STRONG PETROCHEMICAL HOLDINGS LIMITED

海峽石油化工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 852)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO 2023 ANNUAL REPORT

Reference are made to the 2023 annual report of the Company despatched on 23 April 2024 (the "**2023 Annual Report**"). Unless the context requires otherwise, terms used in this announcement shall have the same meanings as those defined in the 2023 Annual Report.

As disclosed in the 2023 Annual Report, the Company recorded an impairment loss on financial asset measured through profit or loss of approximately HK$102.1 million regarding the change in fair value of its investment in SH Energy as at 31 December 2023. The purpose of this supplemental announcement is to provide additional information in respect of the impairment loss on financial asset measured through profit or loss for reference and consideration by the shareholders and potential investors of the Company.

As set out in Note 20 to the consolidated financial statements of the Group for the year ended 31 December 2023 in the 2023 Annual Report, the Group recorded an impairment loss on financial asset measured through profit or loss of approximately US$13.1 million (equivalent to approximately HK$102.1 million) for the year ended 31 December 2023, in respect of the change in fair value of its investment in SH Energy, as determined based on the key assumptions and parameters further set out in this announcement below.

DETAILS OF THE FAIR VALUE ASSESSMENT OF INVESTMENT IN SH ENERGY

In assessing the impairment, the Group engaged an independent valuer, AVISTA Valuation Advisory Limited, to perform fair value assessment on the investment in SH Energy.

The management of the Company understood that SH Energy had strived for applying for the project extension in the past few years. However, it usually takes a long period of time to negotiate with China National Petroleum Corporation ("**CNPC**") on the significant terms on the agreement for extension of the production period, such as pricing and cost allocation. Therefore, as at 31 December 2023, SH Energy had not yet reached any agreement with

CNPC for extension of the production period. The management of the Company adopted a prudent approach and did not take into account of project extension when performing the fair value assessment.

The Group has consistently applied the income approach for the valuation of the investment in SH Energy as at 31 December 2023. Cost approach is not appropriate in the current appraisal as it fails to consider the economic benefits of the ownership of the business. the management of the Group considered the consolidated net book value of SH Energy as of 31 December 2023 may not truly reflect the value of the Group's equity interests, as part of the value will be attributed to future costs and benefits of SH Energy derived from the explorations and sales of crude oil and the relevant costs. Meanwhile, given that the Tianjin oil fields project has a fixed timeframe for the exploration operation (i.e. limited life for operation), market approach is considered to be inappropriate. The income approach has been applied for the valuation of the investment in SH Energy as the economic benefit streams can be identified and ascertained based on the production plans and planned capital expenditure to be incurred, as well as other cost estimate. This method is commonly used in, and widely accepted for, the valuation of mineral assets and resources projects.

In determining the recoverable amount of the value of SH Energy as at 31 December 2023 and 31 December 2022 respectively, the Group used certain key assumptions and parameters, details of which are stated below:

	For the year ended 31 December		
	2023	**2022**	**Basis and reason(s) for changes**
Methodology	Income Approach	Income Approach	Consistent valuation approach has been applied.
Key inputs			
1. Forecast Kongnan oil price (US$ per barrel)	2024 (Year 1): 62.50 2025 (Year 2): 64.14 2026 (Year 3): 65.81 2027 (Year 4): 67.52	2023 (Year 1): 72.00 2024 (Year 2): 81.00 2025 (Year 3): 82.72 2026 (Year 4): 84.47 2027 (Year 5): 86.26	Determined based on forecast of Brent oil price and the difference between Brent oil price and Cinta oil price. For the year ended 31 December 2023, the difference between Brent oil price and Cinta oil price was higher than 2022 record due to the chaos of global crude market caused by Ukraine war.
2. Forecast volume of oil produced (barrel)	2024 (Year 1): 522,912 2025 (Year 2): 513,574 2026 (Year 3): 439,878 2027 (Year 4): 341,111	2023 (Year 1): 651,595 2024 (Year 2): 719,982 2025 (Year 3): 662,166 2026 (Year 4): 567,178 2027 (Year 5): 444,917	Determined based on the then latest production plan and drilling schedule. Due to the drop in forecast Kongnan oil prices in the remaining project period compared to 2022 record, it might not be cost efficient to produce oil according to the original production plan, well repair, fracturing and drilling schedule. The deferred new oil well drilling schedule further caused drops in forecast volume of oil produced in the remaining project period.

		For the year ended 31 December		
		2023	**2022**	**Basis and reason(s) for changes**
3.	Free cash flow (US$'000)	2024 (Year 1): 2,781 2025 (Year 2): 5,799 2026 (Year 3): 5,758 2027 (Year 4): 1,649	2023 (Year 1): 316 2024 (Year 2): 12,416 2025 (Year 3): 14,062 2026 (Year 4): 13,095 2027 (Year 5): 7,463	Determined based on the revenue and cost sharing model with CNPC and the reserve report prepared by the management of the Tianjin oil fields project.
4.	Discount rate — post-tax	9.8%	10.6%	Determined based on the weighted average cost of capital as calculated using the then prevailing market data, namely risk-free rate, equity risk premium, country risk premium of the PRC and cost of debt.
5.	Revenue growth rate	2024 (Year 1): –11.2% 2025 (Year 2): 0.6% 2026 (Year 3): –23.3% 2027 (Year 4): –22.2%	2023 (Year 1): –16.4% 2024 (Year 2): 12.5% 2025 (Year 3): –13.8% 2026 (Year 4): –16.2% 2027 (Year 5): –19.4%	Determined based on the then latest production plan and drilling schedule.

As shown above, the primary changes in the valuation assumptions as at 31 December 2023, as compared to that as at 31 December 2022, include the adoption of different forecast Kongnan oil prices, forecast volumes of oil produced, free cash flows, discount rates and growth rates on the basis as set out under in the column headed "Basis and reason(s) for changes" in the table above.

After conducting oil production operations, the production of oil would be shared with CNPC based on the agreed revenue and cost sharing model. The cost recovery oil from the annual total production after deducting value-added tax and mineral rights royalties will be given priority to recover the operating costs. The remaining cost recovery oil will be allocated to the Tianjin oil fields project at a ratio of 82% to recover its development costs. If there is still remaining oil that can be distributed after the development costs are fully recovered, the remaining oil that can be distributed will be distributed to the Tianjin oil fields project at a ratio of 49%. In view of the drop in forecast Kongnan oil prices, the management of the Tianjin oil fields project adjusted the production plan and deferred the drilling schedule which caused the significant decrease in forecast volume of oil produced. The decrease in volume of oil produced would lead to the decreases in cost of goods sold, gross profit, income tax expense and working capital.

We have performed a sensitivity analysis on the impact of the reduction of forecast volume of oil produced on the recoverable amount of the investment in SH Energy. Assuming the forecast Kongnan oil prices remain the same as the previous measurement date of 31 December 2022, the recoverable amount of the investment in SH Energy as of 31 December 2023 will be approximately US$11.8 million (equivalent to approximately HK$91.8 million), which indicates an impairment of approximately US$7.8 million (equivalent to approximately HK$60.8 million).

In accordance with the aforesaid key assumptions and parameters as adopted by the Group in the fair value assessment of the investment in SH Energy as at 31 December 2023, the fair value of the investment in SH Energy was calculated based on the value of future cash flows and was determined to be in the amount of approximately US$6.5 million (equivalent to approximately HK$50.4 million) as at 31 December 2023. As the carrying value of the investment in SH Energy of approximately US$19.6 million (equivalent to approximately HK$152.6 million) exceeds the fair value of approximately US$6.5 million (equivalent to approximately HK$50.4 million), an impairment loss in the amount of approximately US$13.1 million (equivalent to approximately HK$102.1 million) was recognised in profit or loss as at 31 December 2023.

The above additional information does not affect other information contained in the 2023 Annual Report. Save as disclosed, all other information contained in the 2023 Annual Report remains unchanged.

By order of the Board
STRONG PETROCHEMICAL HOLDINGS LIMITED
Wang Jian Sheng
Chairman

Hong Kong, 20 August 2024

As at the date of this announcement, the Board comprises two executive Directors and three independent non-executive Directors. The executive Directors are Mr. Wang Jian Sheng and Mr. Yao Guoliang. The independent non-executive Directors are Ms. Cheung Siu Wan, Prof. Chan Yee Kwong and Mr. Deng Heng.

* *For identification purpose only*