participant seeking to create an asset providing equivalent utility;
- determine whether there is any depreciation related to physical, functional and economic obsolescence associated with the subject asset; and
- deduct total depreciation from the total costs to arrive at a value for the subject asset.

4 DISCUSSION OF THE FIXED ASSETS

Fixed Assets

The Company owns a production factory in No. 88 Dongfang Avenue, Zhapu Port, Jiaxing City, Zhejiang Province, the People's Republic of China. The Fixed Assets assessed in this valuation constitutes part of the production factory. During the course of this valuation, we have obtained a detailed fixed assets list in relation to the Fixed Assets, and the major category and book value of the Fixed Assets are shown as below:

Item	Book Value
Petroleum Infrastructure	24,565,957
Installation and Engineering Project	43,037,902
Machine Spare Parts & Accessories	32,779,118
Monitoring and Control System	311,111
Others (<i>Note</i>)	<u>11,092,468</u>
Total	<u>111,786,556</u>

Currency: RMB

Note: "Others" consists of some capitalized service cost that were incurred when the production factory was built and assembled. Such costs mainly involve design contracts, auditing fee, appraisal fee, supervision fee, detecting fee, etc.

5 VALUATION OF THE FIXED ASSETS

Valuation of the Fixed Assets

During the course of our valuation, we have examined the breakdown of the Fixed Assets and performed separate valuation assessment on it. Several key parameters adopted are discussed as follows:

Economic Useful Life

We have obtained a breakdown schedule of the Fixed assets and discussed the economic useful life of different categories of fixed assets with the management. Per management's opinion and our experience, the economic useful life of the Fixed Assets is as below:

Item (<i>note</i>)	Useful Life
Petroleum Infrastructure	20 years
Machine Spare Parts & Accessories	20 years
Monitoring and Control System	20 years

Source: MARSHALL & SWIFT/BOECKH, LLC

Note: For Installation and Engineering Project and Others, as the nature of such items represent the labor cost incurred rather than tangible assets acquired, the replacement cost of such items are primarily determined by pricing level. The concept of economic useful life is not appropriate to be applied on such items and the replacement cost of these items is not relevant to its economic useful life.

Purchase Cost

We have adopted the trending method to estimate the purchase cost of the Fixed Assets as at the Valuation Date. We noticed that the most Fixed Assets are purchased from 2014 to 2018.

Based on the domestic supply price index published National Bureau of Statistics of China, the Price Indices for Investment in Fixed Assets from 2013 to 2021 is 100.3, 100.5, 98.2, 99.4, 105.8, 105.4, 102.6, 99.1 and 106.9 respectively. We have re-calculated the market value of the fixed assets based on the above price index.

Source of the price index:

<https://data.stats.gov.cn/english/easyquery.htm?cn=C01>

Deterioration and Obsolescence

We have considered three types of deterioration and obsolescence in this valuation: physical deterioration, functional obsolescence and economic obsolescence.

Physical deterioration is a form of depreciation where loss in value or usefulness of a property is due to the using up or expiration of its useful life caused by wear and tear, deterioration, exposure to various elements, physical stresses, and similar factors. For physical deterioration, we have calculated the effective depreciation of the fixed assets, based on its economic useful life and actual used life. The economic useful life is determined mainly with reference to the Life Expectancy Guidelines table, published by MARSHALL & SWIFT/BOECKH, LLC.

Functional obsolescence is a form of depreciation in which the loss in value or usefulness of a property is caused by inefficiencies or inadequacies of the property itself, when compared to a more efficient or less costly replacement property that new technology has developed. For functional obsolescence, we understand that Zhejiang Meifu does not have outdated equipment as the petrochemical industry is quite traditional, and all Zhejiang Meifu's Fixed Assets have been properly placed and used. So functional obsolescence is not applied.

Economic obsolescence is a form of depreciation where the loss in value of asset is caused by factors external to the asset. For economic obsolescence, we noticed that the business environment of the Company is relatively stable. Common risk factor such as policy change, industry demand, fluctuation in raw material price, etc, are not expected to happen for Zhejiang Meifu. So economic obsolescence is not applied.

Formula

For the Fixed Assets under the items of Petroleum Infrastructure, Machine Spare Parts & Accessories and Monitoring and Control System, the formula for calculating the market value is shown as below:

Item	Historical Cost	Used Life	Price Index	Replacement Cost	Economic Life	Market Value
Fixed Asset	A	B	C	D=A/C	E	=(E-B)/E*D

For the Fixed Assets under the items of Installation and Engineering Project and Others, the formula for calculating the market value is shown as below:

Item	Historical Cost	Price Index	Replacement Cost	Market Value
Fixed Asset	A	B	C = A/B	C

Result

The result of our concluded market value for the Fixed Assets is shown as below:

Item	Market Value
Petroleum Infrastructure	17,022,846
Installation and Engineering Project	61,615,674
Machine Spare Parts & Accessories	23,058,743
Monitoring and Control System	222,084
Others	<u>15,921,091</u>
Total (rounded)	<u>117,840,000</u>

Currency: RMB

6 PREMISE OF VALUATION AND BASIS OF VALUATION

Our valuation is carried out on a Market Value basis, which is defined in IVS as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

6.1 Source of Information

Our investigation covers the discussion with the Company and the Instructing Party's representatives, the collection of information including the details of the Company.

We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Company were prepared in reasonable care.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

6.2 Assumptions and Factors Considered

The assumptions considered in this valuation included, but were not limited to, the following:

- The assumption that the Fixed Assets are in good operating condition; and
- The general petrochemical market will show stable growth in the coming projection period;

The factors considered in this valuation included, but were not limited to, the following:

- The nature and history of the Company;
- The financial conditions of the Company;
- Operation and financial risks of the Company;
- Environmental policies set by the government that pertains to the Company;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of the Company including the continuity of income and the projected future results.

7 DISCLAIMER AND LIMITATION

Our valuation is subject to General Services Conditions are attached at the rear of this report as Appendix. Our findings or conclusion of values of the subject(s) in this report are valid only for the stated purpose and at the Valuation Date(s), and for the sole use of the Instructing Party.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party

contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding five (5) times of the amount of our agreed fee(s) or five hundred thousand Hong Kong Dollars whichever is the lower. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Instructing Party is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

Any decision to purchase, sell or transfer any interest in the valuation subjects shall be the owners' sole responsibility, as well as the structure to be utilized and the price to be accepted. The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

8 CONCLUSION

The conclusion of value is based on the accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

While the assumptions and consideration of such matters are reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Instructing Party and/or CHFT Advisory and Appraisal Limited (the "CHFT").

Based on the valuation methodology adopted, we are of the opinion that as at 31 August 2022, the market value of the Fixed Assets is as follows:

Item	Market Value
Fixed Assets	117,840,000

Currency: RMB

We hereby certify that we have neither present nor prospective interests in the Company or the value(s) reported.

Yours faithfully,
For and on behalf of
CHFT Advisory and Appraisal Limited

Ross XH Wang CFA
Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022 are disclosed in the annual reports of the Company for the three years ended 31 December 2019, 2020 and 2021 and the interim report of the Company for the six months ended 30 June 2022, respectively. Together with the relevant notes thereto are disclosed in the following documents which have been published and are available on the website of the Stock Exchange (www.hkexnews.com) and the website of the Company (www.chinasanjiangfinechemicals.com):

- the Annual Report 2019 of the Company for the 12 months ended 31 December 2019 published on 8 May 2020 (pages 46–154);
- the Annual Report 2020 of the Company for the 12 months ended 31 December 2020 published on 29 April 2021 (pages 51 to 143);
- the Annual Report 2021 of the Company for the 12 months ended 31 December 2021 published on 11 April 2022 (pages 50 to 152); and
- the Interim Report 2022 of the Company for the six months ended 30 June 2022 published on 21 September 2022 (pages 6 to 23).

2. INDEBTEDNESS

At the close of business on 30 September 2022, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding indebtedness as follows:

Bank borrowings — secured	RMB5,084,772,000.00
Bank borrowings — unsecured	RMB4,221,376,000.00
Amount due to a related company (for financing purpose) — unsecured	Nil
Guarantees given to banks in connection with facilities granted Mei Fu Petrochemical	Nil

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 30 September 2022, the Group did not have other outstanding mortgages, charges, debentures or other loan capital issued and outstanding, and authorised or otherwise created but unissued, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account of the Group's internal resources, cash flow from operations and also the effect of the proposed transactions as set out in this circular, 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. The Company has obtained the relevant confirmation from its auditor as required under Rule 14.66(12) of the Listing Rules.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The management of the Group is expecting a number of upsides in the second half of 2022 and first half of 2023. The Group's 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and its ancillary upstream level production facilities will finish ramp-up in early 2023 and will commence operation during 2023. The Group expects the commercial operations, which will enable the Group not only to double its EO/EG market shares in the Eastern China area but also to rebalance/adjust its feedstocks composition in a large extent and further diversify business/market risks as to the price fluctuation of crude oil and nature gas/coal and the overall revenue of the Group is expected to be increased by more than 50% after the commercial operations of the 6th phase EO/EG production facilities and its ancillary upstream level production facilities. In the second half of 2022, the management of the Group expects the disruption of trades, productions and logistics as a result of COVID-19 Pandemic prevention measures will be improved to certain extent as communities have been adapting to the new norm of COVID-19 Pandemic and the demands for our downstream products, covering a variety of products/industries like cleaning and detergents, cement, textiles, packings and etc. are expected to be improved.

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of each Director in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the “**Model Code**”), to be notified to the Company and the Stock Exchange were as follows:

(a) Long positions in the Shares

Name of Directors	Personal Interest	Number of Shares			Approximate % of issued share capital ³
		Family Interest	Trust/ Corporate Interest	Total	
Ms. Han	—	20,738,000 ²	516,496,000 ²	537,234,000	45.15%
Rao Huotao (“ Mr. Rao ”)	225,000	—	—	—	0.02%
Ms. Guan	—	20,738,000 ²	516,496,000 ²	537,234,000	45.15%
Chen Xian (“ Ms. Chen ”)	1,631,000	—	—	—	0.14%

Notes:

- (1) The 516,496,000 Shares were held by Sure Capital Holdings Limited (“**Sure Capital**”) which was wholly-owned by Yihao Development Limited which was held under the Yihao Trust, the trustee of which was Vistra Trust (Singapore) Pte. Ltd (“**Vistra Singapore**”). The Yihao Trust was established by Guan Jianzhong (“**Mr. Guan**”) and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Mr. Guan, Ms. Han, Ms. Guan (the daughter of Mr. Guan and Ms. Han), Vistra Singapore are deemed to be interested in the Shares under the SFO.
- (2) These shares were beneficially owned by Mr. Guan, the spouse of Ms. Han. Under the SFO, Ms. Han were deemed to be interested in such shares and Mr. Guan, Ms. Han and Ms. Guan (the daughter of Mr. Guan and Ms. Han), were also deemed to be interested in 516,496,000 Shares mentioned in Note 1 above.
- (3) Based on 1,190,000,000 Shares in issue as at the Latest Practicable Date.

(b) Interest in shares of associated corporation of the Company

Name of Directors	Name of associated corporation	Number of Shares			Trust/ Corporate Interest	Approximate % of issued share capital ²
		Personal Interest	Family Interest	Total		
Ms. Han	Sure Capital	—	—	506,451,000 ¹	506,451,000	43.30%
Ms. Guan	Sure Capital	—	—	506,451,000 ¹	506,451,000	43.30%

Notes:

- (1) The 516,496,000 Shares were held by Sure Capital which was wholly-owned by Yihao Development Limited which was held under the Yihao Trust, the trustee of which was Vistra Singapore. The Yihao Trust was established by Mr. Guan and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Mr. Guan, Ms. Han, Ms. Guan (the daughter of Mr. Guan and Ms. Han), Vistra Singapore are deemed to be interested in the Shares under the SFO.
- (2) Based on 1,190,000,000 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, none of the Directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at the Latest Practicable Date.

(c) Interests of substantial shareholders

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had interest in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the Part XV of the SFO:

Name of Shareholder	Capacity	Number of Shares	Approximate % of issued share capital ³
Vistra Trust (Singapore) Pte. Ltd	Trustee	516,496,000 ¹	43.40%
Yihao Development Limited	Interest of controlled corporation	516,496,000 ¹	43.40%
Sure Capital	Interest of controlled corporation	516,496,000 ¹	43.40%

Notes:

- (1) The 516,496,000 Shares were held by Sure Capital, which is wholly-owned by Yihao Development Limited, which is in turn held under the Yihao Trust, the trustee of which was Vistra Singapore. The Yihao Trust was established by Mr. Guan and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Mr. Guan, Ms. Han, Vistra Singapore are deemed to be interested in the Shares under the SFO.
- (2) Based on 1,190,000,000 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register required to be kept under section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

At the Latest Practicable Date, save for the following arrangements, there was no contract or arrangement subsisting in which any of the Directors was materially interested and which was significant in relation to the business of the Group:

- (a) the oxygen gas and miscellaneous materials sales agreement and storage service agreement dated 15 May 2020 entered into between Jiahua Energy Chemical Co. and Sanjiang Chemical as disclosed in the announcement of the Company dated 15 May 2020;
- (b) (i) the energy management agreement dated 15 May 2020 entered into between Jiahua Energy Chemical Co. and Sanjiang New Material and (ii) the energy management agreement dated 15 May 2020 entered into between Jiahua Energy Chemical Co. and Xing Xing as disclosed in the announcement of the Company dated 15 May 2020;
- (c) (i) the energy management agreement dated 15 May 2020 entered into between 浙江浩星節能科技有限公司 (Zhejiang Haoxing Energy Conservation Technology Co. Ltd.*) (“**Haoxing Energy Conservation**”), a company established on the PRC with limited liability owned as to approximately 55.5% by Mr. Guan and Sanjiang Chemical; (ii) the energy management agreement dated 15 May 2020 entered into between Haoxing Energy Conservation and 三江浩嘉高分子材料科技有限公司 (Sanjiang Haojia High Polymer Material Technology Co., Ltd*) (“**Sanjiang Haojia**”), a company established in the PRC with limited liability on 28 December 2018, which is an indirect wholly-owned subsidiary of the Company; and (iii) the energy management agreement dated 15 May 2020 entered into between Haoxing Energy Conservation and Xing Xing as disclosed in the announcement of the Company dated 15 May 2020;

- (d) the framework agreement dated 3 August 2020 entered into between the Company and 嘉興港區港安工業設備安裝有限公司 (Jiaying Gangqu Gangan Industrial Equipment Installation Co., Ltd*) (“**Gangan Industrial**”), a company established in the PRC with limited liability, and a company which was owned by Mr. Guan and Jianghao Investment as to 50.00% and 50.00% respectively, as disclosed in the announcement of the Company dated 3 August 2020;
- (e) the acquisition agreement dated 31 August 2020 entered into between Sanjiang Chemical and Jiahua as disclosed in the announcement of the Company dated 31 August 2020;
- (f) (i) the Xing Xing Steam Supply Agreement; (ii) the Sanjiang Chemical Steam Supply Agreement; (iii) the Sanjiang New Material Steam Supply Agreement; and (iv) the steam supply agreement dated 12 November 2020 entered into between Sanjiang Haojia and Jiahua Energy Chemical Co. as disclosed in the announcement of the Company dated 12 November 2020 and circular of the Company dated 3 December 2020;
- (g) the ethylene sales agreement dated 12 November 2020 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. as disclosed in the announcement of the Company dated 12 November 2020 and circular of the Company dated 3 December 2020;
- (h) (i) the port and storage services agreement dated 12 November 2020 entered into between 浙江乍浦美福碼頭倉儲有限公司 (Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd*) (“**Mei Fu Port**”), a limited liability company incorporated in the PRC and is a wholly-owned subsidiary of Jiahua Energy Chemical Co. and Xing Xing; (ii) the port and storage services agreement dated 12 November 2020 entered into between Mei Fu Port and Sanjiang Chemical; (iii) the port and storage services agreement dated 12 November 2020 entered into between Mei Fu Port and Sanjiang New Material; (iv) the port and storage services agreement dated 12 November 2020 entered into between Mei Fu Port and Sanjiang Haojia as disclosed in the announcement of the Company dated 12 November 2020 and circular of the Company dated 3 December 2020;
- (i) the storage services agreement dated 12 November 2020 entered into between Jiahua Energy Chemical Co. and Sanjiang Chemical as disclosed in the announcement of the Company dated 12 November 2020 and circular of the Company dated 3 December 2020;
- (j) (i) the fatty alcohol supply agreement dated 11 December 2020 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co.; (ii) the ethylene storage services agreement dated 11 December 2020 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co.; (iii) the condensate water purchase agreements both dated 11 December 2020 entered into between Jiahua Energy Chemical Co. and each of Sanjiang Chemical

and Xing Xing respectively; (iv) the desalinated water and miscellaneous materials supply agreements all dated 11 December 2020 entered into between Jiahua Energy Chemical Co. and each of Sanjiang Chemical, Sanjiang New Material and Xing Xing respectively; (v) the gas and miscellaneous materials sales agreement dated 11 December 2020 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co.; and (vi) the management agreement dated 11 December 2020 entered into between the Company and Capitol International Limited (“**Capitol International**”), a company incorporated in Hong Kong with limited liability and is a directly wholly-owned subsidiary of the Company, as disclosed in the announcement of the Company dated 11 December 2020;

- (k) the acquisition agreement dated 11 December 2020 entered into between Sanjiang Haojia and 浙江三江思怡新材料有限公司 (Zhejiang Sanjiang Siyi New Material Co. Ltd*) (“**Sanjiang Siyi**”), a company established in the PRC with limited liability on 17 November 2020, which is an indirect wholly-owned subsidiary of the Company, as joint purchasers and (i) 杭州秋實創業投資管理合夥企業(有限合夥)(Hangzhou Qiushi Venture Capital Management Partnership (Limited Partnership)*, a limited liability partnership established in the PRC and is owned as to 45% by Mr. Guan, 15% by Yan Zhongbo* (嚴中鉞), 15% by Ding Yingxin* (丁穎新), 5% by Lu Guoxing* (魯國興), 5% by Hu Zhengfang* (胡正芳), 5% by Xin Zhangwei* (殷張偉), 5% by Guo Mingdong* (郭明東) and 5% by Guo Mingliang* (郭明良), all of whom, except for Mr. Guan, are third parties independent of the Company and its connected person; and (ii) 杭州管石創業投資管理合夥企業(有限合夥)(Hangzhou Guanshi Venture Capital Management Partnership (Limited Partnership)*, a limited liability partnership established in the PRC and is owned as to 95% by Mr. Guan and 5% by Liu Zhaoxia* (劉朝霞) as vendors as disclosed in the announcement of the Company dated 11 December 2020;
- (l) the framework agreement dated 28 December 2020 entered into between Mei Fu Petrochemical, and the Company as disclosed in the announcement of the Company dated 28 December 2020;
- (m) (i) the energy management agreement dated 28 December 2020 entered into between Jiahua Energy Chemical Co. and Sanjiang New Material; and (ii) the energy management agreement dated 28 December 2020 entered into between Jiahua Energy Chemical Co. and Xing Xing as disclosed in the announcement of the Company dated 28 December 2020;
- (n) the nitrogen gas sales agreement dated 28 December 2020 entered into between Sanjiang Chemical and 浙江嘉化新材料有限公司 (Zhejiang Jiahua New Material Co., Ltd*) (“**Jihua New Material**”), a company established in the PRC with limited liability, is a directly wholly-owned subsidiary of Jiahua Energy Chemical Co, a connected person of the Company as disclosed in the announcement of the Company dated 28 December 2020;

- (o) the land use right transfer agreement dated 20 January 2021 entered into between Sanjiang Chemical and Mei Fu Petrochemical as disclosed in the announcement of the Company dated 20 January 2021;
- (p) the framework agreement dated 26 February 2021 entered into between Jiahua Energy Chemical Co. and 嘉興市港區工業管廊有限公司 (Jiaxing Port Chemical Industry Park Pipeline Co., Ltd*) (“**Guanlang**”), a limited liability company principally engaged in the construction and management of pipeline network in Jiaxing Port Chemical Industrial Park and a non-wholly owned subsidiary of the Company, which is owned as to 83.85% by Sanjiang Chemical and as to 16.15% by 嘉興市乍浦建設投資有限公司 (Jiaxing Zhapu Construction Investment Co., Ltd.*), which is in turn owned as to 100% by 嘉興濱海控股集團有限公司 (Jiaxing Binhai Holding Group Co., Ltd.*), which is owned as to 100% by 嘉興市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Jiaxing Municipal People’s Government*) as disclosed in the announcement of the Company dated 26 February 2021;
- (q) the supply agreement dated 30 December 2021 entered into between Sanjiang Chemical and 嘉興興港熱網有限公司 (Jiaxing Xinggang Rewang Co., Ltd.*) (“**Jiaxia Rewang**”), a limited liability company established in the PRC on 28 March 2002 and is owned as to 50% by Jiahua Energy Chemical Co and 50% by local government or local government related bodies as disclosed in the announcement of the Company dated 30 December 2021;
- (r) the framework agreement dated 30 December 2021 entered into between Guanlang and Jiahua Energy Chemical Co. as disclosed in the announcement of the Company dated 30 December 2021;
- (s) the nitrogen gas sales agreement dated 1 January 2022 entered into between Sanjiang Chemical and Jiahua New Material as disclosed in the announcement of the Company dated 1 January 2022;
- (t) (i) the energy management agreement dated 7 January 2022 entered into between Jiahua Energy Chemical Co. and Sanjiang New Material; and (ii) the energy management agreement dated 7 January 2022 entered into between Jiahua Energy Chemical Co. and Xing Xing as disclosed in the announcement of the Company dated 7 January 2022; and
- (u) (i) the steam supply agreement dated 16 September 2022 entered into between Jiahua Energy Chemical Co. and Sanjiang Siyi; and (ii) the desalinated water and miscellaneous materials supply agreement dated 16 September 2022 entered into between Jiahua Energy Chemical Co. and Sanjiang Siyi as disclosed in the announcement of the Company dated 16 September 2022.

Save as disclosed above, since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up), none of the Directors had any direct or indirect interest in any assets which had been 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.

3. DIRECTORS' SERVICE CONTRACTS

At the Latest Practicable Date, none of the Directors had entered or proposed to enter into, with any member of the Group, a service contract which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up.

5. COMPETING BUSINESS INTERESTS OF DIRECTORS

None of the Directors or their respective close associates had any interest in the business, which competed or was likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling shareholder).

6. CONSENT OF EXPERTS

Each of CHFT Advisory and Appraisal Limited and Lego Corporate Finance Limited has given and has not withdrawn their written consent to the inclusion of their report in this circular with references to their name in form and context in which they appear.

7. QUALIFICATION OF EXPERT

The followings are the qualification of the experts who have given opinion or advice, contained in this circular:

Name	Qualifications
CHFT Advisory and Appraisal Limited	Professional Valuer
Lego Corporate Finance Limited	type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, each of CHFT Advisory and Appraisal Limited and Lego Corporate Finance Limited did not have any holding, directly or indirectly, of any securities in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities of any member of the Group.

As at the Latest Practicable Date, each of CHFT Advisory and Appraisal Limited and Lego Corporate Finance Limited did not have any direct or indirect interests in any assets which since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up) have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group.

8. LITIGATION

At the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the members of the Group within the two years immediately preceding the date of this circular, which were or might be material:

- (1) the Supplemental Sanjiang New Material Steam Supply Agreement;
- (2) the Supplemental Xing Xing Steam Supply Agreement;
- (3) the Supplemental Sanjiang Chemical Steam Supply Agreement; and
- (4) the Sale and Purchase Agreement.

10. GENERAL

- (a) The company secretary of the Company is Mr. Yip Ngai Hang, who is also the financial controller of the Group. Mr. Yip is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of the Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999.
- (b) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is located at Room 2202, 22/F., OfficePlus@WanChai, 303 Hennessy Road, Hong Kong.
- (c) The principal share registrar and transfer office of the Company is Butterfield Fulcrum Group (Cayman) Limited at Butterfield House, 68 Fort Street, P.O. Box 609, Grand Cayman KY1-1107, Cayman Islands.

- (d) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the Stock Exchange website (<http://www.hkexnews.hk>) and the Company's website (www.chinasanjiangfinechemicals.com) up to and including the date which is 14 days from the date of this circular:

- (a) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix III;
- (b) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (c) the letter from Lego Corporate Finance Limited, the text of which is set out in this circular;
- (d) the letter from CHFT Advisory and Appraisal Limited, the text of which is set out in this circular;
- (e) the written consent from each of CHFT Advisory and Appraisal Limited and Lego Corporate Finance Limited referred to in the section headed "CONSENT OF EXPERTS" in this Appendix III; and
- (f) this circular.



三江化工

SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**EGM**”) of China Sanjiang Fine Chemicals Company Limited (the “**Company**”) will be held at 10:30 a.m. on Tuesday, 20 December 2022 at 24/F, OfficePlus@WanChai, 303 Hennessy Road, Wan Chai, Hong Kong for the purpose of considering and, if thought fit, approving the following resolutions as ordinary resolutions of the Company. Unless otherwise indicated, capitalised terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 30 November 2022.

The following resolutions will be considered and, if thought fit, approved by the Shareholders, with or without amendments, at the EGM:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the supplemental steam supply agreement (the “**Supplemental Sanjiang New Material Steam Supply Agreement**”) dated 23 September 2022 entered into between 浙江三江化工新材料有限公司 (Zhejiang Sanjiang New Material Co., Ltd*) (“**Sanjiang New Material**”) and 浙江嘉化能源化工股份有限公司 (Zhejiang Jiahua Energy Chemical Co. Ltd.*) (“**Jiahua Energy Chemical Co.**”), for amending the existing annual caps under the steam supply agreement dated 12 November 2020 entered into between Sanjiang New Material and Jiahua Energy Chemical Co., and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the amended annual caps for the two years ending 31 December 2023 in relation to the transactions contemplated under the Supplemental Sanjiang New Material Steam Supply Agreement be and are hereby approved, confirmed and ratified; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) the directors of the Company be and are hereby authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Supplemental Sanjiang New Material Steam Supply Agreement and the transactions contemplated thereunder.”

2. **“THAT:**

- (a) the supplemental steam supply agreement (the **“Supplemental Xing Xing Steam Supply Agreement”**) dated 23 September 2022 entered into between 浙江興興新能源科技有限公司 (Zhejiang Xingxing New Energy Technology Co., Ltd.*) (**“Xing Xing”**) and Jiahua Energy Chemical Co., for amending the existing annual caps under the steam supply agreement dated 12 November 2020 entered into between Xing Xing and Jiahua Energy Chemical Co., and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the amended annual caps for the two years ending 31 December 2023 in relation to the transactions contemplated under the Supplemental Xing Xing Steam Supply Agreement be and are hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Supplemental Xing Xing Steam Supply Agreement and the transactions contemplated thereunder.”

3. **“THAT:**

- (a) the supplemental steam supply agreement (the **“Supplemental Sanjiang Chemical Steam Supply Agreement”**) dated 23 September 2022 entered into between 三江化工有限公司 (Sanjiang Chemical Co. Ltd.*) (**“Sanjiang Chemical”**) and Jiahua Energy Chemical Co., for amending the existing annual cap under the steam supply agreement dated 12 November 2020 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co., and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the amended annual cap for the year ending 31 December 2023 in relation to the transactions contemplated under the Supplemental Sanjiang Chemical Steam Supply Agreement be and is hereby approved, confirmed and ratified; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

(c) the directors of the Company be and are hereby authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Supplemental Sanjiang Chemical Steam Supply Agreement and the transactions contemplated thereunder.”

4. **“THAT:**

(a) the sale and purchase agreement dated 23 September 2022 (“**Sale and Purchase Agreement**”) entered into between Sanjiang Chemical and 浙江美福石油化工有限公司 (Zhejiang Mei Fu Petrochemical Co., Ltd*) (“**Mei Fu Petrochemical**”), pursuant to which Mei Fu Petrochemical has conditionally agreed to sell and Sanjiang Chemical has conditionally agreed to purchase the Assets (as defined under the Sale and Purchase Agreement) and the transactions contemplated thereby be and are hereby approved, confirmed and ratified; and

(b) the taking of all steps and doing of all things and execution of all documents by the Company and its subsidiaries to implement, give effect to or complete the Sale and Purchase Agreement and the transactions contemplated thereby, and the making and giving of and agreeing to such variations, amendments, modifications, waivers or extensions of the terms of the Sale and Purchase Agreement and the transactions contemplated thereby, as any one of the directors of the Company may consider to be necessary, desirable, appropriate or expedient, be and are hereby approved, confirmed and ratified.”

By Order of the Board
China Sanjiang Fine Chemicals Company Limited
Han Jianhong
Chairlady and executive Director

Hong Kong, 30 November 2022

Head Office and Principal place of business in Hong Kong:
Room 2202, 22/F.,
OfficePlus@WanChai,
303 Hennessy Road,
Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the meeting. A proxy need not be a member of the Company but must be present in person to represent him.

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 48 hours before the time of the meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint registered holders of a share in the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto or if more than one of such joint holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. For the purpose of determining entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 15 December 2022 to Tuesday, 20 December 2022, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM. In order to qualify for the right to attend and vote at the forthcoming EGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 14 December 2022.
6. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 8:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at (www.chinasanjiangfinechemicals.com) and on the HKExnews website of the Stock Exchange at (www.hkexnews.hk) to notify Shareholders of the date, time and venue of the rescheduled meeting.
7. At the EGM (or at any adjournment thereof), the chairman of the meeting put the above resolution to the vote by way of poll pursuant to the Listing Rules. The poll results will be published on the website of the Company and the website of the Stock Exchange in accordance with the Listing Rules.
8. In case of inconsistency between the English and Chinese version of this notice of EGM, the English version shall prevail.

As at the date of this notice, the Board comprises four executive Directors: Ms. HAN Jianhong, Mr. RAO Huotao, Ms. CHEN Xian and Ms. GUAN Siyi and three independent non-executive Directors: Mr. SHEN Kaijun, Ms. PEI Yu and Mr. KONG Liang.