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

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

**If you have sold or transferred** all your Shares, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the Shareholders in connection with the EGM to be held at Worldwide Executive Centre, Level 10, World-wide House, 19 Des Voeux Road Central, Hong Kong at 10:00 a.m. on 28 June 2012.



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)**

# DISCLOSEABLE AND CONNECTED TRANSACTION RELATING TO ACQUISITION OF 75% OF THE EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF EGM

**Independent financial adviser to the Independent Board Committee and the Independent Shareholders**

高銀融資有限公司

GOLDIN FINANCIAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 4 to 14 of this circular. A letter from the Independent Board Committee is set out on pages 15 to 16 of this circular. A letter from Goldin Financial containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 29 of this circular.

A notice convening the EGM to be held at Worldwide Executive Centre, Level 10, World-wide House, 19 Des Voeux Road Central, Hong Kong at 10:00 a.m. on 28 June 2012 is set out on pages 41 to 42 of this circular. If you are not able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding 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 if you so wish.

11 June 2012

# CONTENTS

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

| | |
|---|---|
| "Acquisition" | the acquisition of the 75% equity interest in the Target Company by the Purchaser from the Vendor pursuant to the Acquisition Agreement |
| "Acquisition Agreement" | the sale and purchase agreement dated 31 May 2012 and entered into between the Purchaser and the Vendor in relation to the Acquisition |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board" | the board of Directors |
| "Business Day" | any day (excluding a Saturday, Sunday and public holiday) on which banks in the PRC are generally open for throughout their normal business hours |
| "Company" | China Sanjiang Fine Chemicals Company Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange |
| "Completion" | completion of the Acquisition Agreement |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Consideration" | the consideration to be payable by the Purchaser pursuant to the Acquisition Agreement |
| "Director(s)" | the director(s) of the Company |
| "EGM" | an extraordinary general meeting of the Company to be convened by the Company for the purposes of considering, if thought fit, approving the Acquisition Agreement and the transactions contemplated thereunder |
| "Goldin Financial" | Goldin Financial Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition |

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|---|---|
| "Group" | the Company and its subsidiaries from time to time |
| "HK$" | Hong Kong dollar(s), the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | the Board committee comprising the three independent non-executive Directors established by the Board for the purpose of advising the Independent Shareholders in relation to, among others, the Acquisition Agreement |
| "Independent Shareholders" | Shareholders who are not involved or interested in the Acquisition |
| "Latest Practicable Date" | 8 June 2012, 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 |
| "PRC" | the People's Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "Purchaser" | 三江化工有限公司 (Sanjiang Chemical Co., Ltd.*), a wholly-owned subsidiary of the Company and a member of the Group |
| "RMB" | Reminibi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | the share(s) of par value of HK$0.10 each in the capital of the Company |
| "Shareholder(s)" | holder(s) of the Shares of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |

| | |
|---|---|
| "Target Company" | 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, the equity interest of which is, as at the date of this circular, held as to 75% by the Vendor, and as to 25% by 浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), which is in turn a non-wholly owned subsidiary of the Vendor |
| "Vendor" | 杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*), a limited liability company established in the PRC and owned as to 75% by Mr. Guan Jianzhong, 20% by Ms. Han Jianhong and 5% by Mr. Han Jianping respectively |
| "%" | per cent. |

*For the purpose of illustration only, amounts denominated in RMB in this circular have been translated into HK$ at the rate of RMB1 = HK$1.22. Such transactions should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate at all.*

* *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:*
Mr. Guan Jianzhong
Ms. Han Jianhong
Mr. Niu Yingshan
Mr. Han Jianping

*Independent non-executive Directors:*
Mr. Wang Wanxu
Mr. Shen Kaijun
Mr. Mui Ho Cheung, Gary

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

*Principal place of business in Hong Kong:*
Room 601–602, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan
Hong Kong

11 June 2012

*To the Shareholders*

Dear Sir or Madam,

## DISCLOSEABLE AND CONNECTED TRANSACTION RELATING TO ACQUISITION OF 75% OF THE EQUITY INTEREST IN THE TARGET COMPANY

### INTRODUCTION

On 31 May 2012, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the 75% of the equity interest in the Target Company at the Consideration of RMB108,500,000 (equivalent to approximately HK$132,370,000).

The purpose of this circular is to give you further information regarding, among others, information relating to the Acquisition, the Acquisition Agreement and the transactions contemplated thereunder, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee to the Independent Shareholders, a valuation report on the MTO Technology (as defined below) and its related ancillary technologies/contracts acquired by the Target Company, certain financial information as required under the Listing Rules, further information of the Group and to give you notice of the EGM.

**THE ACQUISITION AGREEMENT**

**Date:** 31 May 2012

**Parties:**

(1) The Purchaser: 三江化工有限公司 (Sanjiang Chemical Co., Ltd.*), a wholly-owned subsidiary of the Company and a member of the Group.

(2) The Vendor: 杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*), a limited liability company established in the PRC and owned as to 75% by Mr. Guan Jianzhong, 20% by Ms. Han Jianhong and 5% by Mr. Han Jianping respectively. Each of Mr. Guan Jianzhong, Ms. Han Jianhong and Mr. Han Jianping is an executive Director and accordingly, the Vendor is a connected person of the Company under the Listing Rules.

The Vendor is principally engaged in investment holding.

**Assets to be acquired:**

The Group has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, 75% of the equity interest in the Target Company.

**Consideration and terms of payment:**

The Consideration for the Acquisition payable by the Purchaser is RMB108,500,000 (equivalent to approximately HK$132,370,000), which will be payable by the Purchaser to the Vendor within 5 Business Days from the date of Completion by way of cheque or bank transfer or other methods to be agreed between the Vendor and the Purchaser. The Consideration will be funded by internal resources of the Group.

The Directors (including the independent non-executive Directors) confirm that the Consideration payable by the Company pursuant to the Acquisition Agreement was arrived at after arm's length negotiations between the Purchaser and the Vendor with reference to the adjusted net asset value of the Target Company of approximately RMB145,000,000 (equivalent to approximately HK$176,900,000), based on the unaudited net assets value of the Target Company as at 30 April 2012 of approximately RMB100,000,000 (equivalent to approximately HK$122,000,000) prepared in accordance with accounting principles generally accepted in the PRC, and taking into account the fact that the Directors expect the aggregate appraised value of the right to use a Methanol-to-Olefin-based technology ("**MTO Technology**") and related ancillary technologies acquired by the Target Company during 2011 will increase by not less than RMB45,000,000 (equivalent to approximately HK$54,900,000 compared with the original acquisition costs. The valuation of the right to use MTO Technology and related ancillary technologies was conducted by an independent valuer. MTO Technology and related ancillary technologies are primarily used to convert methanol into ethylene and propylene.

The registered capital of the Target Company is RMB400,000,000 and its paid up capital is RMB100,000,000. The Group's future commitment of the unpaid registered capital will be RMB225,000,000, which will be contributed by the internal resources of the Group after Completion.

**Conditions precedent**

Completion of the Acquisition Agreement is conditional on the satisfaction (or, where applicable, waiver by the Company) of the following conditions:

(1) the Independent Shareholders have passed an ordinary resolution to approve the transactions contemplated by the Acquisition Agreement at the EGM;

(2) the issue of legal opinions by a firm of PRC lawyers approved by the Company, confirming, among other matters, the due incorporation and valid existence of the Target Company, the legality of the businesses operated by the Target Company and other matters which the Purchaser considers necessary, contents of which must be accepted by the Purchaser;

(3) the value as at 30 April 2012 of the Target Company, including but not limited to the Target Company's right to use the MTO Technology and the related ancillary technologies, is estimated to be not less than RMB144,700,000 (equivalent to approximately HK$175,534,000) pursuant to valuation conducted by valuer approved by the Purchaser; and

(4) both the Purchaser and the Vendor obtained all necessary consent, approval and exemptions from governmental or regulatory authorities for the implementation of the transactions contemplated under the Acquisition Agreement.

None of the above conditions (other than condition (2)) can be waived by the parties. The Purchaser may at its absolute discretion waive condition (2) above at any time on or before 31 December 2012 (or such other date as agreed by the parties).

The value of the Target Company as at 30 April 2012 is RMB145,420,450, which is with reference to the summation of the unaudited net assets value of the Target Company as at 30 April 2012 of approximately RMB100,000,000 and the aggregate appraised value of the right to use the MTO Technology and related ancillary technologies of approximately RMB45,420,450.

The valuation approach conducted by valuer is the replacement cost method, which reflects the cost of creating an intellectual property asset of a like kind and quality to that of the subject intellectual property asset as at 30 April 2012, adjusted for inflation, other necessary relevant economic factors and relevant obsolescence factors including physical deterioration, functional obsolescence, technological obsolescence and economic obsolescence.

If the conditions precedents set out above have not been satisfied (or, where applicable, waived by the Purchaser) on or before 31 December 2012 (or such other date as agreed by the parties), the Acquisition Agreement shall cease and determine and none of the parties shall have any obligations and liabilities under the Acquisition Agreement, save for any prior breaches of the terms of the Acquisition Agreement.

**Completion of the Acquisition Agreement**

Completion of the Acquisition Agreement shall take place on the next Business Day after the fulfillment or waiver (as the case may be) of all conditions referred to above (or such other date as agreed by the parties).

After Completion, the Target Company will become a 75%-owned subsidiary of the Company.

**Information on the Target Company**

The Target Company is a limited liability company established in the PRC on 19 January 2011 with a registered capital of RMB400,000,000 and a paid-up capital of RMB100,000,000 as at the Latest Practicable Date. Its equity interest is, as at the Latest Practicable Date, held as to 75% by the Vendor, and as to 25% by 浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), which is in turn a non-wholly owned subsidiary of the Vendor, a connected person of the Company. Zhejiang Jiahua Group Co., Ltd. is principally engaged in the research, development and production of basic and fine chemicals and polymer materials. Upon completion of the Acquisition, the Target Company will be a connected person of the Company. Any transaction entered into between the Company and the Target Company in the future will constitute connected transactions and the Company will comply with the requirements under Chapter 14A of the Listing Rules accordingly as and when appropriate. As the minority shareholders of Zhejiang Jiahua Group Co., Ltd., being independent third parties of the Company and collectively holding approximately 30% of the equity interest of Zhejiang Jiahua Group Co., Ltd., would like to retain the equity interest held by Zhejiang Jiahua Group Co., Ltd. in the Target Company, 25% of the equity interest in the Target Company was not sold to the Group.

The Target Company is principally engaged in the production of ethylene and propylene by processing methanol based on MTO Technology, i.e. Methanol-to-Olefin-based technology and related ancillary technologies. The Target Company acquired the right to use MTO Technology and related ancillary technologies during 2011. The Directors got acquainted with the MTO Technology and the contracting parties of the MTO Technology through the relationship of the Group's Chairman, Mr.

Guan Jianzhong, and at the time when the Vendor negotiated for the acquisition of the MTO Technology, there was no plan for the Group to engage in the production of ethylene and propylene and construct a production facility adopting the MTO Technology for production of ethylene and propylene. After careful consideration by the Company at a later stage after the acquisition of the MTO Technology by the Target Company, the Directors decided that it is in the interest of the Group to expand its scope of business to manufacturing ethylene and propylene and to inject the MTO Technology into the Group.

The Target Company has not yet commenced any business operation other than that it has been planning, including but not limited to liaising with various government authorities to obtain various approvals/licenses and assessing and selecting ancillary technologies, since its establishment, in order to construct a sizeable production facility with designed annual production capacity of 300,000 metric tonnes for ethylene and 390,000 metric tonnes for propylene, which is the minimum requirement for one phase of production facility under the MTO Technology. As at the Latest Practicable Date, the Target Company has obtained majority of the required approvals/licenses from relevant government authorities, and the Vendor has also entered into a non-legally binding investment agreement dated 19 January 2011 with the management committee of the local development zone, namely the Development Zone of Port Zone, Jiaxing City and Zhejiang Jiahua Group Co., Ltd., pursuant to which the Target Company shall acquire certain amount of land use right in Jiaxing City of Zhejiang Province, the PRC at favorable market prices and agree on certain tax incentive treatments.

The Target Company has to obtain the approval from the Development and Reform Bureau of Jiaxing City and the approval from the local environmental bureau for the construction of the production facility. The Target Company has obtained the approval from the Development and Reform Bureau of Jiaxing City and it is expected that it will obtain the approval from the local environmental bureau on or before 31 August 2012. Based on past experience of the Company, the Company does not foresee any difficulties in obtaining the necessary approvals and licenses for the construction of the production facility.

Further, the Target Company has obtained the consent from Management Committee of the Development Zone of Port Zone, Jiaxing City that change of shareholding of the Target Company would not have any adverse impact on the execution and performance of the non-legally binding investment agreement.

Pursuant to the aforesaid non-legally binding investment agreement, the Target Company will initially invest to construct a MTO Technology-based production facility with designed annual production capacity of 300,000 metric tonnes for ethylene and 300,000 metric tonnes for propylene on land use right acquired and to be acquired from the aforesaid management committee of the local development zone. If the Target Company adjusts its investment plan in the future, it is subject to a risk that it may not be able to enjoy the agreed incentives in terms of acquisition of land use right at favorable market prices and tax incentive treatments.

As at the Latest Practicable Date, the Target Company has paid RMB8.6 million in respect of the acquisition of relevant land use right.

The future capital expenditure for the Target Company to construct the aforesaid production facility to produce ethylene and propylene will be funded initially by the Group's future commitment on the unpaid registered capital of RMB225,000,000 as well as the future commitment of RMB75,000,000 to be paid by the Target Company's another shareholder i.e. Zhejiang Jiahua Group Co., Ltd.. As further funding will be required for the future business development of the Target Company, it is expected that the Target Company will obtain future financing under banking facility and for this purpose, the Company may be required to provide guarantee, charge and/or other forms of financial assistance for the benefit of the Target Company. Further announcement, if required under the Listing Rules, will be made by the Company in this regard in due course as and when appropriate.

As the Target Company has not commenced any business operation since its establishment in January 2011, no revenue has been generated and all cost incurred for the construction of the MTO Technology-based production facility has been capitalised.

The carrying value in the balance sheet of the Target Company of the right to use the MTO Technology and related ancillary technologies amounted to RMB61,583,000 as at 30 April 2012. The valuation amount of the right to use the MTO Technology and related ancillary technologies as at 30 April 2012 was RMB220,430,000; the valuation method adopted was replacement cost method, which reflects the cost of creating an intellectual property asset of a like kind and quality to that of the subject intellectual property asset as at 30 April 2012, adjusted for inflation, other necessary relevant economic factors and relevant obsolescence factors including physical deterioration, functional obsolescence, technological obsolescence and economic obsolescence; and the independent valuer was Castores Magi Asia Limited.

The unaudited net assets value and unaudited total assets value of the Target Company as at 30 April 2012 (unaudited but prepared in accordance with accounting principles generally accepted in the PRC) were approximately RMB100,000,000 and RMB102,000,000 respectively.

The details of the MTO Technology and its related ancillary technologies are set out below:

1. Licence Contract Regarding the Proprietary Technology of DMTO Project and its Ancillary Process Design Package (PDP) (Licence Contract No. DMTO-SJHG-2010-05)

   This contract was entered into between 新興能源科技有限公司 (Xinxing Energy Technology Co., Ltd.*) (the "**Licensor A**"), 中國石化集團洛陽化工工程公司 (Sino Petroleum Group Luoyang Chemical Engineering Co., Ltd.*) (the "**Licensor B**") and the Target Company (the "**Licensee**") on 27 August 2010 for a licence period commencing from 27 August 2010 to 27 August 2020. The contract was entered into before the formal establishment of the Target Company. However, at the time of entering into the contract, certain approval had already been obtained from the relevant authorities in relation to the establishment of the Target Company. Confirmations were subsequently signed between the Licensor A and the Licensee and between Licensor B and the Licensee respectively confirming the validity of the contract. The PRC legal adviser of the Company was also of the opinion that the contract is valid and there exists no legal impediment on its enforceability.

2. Contract Regarding Feasibility Study and Advisory Service of the Technology Pertaining to the Project (Contract No. DMTO I-2011-A004)

   This contract was entered into between 中國石化集團上海工程有限公司 (Sino Petroleum Group Shanghai Engineering Co., Ltd.*) and the Target Company in February 2011.

3. Contract for the Provision of License, PDP, Technical Services and Training for Light Olefins Recovery Unit of 300 KTA PE Project (Contract No. DMTO I-2011-A006)

   This contract was entered into between Lummus Technology Inc. and the Target Company on 23 March 2011.

4. Contract for the Provision of License, PDP, Technical Services and Training for Olefins Conversion Unit of 390 KTA Propylene Project (Contract No. DMTO I-2011-A007)

   This contract was entered into between Lummus Technology Inc. and the Target Company on 23 March 2011.

5. Contract Regarding Various Prospecting Works of the Project

   This contract was entered into between 信息產業部電子綜合勘察研究院 (Integrated Electronics Survey Institute of the Ministry of Information Industry*) and the Target Company on 29 July 2011.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the contracting parties of the above contracts and their ultimate beneficial owners are third parties independent of the Company and their connected persons.

The right to use the MTO Technology and related ancillary technologies granted to the Target Company is non-exclusive in nature, not patented and not registered, whereas the MTO Technology itself and certain ancillary technologies (namely the technology involved in licence contracts numbered 1, 3 and 4 above) were patented and registered in the PRC.

Through the relationship of the Group's Chairman, Mr. Guan Jianzhong, the Target Company got acquainted with the above contracting parties.

It is expected that the Target Company will commence the construction of the MTO Technology-based production facility on or after 31 August 2012, and the construction of the MTO Technology-based production facility is expected to be finished in the first quarter of 2014 while the commercial operation of the MTO Technology-based production facility shall take place in the second quarter of 2014.

The Company does not foresee any practical difficulty in terms of the construction of the production facility based on MTO Technology and related ancillary technologies and the application of the MTO Technology in the production facility in light of the fact that there is a state-owned listed company involving in coal mining and energy industries which has finished the construction and put into commercial operation its production facility based on the same MTO Technology and related ancillary technologies that the Target Company acquired in 2011. The Target Company is planning to employ the same constructor that built the MTO Technology-based production facility for the aforesaid state-owned company to ensure the smooth and timely construction of its production facility. On the above basis, the Directors believe that the development plan of the Target Company can be achieved. However, The Company foresees that the Target Company may be subject to the price volatility risk and unstable supply in terms of feedstock procurement as, according to the MTO Technology, the Target Company is required to purchase 1,800,000 metric tonnes of methanol to produce 300,000 metric tonnes of ethylene and 390,000 metric tonnes of propylene. The Group is regarded as one of the major ethylene importers in PRC. However, the Group will import 194% more of ethylene in two year's time when comparing to its current ethylene import level. On this basis, the Directors believe the Group will be subject to significant price volatility risk and the unstable supply of ethylene. The Target Company has contacted and commenced negotiations with a number of the overseas major methanol manufacturers and is assessing various procurement strategies for methanol.

The major items of total assets and total liabilities of Target Company as at 30 April 2012 are set out below:

| | |
|---|---|
| Intangible assets | RMB61,583,000 |
| Amount due from related parties (The Directors confirm that the amount will be settled before the completion of the Acquisition) | RMB27,257,000 |
| Land use right | RMB7,816,000 |
| Construction in progress | RMB2,630,000 |
| Prepayment and other receivables | RMB841,000 |
| Cash and Bank | RMB101,000 |
| Accrued expenses and other payables | (RMB212,000) |

**REASONS FOR AND BENEFIT OF THE ACQUISITION**

The Group is principally engaged in the manufacturing and supplying of ethylene oxide and surfactants and the provision of surfactants processing service.

As mentioned in the Group's annual report for the financial year ended 31 December 2011, the Directors expect the Group's aggregate annual designed production capacity of ethylene oxide ("**EO**"), being the Group's dominant product, will substantially increase by approximately 80% from the aggregate annual designed production capacity of 180,000 metric tonnes as at 31 December 2011 (also as at the Latest Practicable Date) to an aggregate designed production capacity of 330,000 metric tonnes by the end of 2012 as a result of the expected ramp-up of: 1) the first phase EO production facilities of 三江湖石化工有限公司 (Sanjiang Honam Chemical Co., Ltd.*), a sino-foreign joint venture company of the Group established in 2010 with Honam Petrochemical Corp., an independent third party, which contributes additional EO production capacity of 50,000 metric tonnes and 2) the Group's fourth phase EO production facilities, which contributes additional EO production capacity of 100,000 metric tonnes. After the completion of the aforesaid expansion of EO production capacity, pursuant to the memorandum of understanding which the Group entered into with the Management Committee of Haiyan Economic Development Zone of Zhejiang Province, another economic development zone located right next to the Group's existing production plant located at Zhapu Economic Development Zone, the Group will construct the fifth phase EO production facilities and expects the aggregate annual designed production capacity of EO will increase by another 200,000 metric tonnes to an aggregate designed production capacity of 530,000 metric tonnes by the first quarter of 2014.

It has been the Group's strategy to fulfill the production requirement of EO through nearly 100% overseas procurement of ethylene, the core feedstock of EO. In light of the aforesaid EO production capacity expansion, the Group's demand on ethylene is expected to increase at a similar level of the EO capacity expansion which represents the fact that the expected procurement volume of ethylene will substantially increase by approximately 194% in two years' time from approximately 145,000 metric tonnes in 2011 to 426,000 metric tonnes by 2014. In view of the expected enormous overseas procurement volume of ethylene in 2014, the Directors expect the Group will be subject to significant price volatility risk and the unstable supply of ethylene. The Directors are of the opinion that, through the acquisition of the Target Company, the Group will be able to obtain the MTO Technology and related ancillary technologies for the Group to achieve vertical integration which enables the Group to secure the supply of ethylene on a long term basis at a relatively reasonable and controllable material cost and, in turn, support the EO production capacity expansion plan of the Group.

Furthermore, the acquisition of the Target Company enables the Group to diversify its business and products through developing the downstream products of propylene and the Directors believe it will bring in additional revenue stream to the Group and will be the major performance booster of the Group for 2015 and onwards after the completion of the fifth phase EO production capacity in 2014.

According to the legal opinion given by the Company's PRC legal advisers, change of shareholding of the Target Company as a result of the Acquisition would not have any adverse impact on the Group to use the MTO Technology and related ancillary technologies.

Given the aforesaid, the Directors (including the independent non-executive Directors) believe that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## LISTING RULES IMPLICATION

As at the Latest Practicable Date, the Vendor is owned as to 75% by Mr. Guan Jianzhong, 20% by Ms. Han Jianhong and 5% by Mr. Han Jianping respectively. Each of Mr. Guan Jianzhong, Ms. Han Jianhong and Mr. Han Jianping is an executive Director and accordingly, the Vendor is a connected person of the Company under the Listing Rules. Hence, the Acquisition constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. The Acquisition will therefore be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. As the applicable percentage ratios under Chapter 14 of the Listing Rules for the Acquisition exceed 5% but are less than 25%, the Acquisition also constitutes a discloseable transaction for the Company.

The Company has established an Independent Board Committee (which comprises only and all the independent non-executive Directors, namely Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary) to advise the Independent Shareholders as to the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable, in the interest of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM taking into account the recommendation of the independent financial adviser.

Goldin Financial has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Acquisition Agreement and Acquisition. The Independent Board Committee has been appointed to advise the Independent Shareholders on whether or not the Acquisition Agreement and Acquisition are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.

Mr. Guan Jianzhong, Ms. Han Jianhong and Mr. Han Jianping were materially interested in the Acquisition Agreement and the Acquisition and they therefore abstained from voting on board resolutions of the Company approving the transactions. Save as disclosed, none of the Directors had a material interest in the Acquisition Agreement and the Acquisition and none of them were therefore required to abstain from voting on board resolutions of the Company in respect of such transactions.

## EGM

The Company will convene the EGM at Worldwide Executive Centre, Level 10, World-wide House, 19 Des Voeux Road Central, Hong Kong at 10:00 a.m. on 28 June 2012 to consider, among others, the Acquisition Agreement and the Acquisition. The resolution will be put to the vote at the EGM by poll as required by the Listing Rules. A notice of the EGM is set out on pages 41 to 42 of this circular. As at the Latest Practicable Date, Sure Capital Holdings Limited, a company beneficially controlled by Mr. Guan Jianzhong, who is an executive Director of the Group, together with Mr. Guan Jianzhong as a beneficial owner collectively own approximately 46.58% of the entire issued share capital of the Company. So far as the Directors are aware, Sure Capital Holdings Limited, Mr. Guan Jianzhong and each of their associates and those who are involved or interested in the Acquisition, will abstain from voting on the resolution approving the Acquisition in accordance with Rule 14A.18 of the Listing Rules if they hold any Shares as at the date of the EGM.

A form of proxy for use at the EGM is also enclosed. If you are not able to attend the EGM, you are requested to complete and return the enclosed 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding 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 if you so wish.

**RECOMMENDATION**

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 to page 16 of this circular and the letter of advice from Goldin Financial to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition Agreement and the Acquisition and the principal factors and reasons considered by them in arriving at such advice set out on page 17 to page 29 in this circular.

The Independent Board Committee, having taken into account the advice of Goldin Financial, considers that the Acquisition is in the ordinary and usual course of business of the Company, the terms of the Acquisition Agreement and the Acquisition are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interest of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the ordinary resolution approving the Acquisition Agreement and the Acquisition at the EGM.

**ADDITIONAL INFORMATION**

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

Yours faithfully,
By order of the Board
**Guan Jianzhong**
*Chairman*

* *For identification purpose only*

*The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in 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)**

11 June 2012

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION RELATING TO ACQUISITION OF 75% OF THE EQUITY INTEREST IN THE TARGET COMPANY**

We refer to the circular issued by the Company to its Shareholders dated 11 June 2012 ("**Circular**") of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

The Acquisition constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. Further, as the applicable percentage ratios under Chapter 14 of the Listing Rules for the Acquisition exceed 5% but are less than 25%, the Acquisition also constitutes discloseable transaction for the Company.

We have been appointed by the Board to consider the terms of the Acquisition Agreement and the Acquisition and to advise the Independent Shareholders in connection therewith and as to whether, in our opinion, the Acquisition Agreement and the Acquisition are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. Goldin Financial has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from Goldin Financial as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Goldin Financial as set out in its letter of advice, we consider that the Acquisition is in the ordinary and usual course of business of the Company, the terms of the Acquisition Agreement and the Acquisition are on normal commercial terms. We also consider that the Acquisition Agreement and the Acquisition are in the interest of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Acquisition Agreement and the Acquisition at the EGM.

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

**Wang Wanxu** **Shen Kaijun** **Mui Ho Cheung, Gary**
*Independent non-executive Directors*

*The following is the full text of the letter from Goldin Financial to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, prepared for the purpose of incorporation in this circular.*

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

**Goldin Financial Limited**
23rd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

11 June 2012

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

Dear Sirs,

## DISCLOSEABLE AND CONNECTED TRANSACTION RELATING TO ACQUISITION OF 75% OF THE EQUITY INTEREST IN THE TARGET COMPANY

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement, details of which are set out in the letter from the board (the "**Letter from the Board**") contained in the circular dated 11 June 2012 issued by the Company (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 31 May 2012, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell, the 75% of the equity interest in the Target Company at the Consideration of RMB108,500,000 (equivalent to approximately HK$132,370,000).

As at the Latest Practicable Date, the Vendor is owned as to 75% by Mr. Guan Jianzhong, 20% by Ms. Han Jianhong and 5% by Mr. Han Jianping respectively. Each of Mr. Guan Jianzhong, Ms. Han Jianhong and Mr. Han Jianping is an executive Director and accordingly, the Vendor is a connected person of the Company under the Listing Rules. Hence, the Acquisition constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. The Acquisition will therefore be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. As the applicable percentage ratios under Chapter 14 of the Listing Rules for the Acquisition exceed 5% but are less than 25%, the Acquisition also constitutes a discloseable transaction for the Company.

As at the Latest Practicable Date, Sure Capital Holdings Limited, a company beneficially controlled by Mr. Guan Jianzhong, who is an executive Director of the Group, together with Mr. Guan Jianzhong as a beneficial owner own approximately 46.58% of the entire issued share capital of the Company. So far as the Directors are aware, Sure Capital Holdings Limited, Mr. Guan Jianzhong and each of their associates and those who are involved or interested in the Acquisition, will abstain from voting on the resolution approving the Acquisition in accordance with Rule 14A.18 of the Listing Rules if they hold any Shares as at the date of the EGM.

**THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary, has been established to make recommendations to the Independent Shareholders as to whether the terms of the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and whether the entering into the Acquisition Agreement are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote taking into account the recommendations of Goldin Financial.

We, Goldin Financial, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement and to make a recommendation as to, among others, whether the terms of the Acquisition Agreement are fair and reasonable and as to voting in respect of the relevant resolution at the EGM. Our appointment has been approved by the Independent Board Committee.

**BASIS OF OUR ADVICE**

In formulating our opinion and recommendations, we have reviewed, inter alia, the announcement of the Company dated 1 June 2012, the Acquisition Agreement and the annual report of the Company for the year ended 31 December 2011. We have reviewed the valuation (the "**Valuation**") in relation to the Acquisition (the "**Valuation Report**") provided by Castores Magi Asia Limited (the "**Valuer**") as an independent valuer, including reviewing the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuation Report, opinion or statement). Based on the foregoing, we consider that we have taken all the reasonable steps, which are applicable to the Acquisition, as referred to and required under Rule 13.80(2)(b) of the Listing Rules (including its annexed notes) in forming our opinion. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our recommendation which are in compliance with Rule 13.80(2)(b) of the Listing Rules. We have also reviewed certain information provided by the management of the Company relating to the operation, financial condition and prospect of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the terms of the Acquisition Agreement, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and reasons for entering into the Acquisition Agreement to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, we have taken into account the following principal factors and reasons:

### 1. Business and financial information of the Group

The Group is principally engaged in the manufacturing and supplying of ethylene oxide and surfactants and the provision of surfactants processing service. Set out below is the audited financial information of the Group for the two years ended 31 December 2010 and 2011, respectively as extracted from the Group's annual report for the year ended 31 December 2011:

**Table 1: Financial highlights of the Group**

| | For the year ended 31 December | |
|---|---|---|
| | **2011** | **2010** |
| | *RMB'000* | *RMB'000* |
| Revenue | 2,078,188 | 1,582,526 |
| Profit for the year | 405,185 | 266,311 |

| | As at 31 December 2011 *RMB'000* |
|---|---|
| Non-current assets | 1,340,688 |
| Current assets | 2,221,756 |
| (Current liabilities) | (1,928,180) |
| Net current assets | 293,576 |
| Net assets | 1,587,211 |

The Group's revenue and profit for the year ended 31 December 2011 of approximately RMB2,078.19 million and approximately RMB405.19 million respectively, represented an increase of approximately 31.32% and approximately 52.15% respectively compared with those in the prior year. As stated in the annual report 2011 of the Group, such increase was mainly due to the ramp-up of the Group's 3rd phase EO production facilities which led to the increase in actual production volume of EO (including EO sales and EO used internally for the production of the Group's EO derivative products — AEO surfactants) by approximately 33.33% from approximately 132,000 metric tonnes in 2010 to approximately 176,000 metric tonnes in 2011 and the strong demand for EO and EO derivative products in the PRC.

As at 31 December 2011, the Group had audited net current assets of approximately RMB293.58 million and audited net assets of approximately RMB1,587.21 million.

**2. Reasons for, and benefits of, entering into the Acquisition Agreement**

*Background information on the Target Company*

As stated in the Letter from the Board, The Target Company is a limited liability company established in the PRC on 19 January 2011. As at the Latest Practicable Date, the Target Company has a registered capital of RMB400,000,000 and a paid-up capital of RMB100,000,000, both of which are held as to 75% by the Vendor, and as to 25% by 浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), which is in turn a non-wholly owned subsidiary of the Vendor, a connected person of the Company. Zhejiang Jiahua Group Co., Ltd. is principally engaged in the research, development and production of basic and fine chemicals and polymer materials. Upon Completion, the Target Company will be a connected person of the Company. Any transaction entered into between the Company and the Target Company in the future will constitute connected transactions and the Company will comply with the requirements under Chapter 14A of the Listing Rules accordingly as and when appropriate. As the minority shareholders of Zhejiang Jiahua Group Co., Ltd., being independent third parties of the Company and collectively holding approximately 30% of the equity interest of Zhejiang Jiahua Group Co., Ltd., would like to retain the equity interest held by Zhejiang Jiahua Group Co., Ltd. in the Target Company, 25% of the equity interest in the Target Company was not sold to the Group.

The Target Company is principally engaged in the production of ethylene and propylene by processing methanol based on MTO Technology, i.e. Methanol-to-Olefin-based technology and related ancillary technologies (the "**Technologies**"). The Technologies are primarily used to convert methanol into ethylene and propylene. The Target Company acquired the right to use the Technologies during 2011, details of which were set out in the Letter from the Board. The right to use the Technologies granted to the Target Company is non-exclusive in nature, not patented and not registered, whereas the MTO Technology itself and certain ancillary technologies were patented and registered in the PRC. Through the relationship of the Group's chairman, Mr. Guan Jianzhong, the Target Company got acquainted with the contracting parties of the Technologies. The Directors got acquainted with the MTO Technology and the contracting parties of the MTO Technology through the relationship of the Group's chairman, Mr. Guan Jianzhong, and at the time when the Vendor negotiated for the acquisition of the MTO Technology, there was no plan for the Group to engage in the production of ethylene and propylene and construct a production facility adopting the MTO Technology for production of ethylene and propylene. After careful consideration by the Company at a later stage after the acquisition of the MTO Technology by the Target Company, the Directors decided that it is in the interest of the Group to expand its scope of business to manufacturing ethylene and propylene and to inject the MTO Technology into the Group. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the contracting parties of the above contracts and their ultimate beneficial owners are third parties independent of the Company and their connected persons. According to the legal opinion given by the Company's PRC legal advisers, change of shareholding of the Target Company as a result of the Acquisition would not have any adverse impact on the Group to use the Technologies.

The Target Company has not yet commenced any business operation other than that it has been planning, including but not limited to liaising with various government authorities to obtain various approvals/licenses and assessing and selecting ancillary technologies, since its establishment, in order to construct a sizeable production facility with designed annual production capacity of 300,000 metric tonnes for ethylene and 390,000 metric tonnes for propylene, which is the minimum requirement for one phase of production facility under the MTO Technology. As at the Latest Practicable Date, the Target Company has obtained majority of the required approvals/licenses from relevant government authorities, and the Vendor has also entered into a non-legally binding investment agreement dated 19 January 2011 with the management committee of the local development zone, namely the Development Zone of Port Zone, Jiaxing City and Zhejiang Jiahua Group Co., Ltd., pursuant to which the Target Company shall acquire certain amount of land use right in Jiaxing City of Zhejiang Province, the PRC at favorable market prices and agree on certain tax incentive treatments.

The Target Company has to obtain the approval from the Development and Reform Bureau of Jiaxing City and the approval from the local environmental bureau for the construction of the production facility. The Target Company has obtained the approval from the Development and Reform Bureau of Jiaxing City and it is expected that it will obtain the approval from the local environmental bureau on or before 31 August 2012. Based on past experience of the Company, the Company does not foresee any difficulties in obtaining the necessary approvals and licenses for the construction of the production facility. Furthermore, the Target Company has obtained the consent from Management Committee of the Development Zone of Port Zone, Jiaxing City that change of shareholding of the Target Company would not have any adverse impact on the execution and performance of the non-legally binding investment agreement.

Pursuant to the aforesaid non-legally binding investment agreement, the Target Company will initially invest to construct a MTO Technology-based production facility with designed annual production capacity of 300,000 metric tonnes for ethylene and 300,000 metric tonnes for propylene on land use right in Jiaxing City of Zhejiang Province, the PRC acquired and to be acquired from the aforesaid management committee of the local development zone. If the Target Company adjusts its investment plan in the future, it is subject to a risk that it may not be able to enjoy the agreed incentives in terms of acquisition of land use right at favorable market prices and tax incentive treatments. As at the Latest Practicable Date, the Target Company has paid RMB8.6 million in respect of the acquisition of relevant land use right.

It is expected that the Target Company will commence the construction of the MTO Technology-based production facility on or after 31 August 2012, and the construction of the MTO Technology-based production facility is expected to be finished in the first quarter of 2014 while the commercial operation of the MTO Technology-based production facility shall take place in the second quarter of 2014.

As disclosed in the Letter from the Board, the Company does not foresee any practical difficulty in terms of the construction of the production facility based on the Technologies and the application of the MTO Technology in the production facility in light of the fact that there is a state-owned listed company involving in coal mining and energy industries which has finished the construction and put into commercial operation its production facility based on the same MTO Technology and related ancillary technologies that the Target Company acquired in 2011. The Target Company is planning to employ the same constructor that built the MTO Technology-based production facility for the aforesaid state-owned company to ensure the smooth and timely construction of its production facility. On the above basis, the Directors believe that the development plan of the Target Company can be achieved. However, the Company foresees that the Target Company may be subject to the price volatility risk and unstable supply in terms of feedstock procurement as, according to the MTO Technology, the Target Company is required to purchase 1,800,000 metric tonnes of methanol to produce 300,000 metric tonnes of ethylene and 390,000 metric tonnes of propylene. The Group is regarded as one of the major ethylene importers in PRC. However, the Group will import 194% more of ethylene in two years' time when comparing to its current ethylene import level. On this basis, the Directors believe the Group will be subject to significant price volatility risk and the unstable supply of ethylene. The Target Company has contacted and commenced negotiations with a number of the overseas major methanol manufacturers and is assessing various procurement strategies for methanol.

The future capital expenditure for the Target Company to construct the aforesaid production facility to produce ethylene and propylene will be funded initially by the Group's future commitment on the unpaid registered capital of RMB225,000,000 as well as the future commitment of RMB75,000,000 to be paid by the Target Company's another shareholder i.e. Zhejiang Jiahua Group Co., Ltd.. As further funding will be required for the future business development of the Target Company, it is expected that the Target Company will obtain future financing under banking facility and for this purpose, the Company may be required to provide guarantee, charge and/or other forms of financial assistance for the benefit of the Target Company. Further announcement, if required under the Listing Rules, will be made by the Company in this regard in due course as and when appropriate.

Given that (i) the Group had cash and bank balance of approximately RMB272.87 million as at 31 December 2011; and (ii) the Group's EO sales business is expected to continually bring in revenue and cash inflow, we are of the view that the Group has sufficient resources to finance the Consideration and the future commitment on the unpaid registered capital of RMB225,000,000.

As the Target Company has not commenced any business operation since its establishment in January 2011, no revenue has been generated and all cost incurred for the construction of the MTO Technology-based production facility has been capitalised.

The carrying value in the balance sheet of the Target Company of the right to use the Technologies amounted to RMB61,583,000 as at 30 April 2012. The unaudited net assets value and unaudited total assets value of the Target Company as at 30 April 2012 (unaudited but prepared in accordance with accounting principles generally accepted in the PRC) were approximately RMB100,000,000 and RMB102,000,000 respectively.

*Reasons for, and benefits of entering into the Acquisition Agreement*

The Group has been proactively seeking for investment opportunities to increase the Shareholders' return. As stated in the annual report 2011 of the Group, the Group had been actively considering an investment opportunity to develop and construct an upstream production facility to produce ethylene by using MTO Technology with an aim to secure supply of ethylene, which is a core feedstock of the Group's EO products, on a long term basis.

As stated in the Letter from the Board, the Directors expected that the Group's aggregate annual designed production capacity of EO, being the Group's dominant product, will substantially increase by approximately 80% from the aggregate annual designed production capacity of 180,000 metric tonnes as at 31 December 2011 (also as at the Latest Practicable Date) to an aggregate designed production capacity of 330,000 metric tonnes by the end of 2012 as a result of the expected ramp-up of: i) the first phase EO production facilities of 三江湖石化工有限公司 (Sanjiang Honam Chemical Co., Ltd.*), a sino-foreign joint venture company of the Group established in 2010 with Honam Petrochemical Corp., an independent third party, which contributes additional EO production capacity of 50,000 metric tonnes; and ii) the Group's fourth phase EO production facilities, which contributes additional EO production capacity of 100,000 metric tonnes. After the completion of the aforesaid expansion of EO production capacity, pursuant to the memorandum of understanding which the Group entered into with the Management Committee of Haiyan Economic Development Zone of Zhejiang Province, another economic development zone located right next to the Group's existing production plant located at Zhapu Economic Development Zone, the Group will construct the fifth phase EO production facilities and expects the aggregate annual designed production capacity of EO will increase by another 200,000 metric tonnes to an aggregate designed production capacity of 530,000 metric tonnes by the first quarter of 2014. In light of the aforesaid EO production capacity expansion, the Group's demand on ethylene is expected to increase in a similar level of the EO capacity expansion which represents the fact that the expected procurement volume of ethylene will substantially increase by approximately 194% in two years' time from approximately 145,000 metric tonnes in 2011 to 426,000 metric tonnes by 2014. Having considered the development plans of EO production capacity of the Group, we are of the view that the demand for ethylene, being a core feedstock of the Group's EO products, will increase substantially after the completion of expansion in production capacity of such products.

Referring to the Letter from the Board, It has been the Group's strategy to fulfill the production requirement of EO through nearly 100% overseas procurement of ethylene. In view of the expected enormous overseas procurement volume of ethylene in 2014, the Directors expected that the Group will be subject to significant price volatility risk and the unstable supply of ethylene. Through the acquisition of the Target Company, the Group will be able to obtain the Technologies for the Group to achieve vertical integration which enables the Group to secure the supply of ethylene on a long term basis at a relatively reasonable and controllable material cost and, in turn, support the EO production capacity expansion plan of the Group. As advised by the management of the Company, the amount of ethylene to be produced by the Target Company would satisfy the majority of the demand for ethylene by the Group for its expansion in production capacity of EO products. Having considered the above, we are of the view that the Acquisition would assist the Group to secure stable supply of ethylene to meet its expansion plans and production needs of EO products which would help the delivery of EO products to clients in a timely manner, and reduce the risk exposure of volatility in material costs, which in turn would strengthen the Group's competitiveness in the industry.

Furthermore, the acquisition of the Target Company enables the Group to diversify its business and products through developing the downstream products of propylene and the Directors believe it will bring in additional revenue stream to the Group and will be the major performance booster of the Group for 2015 and onwards after the completion of the fifth phase EO production capacity in 2014.

From our assessment on the PRC's olefin (including ethylene and propylene and their derivative products) industry, we have conducted research on such industry in the public domain and our findings are as follows:

According to《烯烴工業"十二五"發展規劃》(the Twelfth Five-Year Plan for the Olefin Industry*, the "**Report**") issued by the PRC government, the production capacity, production volume and consumption amounts of the olefin industry in the PRC for the period from 2005 to 2010 are as follows:

**Table 2: Statistics of the olefin industry in the PRC during the Eleventh Five-Year Plan**

| **Product** | **Measurement** | **Year** | | **Compounded annual growth rate** |
|---|---|---|---|---|
| | | **2005** *(metric tonnes)* | **2010** *(metric tonnes)* | **(%)** |
| **Ethylene** | Production capacity | 7,575,000 | 15,190,000 | 14.9 |
| | Production volume | 7,555,000 | 14,190,000 | 13.4 |
| | Consumption amounts *(Note)* | 17,850,000 | 29,600,000 | 10.6 |
| **Propylene** | Production capacity | 8,860,000 | 15,830,000 | 12.3 |
| | Production volume | 8,027,000 | 13,500,000 | 11.0 |
| | Consumption amounts *(Note)* | 13,460,000 | 21,500,000 | 9.8 |

*Note:* the consumption amounts of ethylene and propylene include the consumption of ethylene, ethylene derivative products and propylene and propylene derivative products respectively.

As shown in table 2 above, we note that the production capacity, production volume and consumption amounts of ethylene and propylene in the PRC recorded approximate double digits compounded annual growth rate during the Eleventh Five-Year Plan. We also note that the domestic production volume of ethylene and propylene represented approximately 48% and approximately 63% of the respective consumption amounts in 2010. We are of the view that the demand for olefin products in the PRC was substantially higher than the production capacity of domestic producers, and therefore, there is enormous growth potential for the domestic producers to meet the strong demand for olefin products in the PRC.

In view of the current strong demand for olefin products in various industries in the PRC, including but not limited to, the electronics industry, the garment industry and automobile industry, and demand for such products in the future will be enormous supported by the escalation of the industry transformation leading to the needs for premium olefin products, it is estimated in the Report that the consumption amounts of ethylene and propylene will reach 38,000,000 metric tonnes and 28,000,000 metric tonnes respectively in 2015, representing a compounded annual growth rate of approximately 5.1% and 5.4% respectively during the Twelfth Five Year Plan. However, the domestic production capacity of ethylene and propylene will reach 27,000,000 metric tonnes and 24,000,000 metric tonnes respectively only in 2015, although representing an improvement in self sufficiency, shortage of domestic production capacity of such products will remain. Having considered the above, we are of the view that the Acquisition would assist the Group to capture higher market share in the olefin industry and is in the interests of the Company and the Shareholders as a whole.

Having considered (i) the increasing demand for olefin products in the PRC; and (ii) the shortage of production capacity of olefin products in the PRC, we are of the view that the outlook of the olefin industry in the PRC is optimistic.

In view of that (i) the Acquisition would enable the Group to achieve vertical integration to secure stable supply of ethylene and reduce the risk exposure of volatility in material costs, which in turn would strengthen the Group's competitiveness in the olefin industry; and (ii) the outlook of the olefin industry in the PRC is optimistic, we considered that the entering into the Acquisition Agreement would allow the Group to capture the strong demand in such industry and is in the interest of the Company and the Shareholders as a whole.

**3. Principal terms of the Acquisition Agreement**

The Consideration for the Acquisition payable by the Purchaser is RMB108,500,000 (equivalent to approximately HK$132,370,000), which will be payable to the Vendor within 5 Business Days from the date of Completion by way of cheque or bank transfer or other methods agreed between the Vendor and the Purchaser. The Consideration will be funded by internal resources of the Group.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor with reference to the unaudited adjusted net asset value of the Target Company of approximately RMB145,000,000 (equivalent to approximately HK$176,900,000), based on the unaudited net assets value of the Target Company as at 30 April 2012 of approximately RMB100,000,000 (equivalent to approximately HK$122,000,000) prepared in accordance with accounting principles generally accepted in the PRC, and taking into account the fact that the Directors expect the aggregate appraised value of the right to use the Technologies acquired by the Target Company during 2011 will increase by not less than RMB45,000,000 (equivalent to approximately HK$54,900,000 compared with the original acquisition costs. The valuation of the right to use the Technologies was conducted by the Valuer.

For our due diligence purpose, we reviewed and enquired the Valuer's qualification and experience in relation to the performance of the Valuation. From the information provided by the Valuer, we noted that the director in charge of the Valuation possesses over 10 years of relevant business valuation experience. Moreover, the Valuer has a handful of experience in performing valuation for transactions of listed companies as well as the initial public offering cases in Hong Kong. The Valuer confirmed that it is an independent third party to the Company. The Valuer also confirmed that all relevant material information provided by the Company had been incorporated in the Valuation Report and there were no other material relevant information or representations relating to the Technologies provided or made by the Company to the Valuer not having been included in the Valuation. In addition, we also reviewed the terms of the Valuer's engagement 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.

We also enquired the Valuer regarding the methodology of, and basis and assumptions adopted for the Valuation, details of which were set out in the Valuation Report. We were advised by the Valuer that in valuing the subject asset, the Valuer adopted the basis of valuation and made the valuation assumptions in accordance with the International Valuation Standards 2011 published by the International Valuation Standards Council, an independent body that sets global standards for valuation, especially those that will be relied upon by investors and other third party stakeholders. We were given to understand that in the course of the Valuation, the Valuer conducted the following steps to evaluate the reasonableness of the basis and assumptions adopted for the Valuation, including but not limited to: (i) interviewed with the senior management of the Company; (ii) obtained all relevant financial and operational information of the Target Company; (iii) performed market research and obtained statistical figures from public sources; and (iv) examined all relevant basis and assumptions related to the Technologies and presented all relevant information on the background of the Technologies, valuation methodologies, source of information, scope of works, major assumptions, comments and its conclusion in the Valuation Report. We discussed and interviewed with the Valuer to understand the Valuation, including the calculations and workings for the Valuation. In this relation, we reviewed the supporting documents for the Valuation from the Valuer. During the course of our discussions with the Valuer, we have not identified any major factors which cause us to doubt the fairness, reasonableness and completeness of the principal basis and assumptions adopted for the Valuation and hence the reliability of the Valuation.

To determine the appraised value of the right to use the Technologies held by the Target Company, we were given to understand that, of the three commonly adopted valuation approaches considered, namely market approach, cost approach and income approach, the Valuer had adopted the cost approach. The market approach, which estimates market value from analysing sales and purchases of comparable assets, is not considered appropriate, given that the Technologies are unique in nature and highly specialised and no close comparable transaction of a similar nature in the PRC as a meaningful benchmark could be found. The income approach, which focuses on the income-producing capability of the subject asset, is not considered appropriate, given that no relatively reliable financial projection can be made. Under the cost approach, the value of the right to use the Technologies is indicated by the cost of reproducing or replacing the underlying technologies, and is considered the preferred approach for the Valuation over the market approach and the income approach, having taken into account the respective downsides of such approaches.

According to the Valuation Report, the appraised value of the right to use the Technologies as at 30 April 2012 is RMB220,430,000 (equivalent to approximately HK$247,322,460).

The unaudited adjusted net assets value of the Target Company is RMB145,420,450 as at 30 April 2012 based on (i) the increase in market value of the right to use the Technologies of RMB45,420,450, calculated by the difference of the appraised value of the right to use the Technologies of RMB220,430,000 according to the Valuation and the original acquisition costs of such right to use the Technologies; and (ii) the unaudited net assets value of the Target Company of RMB100,000,000 as at 30 April 2012. Given that 75% of the unaudited adjusted net assets value of the Target Company is RMB109,065,337.50, representing a premium of approximately 0.52% over the Consideration of RMB108,500,000, we are of the view that the terms of the Consideration are normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

## FINANCIAL IMPACTS OF THE ACQUISITION AGREEMENT

### (a) Net assets value

According to the annual report of the Group for the year ended 31 December 2011, the audited consolidated net assets of the Group as at 31 December 2011 were approximately RMB1,587.21 million. As the unaudited adjusted net assets of the Target Company as at 30 April 2011 were approximately RMB145.42 million and the Target Company will be consolidated into the Group's financial statements upon Completion, it is expected that the Group's net assets would increase as a result.

### (b) Earnings

As the Target Company has not commenced any business operation since its establishment in January 2011, no revenue has been generated and all cost incurred for the construction of the MTO Technology-based production facility has been capitalised, it is expected that there would not be any impact on the earnings of the Group upon Completion.

**(c) Gearing ratio**

As the Consideration of the Acquisition will be settled by cash, it is expected that there would be no material change in the gearing ratio of the Group upon Completion.

**(d) Liquidity**

As the Consideration of the Acquisition will be settled by cash, there would be a cash outflow of approximately RMB108.50 million. It is expected that the liquidity of the Group would decrease upon Completion.

Independent Shareholders should be noted that the abovementioned financial analyses are for illustrative purpose only and do not represent what the financial position of the Group will be upon Completion.

**RECOMMENDATIONS**

Having considered the above, we are of the view that the Acquisition is conducted in the ordinary and usual course of business of the Company and the terms are normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and that the entering into the Acquisition Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
**Goldin Financial Limited**
**Billy Tang**
*Director*

* *For identification purpose only*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares, underlying shares or debentures 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 ("**Model Code**"), to be notified to the Company and the Stock Exchange were as follows:

### (i) The Company

| Name of Directors | Capacity | Long/Short position | Number and class of Shares | Approximate percentage of shareholding in the same class of securities as at the Latest Practicable Date |
|---|---|---|---|---|
| Mr. Guan Jianzhong ("**Mr. Guan**") | Interests in controlled corporation | Long | 467,886,000 ordinary *(Note)* | 46.48% |
| | Beneficial owner | Long | 990,000 ordinary *(Note)* | 0.10% |
| Ms. Han Jianhong ("**Ms. Han**") | Interest of spouse | Long | 468,876,000 ordinary *(Note )* | 46.58% |

*Note:* These Shares were held by Sure Capital Holdings Limited ("**Sure Capital**"), the entire issued ordinary shares of which were owned as to approximately 84.71% by Mr. Guan and approximately 15.29% by Ms. Han, the spouse of Mr. Guan. By virtue of the SFO, Mr. Guan was deemed to be interested in the Shares held by Sure Capital and Ms. Han was deemed to be interested in the Shares in which Mr. Guan was interested for the purposes of Divisions 2 and 3 of Part XV of the SFO.

**(ii) Associated corporations of the Company**

| Name of company | Name of Director | Capacity | Long/Short position | Number of shares | Approximate percentage of issued share capital |
|---|---|---|---|---|---|
| Sure Capital | Mr. Guan | Beneficial owner | Long | 8,471 | 84.71% |
| Sure Capital | Ms. Han | Beneficial owner | Long | 1,529 | 15.29% |

(b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the 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 to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are 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, to be notified to the Company and the Stock Exchange.

(c) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

(d) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, save for the Acquisition Agreement, which contract or arrangement was subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

(e) Save as disclosed above, none of the Directors was a director or an employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered or proposed to enter into any service contract with any member of the Group which is not 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 2011, being the date to which the latest published audited financial statements of the Group were made up.

## 5. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors nor their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

## 6. QUALIFICATION AND CONSENT OF EXPERTS

The following is the qualification of the experts who have given their opinions or advice which are contained in this circular.

| Name | Qualification |
|---|---|
| Goldin Financial Limited | A corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO |
| Castores Magi Asia Limited | Professional valuer appointed by the Company for the Acquisition |
| Allbright Law Offices | Legal adviser to the Company as to PRC law |

As at the Latest Practicable Date, each of the above experts:

(a) did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(b) did not have 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 since 31 December 2011, being the date up to which the latest published audited financial statements of the Group were made; and

(c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name, letter and/or report in the form and context in which they respectively appear.

## 7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company in Hong Kong at Room 601–602, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong during normal business hours on any weekdays (except public holidays) from the date of this circular up to and including the date of the EGM:

(a) the Acquisition Agreement;

(b) the letter from the Independent Board Committee containing its advice to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(c) the letter from Goldin Financial containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Goldin Financial" in this circular;

(d) the written consent of the experts referred to in the paragraph headed "Qualification and Consent of Experts" in this appendix;

(e) the valuation report prepared by Castores Magi Asia Limited in relation to the right to use the MTO Technology and its related ancillary technologies; and

(f) this circular.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from Castores Magi Asia Limited, an independent valuer, in connection with its valuation of MTO Technology as at 30 April 2012.

嘉漫亞洲有限公司
CASTORES MAGI ASIA LIMITED
BUSINESS AND INTANGIBLE ASSET APPRAISAL
INVESTMENT PROJECT ADVISORY SERVICES

CASTORES MAGI

Suite 211
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

11 June 2012

The Directors
China Sanjiang Fine Chemicals Company Limited
Room 601–602,
Infinitus Plaza,
199 Des Voeux Road Central,
Sheung Wan,
Hong Kong.

Dear Sirs,

In accordance with the instructions from China Sanjiang Fine Chemicals Company Limited (hereinafter known as "**your Company**"), we have made an appraisal of the Market Value of a right to use Methanol-to-Olefin-based technology (hereinafter known as "**MTO Technology**") and its related ancillary technologies (altogether hereinafter known as the "**subject asset**") held by Zhejiang Xingxing New Energy Technology Co., Ltd. (浙江興興新能源科技有限公司) (hereinafter known as the "**Xingxing**"), as at 30 April 2012 (hereinafter known as "**the Valuation Date**").

The purpose of this appraisal is to formulate and express an independent opinion on the Market Value of the subject asset as at the Valuation Date on the premise of continued use. The term "Market Value" as used herein is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion". We understand that the use of our work product will not supplant other due diligence which you should conduct in reaching business decisions for the Company. Our work is designed solely for possible acquisition purpose. There are no other purposes are intended or should be inferred.

**Introduction**

Xingxing was incorporated in the People's Republic of China (hereinafter known as ("**the PRC**") on 19 January 2011. Xingxing possesses the right to use the subject asset under various contracts. As advised by your Company, Xingxing will construct a sizeable production facility with designed annual production capacity of 300,000 metric tonnes for ethylene and 390,000 metric tonnes for propylene (hereinafter known as "**the Project**").

MTO Technology and its related ancillary technologies are primarily used to convert methanol into ethylene and propylene. As advised by your Company, the acquisition of Xingxing with its the subject asset will enable your Company and its subsidiaries (hereinafter known as "**the Group**") to achieve vertical integration so that the Group could secure the supply of ethylene on a long term basis at a relatively reasonable and controllable material cost and, in turn, support the ethylene oxide production capacity expansion plan of the Group.

**MTO (Methanol-to-Olefin) Technology**

In the last decade, the price of crude oil increased year by year, which resulted in the high cost of the ethylene and propylene. Various chemical companies in the world are hunting for new materials and technology. The reserve of coal is relative abundant in the PRC, while that of natural gas is deficient and petroleum is lacking. MTO process could release the lack of petroleum and diversify the raw materials of the production of light olefins such as ethylene and propylene.

DMTO (a proprietary MTO technology developed by Dalian Institute of Chemical Physics) process shows evident techno-economics advantage compared with the tubular furnace cracking of naphtha with high oil price. It will benefit to decrease the reliability of light oil in the PRC, and to lighten the pressure brought by the less oil supply. DMTO technology utilizes methanol as the reactant to produce light olefins, such as ethylene and propylene for the further production of polyethylene and polypropylene.

**The Subject Asset**

The subject asset to be acquired by the Group comprises Xingxing's right to use MTO Technology and its related ancillary technologies under the following contracts:

1. Licence Contract Regarding the Proprietary Technology of DMTO Project and its Ancillary Process Design Package (PDP) (Licence Contract No. DMTO-SJHG-2010-05)

   This contract was entered into between 新興能源科技有限公司 (Xinxing Energy Technology Co., Ltd*) (the "**Licensor A**"), 中國石化集團洛陽化工工程公司 (Sino Petroleum Group Luoyang Chemical Engineering Co., Ltd.*) (the "**Licensor B**") and Xingxing (the "**Licensee**") on 27 August 2010 for a licence period commencing from 27 August 2010 to 27 August 2020.

2. Contract Regarding Feasibility Study and Advisory Service of the Technology Pertaining to the Project (Contract No. DMTO I-2011-A004)

   This contract was entered into between 中國石化集團上海工程有限公司 (Sino Petroleum Group Shanghai Engineering Co., Ltd*) and Xingxing in February 2011.

3. Contract for the Provision of License, PDP, Technical Services and Training for Light Olefins Recovery Unit of 300 KTA PE Project (Contract No. DMTO I-2011-A006)

   This contract was entered into between Lummus Technology Inc. and Xingxing on 23 March 2011.

4. Contract for the Provision of License, PDP, Technical Services and Training for Olefins Conversion Unit of 390 KTA Propylene Project (Contract No. DMTO I-2011-A007)

   This contract was entered into between Lummus Technology Inc. and Xingxing on 23 March 2011.

5. Contract Regarding Various Prospecting Works of the Project

   This contract was entered into between 信息產業部電子綜合勘察研究院 (Integrated Electronics Survey Institute of the Ministry of Information Industry*) and Xingxing on 29 July 2011.

**The Legal Opinion**

It is stated in the legal opinion given by the Company's PRC legal advisers – Allbright Law Offices (錦天城律師事務所), *inter alia*, that:–

(a) The aforesaid five contracts are lawful and there is no impediment for Xingxing in executing these contracts; and

(b) Xingxing's execution of these contracts does not contravene the PRC law.

**The Basis of Valuation**

The subject asset is valued on the basis of "Market Value" on a continued use premise. The continued use premise assumes that the subject asset will be used for the purpose for which the subject asset was conceived or is currently used. Implicit in this definition is the fact that the willing buyer would not pay more to acquire the subject asset appraised than he could reasonably expect to earn in the future from an investment in the subject asset.

The valuation of the subject asset required consideration of all pertinent factors affecting the operations of the business and its ability to generate future investment returns. The factors considered in the appraisal including, but were not limited to the followings:

– the nature of the subject asset;

– the licence period and contractual period of the subject asset;

– the prospects of the subject asset in the market;

– the replacement cost or reproduction cost of the subject asset;

– Consumer Price Index of the PRC;

– the legal protection of the intellectual property rights of the subject asset; and

– the market barrier in developing the subject asset in the aspect of costs and time.

In view of the ever-changing business environment in which Xingxing is operating, we have made a number of reasonable assumptions in the course of our appraisal, which are set out as follows:

– Xingxing will operate its business on continuous basis to the best of its ability and will allocate sufficient resources for the planned expansion;

– there will be no material changes from political, legal, economic or financial aspects in the jurisdictions or states in which Xingxing currently runs or intends to run its business which will materially affect its operation;

– there will be no substantial market fluctuation in the industry in the jurisdictions or states in which Xingxing currently runs or intends to run its business which will materially affect its operations and the revenues attributed to shareholders;

– there will be no substantial fluctuation in current tax rates, interest rates and foreign currency exchange rates in the jurisdictions or states in which Xingxing currently runs or intends to run its business which will materially affect its operations and the revenues attributed to shareholders;

– Xingxing has taken sufficient legal measures to protect the intellectual property rights of the subject asset; and

– the management of Xingxing will not make any decision which is harmful to the intellectual property rights of the subject asset.

**Approach to Value**

In the process of valuing the subject asset of Xingxing, we considered the classical appraisal approaches to value, namely, the Market Approach, Cost Approach and Income Approach. The Market Approach is basically a comparison method, which estimates market value from analyzing sales and purchases of comparable assets. Since intangible assets are typically highly specialized, finding good market comparables is often difficult. Even though the market comparables would have been identified, the financial details of the purchases and sales are rarely disclosed. To the best of our understanding, there have not been any purchases and sales of similar assets in the marketplace of the PRC. Under such circumstances, we have not relied on the Market Approach in our estimate of the Market Value of the subject asset.

The Cost Approach seeks to estimate the Market Value of the subject asset by quantifying the amount of money that would be required to replace or reproduce the subject asset. In other words, this approach assumes that the intangible asset's value is indicated by the cost of reproducing or replacing. We consider this approach can truly reflect the value of the subject asset while there are difficulties in searching for market comparable sales and making financial projection. The inputs that are considered when applying the cost approach include the following:

(a) the cost of developing or purchasing an identical asset;

(b) the cost of developing or purchasing an asset offering the same utility or service potential;

(c) any adjustments required to the cost of developing or purchasing to reflect the specific characteristics of the subject asset, such as economic or functional obsolescence; and

(d) any opportunity cost incurred by the developer of the asset.

The Income Approach focuses on the income-producing capability of the subject asset. This approach's underlying theory is that the value of the subject asset can be measured by the present worth of the net economic benefit to be received. Since the subject asset currently is not income-producing and Xingxing is not able to make a relatively reliable financial projection, we reckon that income approach methods are not the preferred methods in our valuation.

**Valuation Approach and Methodology**

We have concluded the Cost Approach as the most appropriate approach and we have employed either reproduction cost method or replacement cost method for valuing the subject asset in this appraisal.

Reproduction cost represents the construction of an intellectual property asset which is identical to the subject intellectual property asset. Replacement cost, on the other hand, reflects the cost of creating an intellectual property asset of a like kind and quality to that of the subject intellectual property asset. Both of these definitions underscore the notion that a reasonable investor would never pay more than it would cost him today to create a duplicate of the subject intellectual property asset or a comparable intellectual property asset.

A valuation analysis may be based on reproduction cost, replacement cost, or, where appropriate, other definitions of cost, as they merely provide the baseline of the analysis. The value indication achieved should be similar regardless of the type of cost used. Cost components involved in most cost approach analysis are material cost, labor cost, overhead cost, and developer's return. These cost components are calculated or estimated based on the actual historical cost of creating the subject intellectual property asset. Proper adjustments for inflation and other relevant economic factors must be taken into account.

The resulting cost indication is then adjusted by relevant obsolescence factors. This is a very important step in which the cost indication is turned into a value indication. Obsolescence factors include physical deterioration, functional obsolescence, technological obsolescence and economic obsolescence. The relevant measures of obsolescence are subtracted from the cost indication in order to estimate the current value of the subject intellectual property asset.

**General Comments**

We understand that your Company will use our appraisal as part of the due diligence and we have not been engaged to make specific purchases or sales recommendations. We further understand that the use of our work product will not supplant other due diligence, which you should conduct in reaching business decisions regarding the subject asset.

For the purpose of this appraisal and in arriving at our opinion of value, we have relied to a very considerable extent on the information, statements, opinion and representations provided to us by your Company and Xingxing. We were furnished with the historical costs and replacement costs of the subject asset and relevant publicly available information. These data have been utilized without further verification.

In valuing the subject asset, we have adopted the basis of valuation and have made the valuation assumptions in accordance with International Valuation Standards 2011 published by International Valuation Standards Council.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

We are unable to accept any responsibilities for the operation and financial information that have not been supplied to us by Xingxing and your Company. We have had no reason to doubt the truthfulness and accuracy of the information provided or the reasonableness of the opinions expressed by your Company and the directors of Xingxing, which have been provided to us. We also sought and received confirmation from your Company that no material factors have been omitted from the information provided.

In arriving at our opinion, we have assumed that Xingxing has adopted necessary security measures and has considered several contingency plans against intellectual property rights infringement and commercial spying affecting its business.

We have assumed that the appraised subject asset is freely disposable and transferable for its existing or alternative uses in the open market without payment of any tax to the government upon disposal.

We have made no investigation of the legal title or any liabilities attached to Xingxing. All legal documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to Xingxing. We have not verified the original documents furnished to us, any responsibility for our misinterpretation of the legal documents, therefore, cannot be accepted. Besides, we are not in a position to advise and comment on the title and encumbrances to Xingxing.

No allowance has been made in our valuation for any charges or amounts owing neither on Xingxing nor for any expenses or taxation, which may be incurred in effecting a sale. It is assumed that the subject asset will be rendered free from encumbrances, restrictions and outgoings of any onerous nature, which could affect its value.

Unless otherwise stated, the base currency of this report is Renminbi (RMB). The conversion rate that we adopted as at the Valuation Date was US$1 equivalent to RMB6.2835.

**Opinion of Value**

Based on the analysis, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as at the Valuation Date, the Market Value of the subject asset is reasonably stated by the amount of **RMB220,430,000 (RENMINBI TWO HUNDRED TWENTY MILLION FOUR HUNDRED AND THIRTY THOUSAND ONLY).**

The conclusion of value is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the appraisal, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the subject asset and Xingxing or the value reported.

Yours faithfully,
For and on behalf of
**CASTORES MAGI ASIA LIMITED**
**Deret Au Chi Chung**
*Member of China Institute of Real Estate Appraisers*
*Registered Business Valuer of Hong Kong Business Forum*
*BSc., MRICS, MHKIS, RPS, MCIArb, AHKIArb, MCIM*
*Director*

* *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)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting ("**Meeting**") of China Sanjiang Fine Chemicals Company Limited ("**Company**") will be held at Worldwide Executive Centre, Level 10, World-wide House, 19 Des Voeux Road Central, Hong Kong at 10:00 a.m. on 28 June 2012 for the purpose of considering and, if thought fit, with or without amendments, passing the following ordinary resolution:

## ORDINARY RESOLUTION

**"THAT**

(a) the acquisition agreement dated 31 May 2012 and entered into between 三江化工有限公司(Sanjiang Chemical Co., Ltd.*) (the "**Purchaser**") and 杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*) (the "**Vendor**") (the "**Acquisition Agreement**") (a copy of which has been produced to the Meeting marked "A" and signed by the chairman of the Meeting for the purpose of identification) pursuant to which the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell 75% of the equity interest in 浙江興興新能源科技有限公司 (Zhejiang Xingxing New Energy Technology Co., Ltd.*) and all the transactions contemplated thereby be and are hereby approved; and

(b) any one director of the Company be authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorise signing, executing, perfecting and delivering the Acquisition Agreement, and all such documents and deeds, to do or authorise doing all such acts, matters and things as he/she may in his/her discretion consider necessary, expedient or desirable to give effect to and implement and/or complete all matters in connection with the transactions contemplated in the Acquisition Agreement and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the Acquisition Agreement, as he/she may in his/her absolute discretion consider to be desirable and in the interests of the Company and all of such director's acts as aforesaid be hereby approved, ratified and confirmed."

On Behalf of the Board of
**China Sanjiang Fine Chemicals Company Limited**
**Guan Jianzhong**
*Chairman*

Hong Kong, 11 June 2012

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

*Principal office in Hong Kong:*
Room 601–602, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan
Hong Kong

*Notes:*

1 The register of members of the Company will be closed from Friday, 22 June 2012 to Thursday, 28 June 2012 (both days inclusive). For the purpose of ascertaining the members' entitlement to the attendance of the Meeting, all share transfer documents accompanied by relevant share certificates must be lodged with the Company's branch registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4.30 p.m. on Thursday, 21 June 2012.

2 Any member entitled to attend and vote at the Meeting is entitled to appoint one or more separate proxies to attend and to vote instead of him. A proxy need not be a member of the Company.

3 To be valid, the form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's branch registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting (or at any adjournment thereof).

4 Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5 In the case of joint holders of a share, 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; but if more than one of such joint holders are present at the above 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.

6 As at the date hereof, the Board comprised Mr. Guan Jianzhong, Ms. Han Jianhong, Mr. Niu Yingshan, Mr. Han Jianping as executive Directors and Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary as independent non-executive Directors.

* *For identification purpose only*