
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 of the Company in connection with an EGM of the Company to be held on 21 May 2018 at 10:30 a.m. (or, if later, immediately following the conclusion of the annual general meeting of the Company convened pursuant to the notice of the Company dated 19 April 2018 and to be held at 10:00 a.m. at the same location and on the same date as the EGM).

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三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO RENEWAL OF
STEAM SUPPLY AGREEMENTS
AND
NOTICE OF EGM**

**Independent Financial Adviser to the
Independent Board Committee and the Independent Shareholders**



Gram Capital Limited
嘉林資本有限公司

Capitalised terms used in this cover page 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 5 to 26 of this Circular. A letter from the Independent Board Committee is set out on pages 27 to 28 of this Circular. A letter from Gram Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 51 of this Circular.

A notice convening the EGM to be held at 20/F., OfficePlus@Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong on 21 May 2018 at 10:30 a.m. (or, if later, immediately following the conclusion of the annual general meeting of the Company convened pursuant to the notice of the Company dated 19 April 2018 and to be held at 10:00 a.m. at the same location and on the same date as the EGM) is set out on pages 60 to 62 of this Circular. If you are not able to attend the meeting 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 Level 22, Hopewell Centre, 183 Queen's Road East, 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.

19 April 2018

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DEFINITIONS

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

“Annual Caps”	(i) the annual caps for each of the three years ending 31 December 2020 in relation to the transactions contemplated under the Xing Xing Steam Supply Agreement and (ii) the annual caps for a period of approximately three years ending 31 December 2020 in relation to the transactions contemplated under the Sanjiang Chemical Steam Supply Agreement and Sanjiang New Material Steam Supply Agreement proposed to be approved at the EGM
“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Capitol International”	Capitol International Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of the Company
“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
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for considering and, if thought fit, approving the Renewed Steam Supply Agreements, the Renewed Steam Supply Transactions and the Annual Caps by the Independent Shareholders
“Grand Novel”	Grand Novel Developments Limited (浩新發展有限公司), a company incorporated in the British Virgin Islands and is owned as to 100% by Mr. Guan
“Group”	the Company and its subsidiaries
“Haoming”	杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*), a limited liability company established in the PRC, which is owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han
“high pressure steam”	for the purpose of this Circular, refers to steam with a pressure of approximately 4.6 MPa

DEFINITIONS

“HK\$”	Hong Kong dollars, 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 the Renewed Steam Supply Agreement, the Renewed Steam Supply Transactions and the Annual Caps
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Shareholders in relation to, among others, the Renewed Steam Supply Agreements, the Renewed Steam Supply Transactions and the Annual Caps
“Independent Shareholder(s)”	Shareholders who are not involved or interested in the Renewed Steam Supply Agreements
“Independent Third Party(ies)”	a party or parties that is or are independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive, substantial shareholders of the Company, the subsidiaries of the Company or any of their respective associates
“Jiahua”	浙江嘉化集團股份有限公司(Zhejiang Jiahua Group Co., Ltd.*), a limited liability company established in the PRC and owned as to 30.93% by third parties independent of the Company, and as to 69.07% by Haoming and its associates
“Jiahua Energy Chemical Co”	浙江嘉化能源化工股份有限公司(Zhejiang Jiahua Energy Chemical Co., Ltd.*) (formerly known as 浙江嘉化工業園投資發展有限公司(Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.*)), a company established in the PRC with limited liability on 20 January 2001 and a non wholly-owned subsidiary of Jiahua
“Latest Practicable Date”	13 April 2018, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained in this Circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“low pressure steam”	for the purpose of this Circular, refers to steam with a pressure of approximately 1.3MPa or below

DEFINITIONS

“medium pressure steam”	for the purpose of this Circular, refers to steam with a pressure of approximately 3.4MPa
“Mei Fu Petrochemical”	浙江美福石油化工有限公司 (Zhejiang Mei Fu Petrochemical Co., Ltd*), a company established in the PRC with limited liability and a connected person of the Company as controlled by Mr. Guan and Ms. Han
“MPa”	a metric unit of pressure
“Mr. Guan”	Mr. Guan Jianzhong, an executive Director
“Mr. Han”	Mr. Han Jianping, an executive Director
“Ms. Han”	Ms. Han Jianhong, an executive Director
“MT”	metric tonnes
“PRC”	the People’s Republic of China
“Renewed Steam Supply Agreements”	collectively, the Xing Xing Steam Supply Agreement, the Sanjiang Chemical Steam Supply Agreement and the Sanjiang New Material Steam Supply Agreement
“Renewed Steam Supply Transactions”	the transactions contemplated under the Renewed Steam Supply Agreements
“RMB”	Renminbi, the lawful currency of the PRC
“Sanjiang Chemical”	三江化工有限公司 (Sanjiang Chemical Co. Ltd.*), a company established in the PRC with limited liability on 9 December 2003, which is an indirect wholly-owned subsidiary of the Company
“Sanjiang Chemical Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 23 January 2018
“Sanjiang New Material”	浙江三江化工新材料有限公司(Zhejiang Sanjiang New Material Co., Ltd.*), a company established in the PRC with limited liability on 23 December 2011, which is an indirect wholly-owned subsidiary of the Company
“Sanjiang New Material Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Chemical Co dated 23 January 2018
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 in the capital of the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Agreements”	collectively, the (i) medium pressure steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 28 January 2016; (ii) the medium pressure steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co dated 28 January 2016; (iii) the low pressure steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 28 January 2016; and (iv) the low pressure steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co dated 28 January 2016, each with annual caps until 31 December 2018 as approved in the extraordinary meeting of the Company dated 8 April 2016
“Sure Capital”	Sure Capital Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a company owned as to approximately 84.71% by Mr. Guan and approximately 15.29% by Ms. Han
“Xing Xing”	浙江興興新能源科技有限公司 (Zhejiang Xingxing New Energy Technology Co., Ltd.*), a company established in the PRC with limited liability on 19 January 2011, which is indirectly owned as to 77.5% by the Company, 9.5% by Jiahua and 13% by third parties independent of the Company
“Xing Xing Steam Supply Agreement”	the steam supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co dated 1 January 2018 regarding the renewal of the 2015 Xing Xing Steam Supply Agreement
“2015 Xing Xing Steam Supply Agreement”	the steam supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co dated 27 January 2015 regarding the supply of high pressure steam by Jiahua Energy Chemical Co to Xing Xing
“%”	per cent.

* *In this Circular, the English names of the PRC entities are translation of their Chinese names and included herein for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.*



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 (*Chairman*)

Ms. HAN Jianhong

Mr. HAN Jianping

Mr. RAO Huotao

Registered Office:

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

Independent Non-Executive Directors:

Mr. SHEN Kaijun

Ms. PEI Yu

Mr. KONG Liang

Principal place of business

in Hong Kong:

Room 1702, Infinitus Plaza

199 Des Voeux Road Central

Sheung Wan

Hong Kong

19 April 2018

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO RENEWAL OF
STEAM SUPPLY AGREEMENTS**

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

Reference is made to the announcements of the Company dated 1 January 2018 and 23 January 2018 in relation to the transactions contemplated under the Renewed Steam Supply Agreements which constituted continuing connected transactions of the Company.

It was announced that (i) Xing Xing, a non wholly-owned subsidiary of the Company, entered into the Xing Xing Steam Supply Agreement with Jiahua Energy Chemical Co on 1 January 2018 to renew the 2015 Xing Xing Steam Supply Agreement for another consecutive 3-year term which has expired on 31 December 2017; and (ii) Sanjiang Chemical and Sanjiang New Material, each being a wholly-owned subsidiary of the

LETTER FROM THE BOARD

Company, entered into the Sanjiang Chemical Steam Supply Agreement and Sanjiang New Material Supply Agreement on 23 January 2018 for a period of approximately three years from 23 January 2018 to 31 December 2020 to renew the Supply Agreements which are due to expire on 31 December 2018.

The purpose of this Circular is to provide you with, among others, (i) further information on the transactions contemplated under each of the Renewed Steam Supply Agreements; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the advice from Gram Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM.

RENEWED STEAM SUPPLY AGREEMENTS

(1) The Xing Xing Steam Supply Agreement

Date: 1 January 2018

Parties: (1) Jiahua Energy Chemical Co; and
(2) Xing Xing, a non wholly-owned subsidiary of the Company.

Subject matter

Jiahua Energy Chemical Co has agreed to supply low pressure steam (1.3Mpa) and high pressure steam to Xing Xing on an ongoing basis.

Other principal terms of the Xing Xing Steam Supply Agreement

The Xing Xing Steam Supply Agreement shall become effective on 1 January 2018 and has an initial term ending on 31 December 2020 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

The purchase price payable by Xing Xing in respect of purchases under the Xing Xing Steam Supply Agreement shall be tallied on the 25th day of each calendar month and be payable by Xing Xing on or before the 10th calendar day of the following month.

Under the Xing Xing Steam Supply Agreement, Jiahua Energy Chemical Co is responsible for installation and maintenance of the steam meter. Where either party to the Xing Xing Steam Supply Agreement is in doubt as to the accuracy of the reading of the meter, either party may appoint a competent and independent party to check and verify the meter reading.

The Company will comply with the relevant Listing Rules requirements when the term of the Xing Xing Steam Supply Agreement is renewed.

LETTER FROM THE BOARD

Procedures for determining the pricing policy of high pressure steam

To the best knowledge of the Directors, Jiahua Energy Chemical Co is the only company that provides high pressure steam in the Zhapu area of Jiaying City, the PRC, the same region where Xing Xing locates. Given that there would be substantial loss in both steam pressure and steam heat during the course of long distance transportation from other suppliers, the Company considers that it is not meaningful to ascertain the prevailing market price of high pressure steam by obtaining the price quotations obtained from other independent suppliers outside the Zhapu area of Jiaying City and comparing them with the price quoted by Jiahua Energy Chemical Co. Further, the Xing Xing Steam Supply Agreement does not set out a formula for calculating the unit price of high pressure steam based on the unit price of coal.

Hence, the purchase price of high pressure steam is market price calculated and adjusted monthly with reference to the market price of coal (purchased by Jiahua Energy Chemical Co for production of steam in the previous month). The coal to be used in the production of high pressure steam is generally ordered by Jiahua Energy Chemical Co in around two months before actual usage in the steam production during the month. For the avoidance of doubt, such market price of coal generally refers to the average market price of coal approximately two months before the relevant time of supply of high pressure steam.

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

(i) Measures for ensuring that terms are no less favourable than those available to independent third parties

To ensure that the price of high pressure steam Jiahua Energy Chemical Co offers to Xing Xing is no less favourable than the price it offers to independent third parties, the finance department of the Group will conduct the following procedures:

1. the finance department will obtain all the supply contracts for high pressure steam of comparable quality in terms of steam pressure (i.e. steam with a pressure of approximately 4.6 MPa) entered into between Jiahua Energy Chemical Co and other independent third party(ies) on a quarterly basis, to ascertain the relevant terms including, among other matters, the formula for determining the purchase price of high pressure steam;

LETTER FROM THE BOARD

2. the finance department will obtain all the monthly invoices issued by Jiahua Energy Chemical Co to those independent third party(ies) that require high pressure steam of comparable quality, in order to determine whether the actual monthly sales of high pressure steam were made in accordance with the pricing terms stipulated in the relevant supply contracts;
3. the finance department will compare the monthly high pressure steam prices that Jiahua Energy Chemical Co charges Xing Xing and those independent third party(ies), as the purchase price of high pressure steam will be calculated and adjusted (if appropriate) on a monthly basis pursuant to the Xing Xing Steam Supply Agreement; and
4. in the event that the price of high pressure steam Jiahua Energy Chemical Co offers to Xing Xing is higher than the price it offers to independent third party(ies), Xing Xing will negotiate with Jiahua Energy Chemical Co to adjust the proposed purchase price of steam to level equal to or lower than the price it offers to those independent third party(ies). If the price of high pressure steam Jiahua Energy Chemical Co offers to Xing Xing is no less favourable than the price it offers to independent third party(ies), the finance department of the Group will arrange for the approval of the price offered by Jiahua Energy Chemical Co by each of the head of the finance department of the Group and the general manager of the Group, subject to the procedures set out in the paragraph “Measures for ensuring that the purchase price is determined with reference to market price of coal” below.

As at the Latest Practicable Date, Jiahua Energy Chemical Co has entered into a contract with one customer (“**Independent Customer**”), which is a third party independent of Jiahua Energy Chemical Co, in relation to the supply of high pressure steam to such customer for a term of five years commencing from May 2013 (please note that Jiahua Energy Chemical Co is yet to start the negotiation with the Independent Customer as to the renewal of the steam supply agreement after April 2018, which means the following price formula may change to match with the new steam supply agreement after the renewal in April 2018 to ensure that the terms offered by Jiahua Energy Chemical Co to Xing Xing are no less favourable than the terms by Jiahua Energy Chemical Co to that Independent Customer). The purchase price of high pressure steam under such supply contract is to be determined based on the following formula:

$$\text{Purchase price of high pressure steam} = \frac{A - B}{C} + D + E$$

LETTER FROM THE BOARD

where:

- (i) A represents the unit purchase price of coal for Jiahua Energy Chemical Co (including associated costs such as transportation costs) for the production of high pressure steam;
- (ii) B represents the benchmark unit price of coal as agreed between Jiahua Energy Chemical Co and the Independent Customer with reference to the median of unit prices of coal that Jiahua Energy Chemical Co purchased for the production of high pressure steam during the previous five years;
- (iii) C represents a pre-determined ratio for the production of high pressure steam from coal, that is, the estimated amount of high pressure steam to be produced by Jiahua Energy Chemical Co per unit of coal (the ratio is fixed at 6.5, assuming that the coal is of certain quality for steam production);
- (iv) D represents the benchmark unit price of high pressure steam determined based on a mark-up of approximately 10–15% above the total unit cost of producing high pressure steam by Jiahua Energy Chemical Co for the Independent Customer (ranging from approximately RMB200 to RMB250 per MT depending on the monthly volume of high pressure steam purchased by the Independent Customer, with the benchmark unit price decreasing with the amount of purchase); and
- (v) E represents an adjustment amount (generally assumed to be nil) to be agreed between Jiahua Energy Chemical Co and the Independent Customer annually for material changes in government policies towards the industry and relevant tax policies.

Based on the terms of such supply contract and the Xing Xing Steam Supply Agreement (assuming Jiahua Energy Chemical Co does not enter into contracts for the supply of high pressure steam to other customer(s) and the amount of high pressure steam to be supplied to the Independent Customer will remain constant), for the three years ending 31 December 2020, (i) the annual sales of high pressure steam to Xing Xing is estimated to constitute approximately 70% of Jiahua Energy Chemical Co's annual sales of high pressure steam; and (ii) the annual sales of high pressure steam to the Independent Customer is estimated to constitute approximately 30% of Jiahua Energy Chemical Co's annual sales of high pressure steam.

LETTER FROM THE BOARD

(ii) *Measures for ensuring that the purchase price is determined with reference to market price of coal*

To ensure that the purchase price of high pressure steam under the Xing Xing Steam Supply Agreement is determined with reference to market price of coal, the finance department of the Group will conduct the following procedures:

1. the finance department will analyse, on a monthly basis, the prevailing market price of coal based on information from public sources, including the online price databases of raw materials on the website of SCI International at www.chem99.com (which is a website recognised by the Price Monitoring Centre of the National Development and Reform Commission of the PRC (國家發展和改革委員會價格監測中心)), 浙江省煤炭行業數據庫 (Zhejiang Province Coal Industry Database*) at mt.zjgy.gov.cn, 中國煤炭信息網 (China Coal Information Net*) at www.coalcn.com, 中國煤炭資源網 (China Coal Resources Net*) at www.mppex.com, 中國煤炭網 (China Coal Net*) at www.zgmt.com.cn, 秦皇島煤炭網 (Qinhuangdao Coal Net*) at www.cqcoal.com, and 浙江省煤炭網 (Zhejiang Province Coal Net*) at www.zjcoal.com;
2. the finance department will obtain, on a monthly basis, the invoices and/or purchase orders relating to the costs incurred by Jiahua Energy Chemical Co in relation to the purchase of coal (including but not limited to the associated transportation costs);
3. the finance department will calculate the price of high pressure steam (“**Reference Steam Price**”) according to the pricing formula stipulated in the relevant supply contract as if the coal were purchased at the average market price of coal (as analysed from the public sources above) approximately two months before the relevant time of supply of high pressure steam. For the avoidance of doubt, the prevailing price of coal shown on the public sources set out above will not be directly applied in the calculation, as (i) the coal to be used in the production of high pressure steam are generally ordered by Jiahua Energy Chemical Co in around two months before actual usage; and (ii) the price of coal used in the calculation includes the associated purchase costs such as transportation costs;
4. the finance department will then compare the Reference Steam Price with the high pressure steam price Jiahua Energy Chemical Co offers to Xing Xing on a monthly basis. In the event that the price of high pressure steam Jiahua Energy Chemical Co offers to Xing Xing is higher than the Reference Steam Price, Xing Xing will negotiate with Jiahua Energy Chemical Co to adjust the proposed purchase price of steam to level equal to or lower than the Reference Steam Price. If the price it offers to Xing Xing is equal to or lower than the Reference Steam Price, the finance department of the Group will arrange for the approval of the

LETTER FROM THE BOARD

price offered by Jiahua Energy Chemical Co by each of the head of the finance department of the Group and the general manager of the Group, subject to the procedures set out in the paragraph headed “Measures for ensuring that terms are no less favourable than those available to independent third parties” above.

Procedures for determining the pricing policy of low pressure steam (1.3Mpa)

The purchase prices of low pressure steam shall be calculated by reference to the weighted average prices offered by Jiahua Energy Chemical Co to its independent purchasers for such low pressure steam of comparable quality during the same month of supply. After arm’s length negotiation between Jiahua Energy Chemical Co and Xing Xing, the following measures have been determined to ensure the prices of low pressure steam offered by Jiahua Energy Chemical Co to Xing Xing are no less favourable than the prices of low pressure steam of comparable quality to other independent purchasers:

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

LETTER FROM THE BOARD

Given (i) there are no public information regarding sale price of low pressure steam in the Zhapu area of Jiaying City, the PRC; and (ii) Jiahua Energy Chemical Co is the only company that provides such low pressure steam in the Zhapu area of Jiaying City, the PRC, the Group is not able to obtain a quotation from any independent third party in the same area regarding sale of low pressure steam and there are no other available source to compare price. As such, the Directors are of the view that the prices offered by Jiahua Energy Chemical Co to independent third parties are fair representation of normal commercial terms for price checking purposes. If it is found that the prices charged by Jiahua Energy Chemical Co to Xing Xing are less favourable than those charged by Jiahua Energy Chemical Co to independent third parties, Jiahua Energy Chemical Co would refund the price difference to Xing Xing on a quarterly basis.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of low and high pressure steam as described above can ensure that the transactions contemplated under Xing Xing Steam Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, taking into account that the above procedures will make reference to prices Jiahua Energy Chemical Co offers to independent third party(ies) and thus serve as a safeguarding measure to prevent any possibility that the final pricing offered to the connected person will turn out to be less favourable to the Group than the market price.

(2) The Sanjiang Chemical Steam Supply Agreement

Date: 23 January 2018

Parties: (1) Jiahua Energy Chemical Co, a connected person (as defined under the Listing Rules); and

(2) Sanjiang Chemical, a wholly-owned subsidiary of the Company.

Subject matter

Jiahua Energy Chemical Co agreed to supply low pressure steam (0.8Mpa and 1.3Mpa) and medium pressure steam (3.4Mpa) to Sanjiang Chemical on an ongoing basis.

Other principal terms of the Sanjiang Chemical Steam Supply Agreement

1. The Sanjiang Chemical Steam Supply Agreements shall become effective on 23 January 2018 and has an initial term ending on 31 December 2020 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

LETTER FROM THE BOARD

2. The purchase prices of low and medium pressure steam shall be calculated by reference to the weighted average prices offered by Jiahua Energy Chemical Co to its independent purchaser(s) for such low and medium pressure steam of comparable quality during the same month of supply. After arm's length negotiation between Jiahua Energy Chemical Co and Sanjiang Chemical, the following measures have been determined to ensure the prices of low and medium pressure steam offered by Jiahua Energy Chemical Co to Sanjiang Chemical are no less favourable than the prices of such steam of comparable quality to other independent purchaser(s):

Purchase price of low pressure steam (0.8Mpa)

- a) Jiahua Energy Chemical Co shall set the prices regarding low pressure steam products (0.8Mpa) in accordance with the quarterly released notices regarding price recommendation issued by Jiaying Economy Development Bureau (嘉興港區經濟發展局) (the “**Bureau Price**”), which is operated by Jiaying Commodities Price Bureau and being a local government information provider for price references. Jiahua Energy Chemical Co would follow the Bureau Price when setting its own prices to its customers, including the Group and independent third parties. The finance department of the Group will obtain the Bureau Price and the monthly average price of low pressure steam stipulated by Jiaying Commodities Price Bureau (嘉興市物價局) (the “**Recommended Price**”) and compare the same with the low pressure steam price that Jiahua Energy Chemical Co charges Sanjiang Chemical. By comparing the Recommended Price and the Bureau Price with low pressure steam prices that Jiahua Energy Chemical Co charges Sanjiang Chemical, the Group ensures the purchase price being offered to Sanjiang Chemical by Jiahua Energy Chemical Co should not be less favourable than the price offered to independent third parties by Jiahua Energy Chemical Co; and
- b) in the event that the prices of low pressure steam Jiahua Energy Chemical Co charges Sanjiang Chemical are 2% higher (i.e. a level of deviation that the Group considers material) than the latest Recommended Price, Sanjiang Chemical will negotiate with Jiahua Energy Chemical Co to adjust the proposed purchase prices of low pressure steam to price that is equal to or lower than the Recommended Price. If the price of low pressure steam which Jiahua Energy Chemical Co offers to Sanjiang Chemical is less favourable (i.e. being 2% higher) than the Recommended Price, the price will then be re-negotiated between Jiahua Energy Chemical Co and the Group until the revised price being offered by Jiahua Energy Chemical Co is satisfactory to the Group, i.e. being no less favourable than the Recommended Price. On the other hand, if the price of low pressure steam which Jiahua Energy Chemical Co offers to Sanjiang Chemical is no less favourable than the Recommended Price, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co by each of the head of the finance department of the Group and the general manager of the Group.

LETTER FROM THE BOARD

As the information provided by Jiaying Economy Development Bureau is specifically issued and addressed to Jiahua Energy Chemical Co (as well as all chemical companies located at Zhapu area of Jiaying City, the PRC, that purchase similar low pressure steam (0.8Mpa) for their production), the Directors believe Jiahua Energy Chemical Co would follow the information provided by Jiaying Economy Development Bureau when setting its own prices. Thus, the Directors are of the view that the prices offered by Jiahua Energy Chemical Co to independent third parties should be similar to those offered to Sanjiang Chemical. If it is found that the prices charged by Jiahua Energy Chemical Co to Sanjiang Chemical are less favourable than those charged by Jiahua Energy Chemical Co to independent third parties, Jiahua Energy Chemical Co would refund the price difference to Sanjiang Chemical on a quarterly basis.

Purchase prices of low (1.3Mpa) and medium pressure steam

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

LETTER FROM THE BOARD

Given (i) there are no public information regarding sale price of low and medium pressure steam in the Zhapu area of Jiaying City, the PRC; and (ii) Jiahua Energy Chemical Co is the only company that provides such low and medium pressure steam in the Zhapu area of Jiaying City, the PRC, the Group is not able to obtain a quotation from any independent third party in the same area regarding sale of low and medium pressure steam and there are no other available source to compare price. As such, the Directors are of the view that the prices offered by Jiahua Energy Chemical Co to independent third parties are fair representation of normal commercial terms for price checking purposes. If it is found that the prices charged by Jiahua Energy Chemical Co to Sanjiang Chemical are less favourable than those charged by Jiahua Energy Chemical Co to independent third parties, Jiahua Energy Chemical Co would refund the price difference to Sanjiang Chemical on a quarterly basis.

3. The purchase prices payable by Sanjiang Chemical in respect of purchases contemplated under the Sanjiang Chemical Steam Supply Agreements shall be tallied on the 25th day of each calendar month, together with an extra 2% of the tallied usage amount of low pressure steam (0.8Mpa) by Sanjiang Chemical billed to Sanjiang Chemical to cover the loss in transmission, and be payable by Sanjiang Chemical on or before the 10th calendar day of the following month.

During the transmission of low pressure steam (0.8Mpa) through pipelines there is inevitably a certain amount of steam loss over distance which happens as a result of heat loss from the pipelines, which causes steam to condense thereby reducing the steam volume. As a result the volume of such low pressure steam supplied to Sanjiang Chemical as shown by the steam meter, not having taken into account the amount of steam loss through transmission, would be smaller than the volume of steam actually supplied from the source. To cover such loss in transmission and in accordance with general market practice, an extra 2% of the tallied usage amount as shown by the steam meter will be charged, the percentage of which was determined with reference to the fees for loss in transmission charged by Jiahua Energy Chemical Co to independent third parties and the distance between Jiahua Energy Chemical Co and the steam meter which is located at the production site of Sanjiang Chemical.

The Company will comply with the relevant Listing Rules requirements when the term of the Sanjiang Chemical Steam Supply Agreement is renewed.

LETTER FROM THE BOARD

(3) The Sanjiang New Material Steam Supply Agreement

Date: 23 January 2018

Parties: (1) Jiahua Energy Chemical Co, a connected person (as defined under the Listing Rules); and
(2) Sanjiang New Material, a wholly-owned subsidiary of the Company.

Subject matter

Jiahua Energy Chemical Co agreed to supply low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa) to Sanjiang New Material on an ongoing basis.

Other principal terms of the Sanjiang New Material Steam Supply Agreement

1. The Sanjiang New Material Steam Supply Agreement shall become effective on 23 January 2018 and has an initial term ending on 31 December 2020 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).
2. The purchase prices of low and medium pressure steam shall be calculated by reference to the weighted average prices offered by Jiahua Energy Chemical Co to its independent purchasers for such low and medium pressure steam of comparable quality during the same month of supply. After arm's length negotiation between Jiahua Energy Chemical Co and Sanjiang New Material, the following measures have been determined to ensure the prices of low and medium pressure steam offered by Jiahua Energy Chemical Co to Sanjiang New Material are no less favourable than the prices of low and medium pressure steam of comparable quality to other independent purchasers:
 - a) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co to its independent purchasers that purchases low and medium pressure steam of comparable quality; and (ii) all supply contracts regarding low and medium pressure steam of comparable quality entered into between Jiahua Energy Chemical Co and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co) as to the weighted average purchase prices of low and medium pressure steam since the purchase prices of low and medium pressure steam payable by Sanjiang New Material are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co to its independent purchasers during the same month of supply; and

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

Given (i) there are no public information regarding sale price of low and medium pressure steam in the Zhapu area of Jiaxing City, the PRC; and (ii) Jiahua Energy Chemical Co is the only company that provides such low and medium pressure steam in the Zhapu area of Jiaxing City, the PRC, the Group is not able to obtain a quotation from any independent third party in the same area regarding sale of low and medium pressure steam and there are no other available source to compare price. As such, the Directors are of the view that the prices offered by Jiahua Energy Chemical Co to independent third parties are fair representation of normal commercial terms for price checking purposes. If it is found that the prices charged by Jiahua Energy Chemical Co to Sanjiang New Material are less favourable than those charged by Jiahua Energy Chemical Co to independent third parties, Jiahua Energy Chemical Co would refund the price difference to Sanjiang New Material on a quarterly basis.

3. The purchase prices payable by Sanjiang New Material in respect of purchases contemplated under the Sanjiang New Material Steam Supply Agreement shall be tallied on the 25th day of each calendar month and be payable by Sanjiang New Material on or before the 10th calendar day of the following month.

The Company will comply with the relevant Listing Rules requirements when the term of the Sanjiang New Material Steam Supply Agreement is renewed.

LETTER FROM THE BOARD

Upon approval by the independent shareholders at the EGM, the Supply Agreements would be superseded by the Sanjiang Chemical Steam Supply Agreement and the Sanjiang New Material Steam Supply Agreement and will cease to be effective. Before the Sanjiang Chemical Steam Supply Agreement and the Sanjiang New Material Steam Supply Agreement are approved at the EGM, the Supply Agreements will remain effective, governing the existing purchases of low and medium pressure steam from Jiahua Energy Chemical Co.

It is noted that under the Supply Agreements, Sanjiang Chemical and Sanjiang New Material have previously entered into continuing connected transactions with Jiahua Energy Chemical Co regarding each of the supply of low (1.3Mpa) and medium pressure steam under separate agreements. Reference is also made to the announcement of the Company dated 29 January 2016 and the circular of the Company dated 16 March 2016, pursuant to which the Supply Agreements were signed and categorized with reference to the type of pressure steam (i.e. low and medium pressure steam).

Given that (i) similar pricing mechanisms are adopted for determining the purchase prices of low and medium pressure steam; (ii) low and medium pressure steam are basically of the same nature but with different pressure and heat level and Jiahua Energy Chemical Co is adopting the same contracting practice with independent third party(ies) (i.e. entering into a single contract covering all types of steam with one independent third party; (iii) it would be easier for Independent Shareholders to get an overview of all the steam supply transactions being entered into by each of Sanjiang Chemical and Sanjiang New Material with Jiahua Energy Chemical Co if the relevant information are contained in a single document; and (iv) for simplicity purpose, the Group entered into the Sanjiang Chemical Steam Supply Agreement and Sanjiang New Material Steam Supply Agreement such that disclosures regarding the steam supply transactions are now made with reference to the company transacting with Jiahua Energy Chemical Co instead of type of pressure steam.

LETTER FROM THE BOARD

HISTORICAL FIGURES, EXISTING CAPS AND ANNUAL PROPOSED CAPS

Set out below are the historical figures for each of the three years ended 31 December 2017, the proposed annual caps for each of the three years ending 31 December 2020 in respect of the transactions contemplated under the Xing Xing Steam Supply Agreement, and the proposed annual caps for a period of approximately three years ending 31 December 2020 in respect of the transactions contemplated under each of the Sanjiang Chemical Steam Supply Agreement and Sanjiang New Material Steam Supply Agreement:

Nature of transaction	Historical amount			Proposed cap amount		
	For the year ended 31 December			For the year ending 31 December		
	2015	2016	2017	2018	2019	2020
	RMB	RMB	RMB	RMB	RMB	RMB
	(million)	(million)	(million)	(million)	(million)	(million)
1. Purchase of steam by Xing Xing from Jiahua Energy Chemical Co						
— Historical amount for purchase of low (1.3Mpa) pressure steam	Nil	Nil	8.5			
			(Note 1)			
— Historical cap for purchase of low (1.3Mpa) pressure steam	Nil	Nil	Nil			
			(Note 1)			
— Historical amount for purchase of high pressure steam	155.2	151.0	184.0			
— Historical cap for purchase of high pressure steam	235.0	300.0	290.0			
— Proposed cap for the current purchase of low (1.3Mpa) and high pressure steam				246.3	246.3	246.3
2. Purchase of steam by Sanjiang Chemical from Jiahua Energy Chemical Co						
— Historical amount for purchase of low (1.3Mpa) pressure steam	48.3	23.9	59.9			
— Historical cap for purchase of low (1.3Mpa) pressure steam	310.0	61.8	61.8	61.8		
	(Note 2)					
— Historical amount for the purchase of medium (3.4Mpa) pressure steam	14.9	6.9	24.8			
— Historical cap for purchase of medium (3.4Mpa) pressure steam	190.0	25.1	25.1	25.1		
	(Note 2)					
— Current proposed cap for the purchase of low (0.8Mpa and 1.3 Mpa) and medium pressure steam				118	123	128
				(Note 3)		
3. Purchase of steam by Sanjiang New Material from Jiahua Energy Chemical Co						
— Historical amount for the purchase of low (1.3Mpa) pressure steam	40.6	56.1	53.5			
— Historical cap for purchase of low (1.3Mpa) pressure steam	N/A	70.7	70.7	70.7		
	(Note 4)					
— Historical amount for purchase of medium (3.4Mpa) pressure steam	20.5	32.9	55.2			
— Historical cap for purchase of medium (3.4Mpa) pressure steam	N/A	57.1	57.1	57.1		
	(Note 4)					
— Current proposed cap for the purchase of low (1.3 Mpa) and medium pressure steam				90	96	99
				(Note 3)		

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Note 1: The historical amount in respect of the purchase of low (1.3Mpa) pressure steam by Xing Xing from Jiahua Energy Chemical Co for the period between 1 January 2017 to 31 July 2017 is nil; whilst the historical amount for the purchase of such low pressure steam for the period between 1 August 2017 to 31 December 2017 is RMB8,500,000, which was related to the Company's technical improvement process, whereby the Company sought to replace high pressure steam with low (1.3Mpa) pressure steam on 1 to 1 basis (i.e. 1 MT of low pressure steam to replace 1 MT of high pressure steam). Given the fact that the prices of low pressure steam is lower than that of high pressure steam, and low pressure steam and high pressure steam are of the same nature and interchangeable, the Company was seeking to test run the technical improvement process for the purpose of decreasing the overall costs from the purchase of steam. Currently, Xing Xing has already reached its maximum input capacity for low pressure steam due to technical limitations in 2017 and therefore the Company does not expect any increment of low pressure steam, when comparing to 2017, to be utilized to replace high pressure steam in 2018. Xing Xing will seek to replace more high pressure steam with low pressure steam if there is advancement in technology in the future.

Note 2: Reference is made to the circular of the Company dated 28 December 2012 in relation to the purchase of low (1.3Mpa) and medium pressure steam by each of Sanjiang Chemical and 嘉興永明石化有限公司 (Jiaying Yongming Petrochemical Co., Ltd.*) ("**Yongming Petrochemical**") from Jiahua Energy Chemical Co for the three years ended 31 December 2015 (the "**2012 December Circular**"). Since 1 January 2015, Yongming Petrochemical has merged with Sanjiang Chemical (the "**Merger**"), which is a legal process under PRC law namely "吸收合併" and it has to be approved by the local authorities before it comes to be effective. Pursuant to the relevant PRC law governing "吸收合併", every asset and every liability (i.e. including all intangible assets like chemical operating licenses, environmental approval licenses, waste material handling licenses and industrial electricity usage quota, etc.) of Yongming Petrochemical will be transferred to Sanjiang Chemical and Sanjiang Chemical would operate and own those assets and liabilities as if all those Yongming Petrochemical's assets and liabilities had been registered under the name of Sanjiang Chemical at the very beginning and there is no need for Sanjiang Chemical to apply for chemical operating licenses, environmental approval licenses, waste material handling licenses and industrial electricity usage quota, etc. again in order to operate Yongming Petrochemical's existing business. Pursuant to the Merger, all of Yongming Petrochemical's then existing business and operation have merged with that of Sanjiang Chemical. The historical cap for the purchase of low and medium pressure steam by Sanjiang Chemical from Jiahua Energy Chemical Co for the year 2015 therefore includes also the historical cap for the purchase of such low and medium pressure steam by Yongming Petrochemical from Jiahua Energy Chemical Co, since there has been an increase in Sanjiang Chemical's production capacities and production volume as a result of the Merger, and such a merger in the annual caps is essential for Sanjiang Chemical to continue in carrying out its operation.

Note 3: The proposed cap amount in respect of the Sanjiang Chemical Steam Supply Agreement and the Sanjiang New Material Steam Supply Agreement for the year 2018 is for the period between 23 January 2018 and 31 December 2018 only.

Note 4: There are no annual caps for the purchase of low (1.3Mpa) and high pressure steam by Sanjiang New Material from Jiahua Energy Chemical Co for the year 2015 since the volume of such low and medium pressure steam purchased by Sanjiang New Material was under the coverage of the Sanjiang Chemical's annual caps in 2015. Reference is made to the 2012 December Circular, where it was disclosed that the Group planned to construct its 5th Phase EO/EG production facilities (the "**Production Facilities**") with operation expecting to take place by the end of 2014. The expected operation of the Production Facilities was taken into account into the basis of the then proposed New Annual Caps (as defined in the 2012

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December Circular). The Company decided to put the Production Facilities under the name of Sanjiang New Material and as of today, the Production Facilities remains the only asset of Sanjiang New Material.

BASIS OF THE ANNUAL CAPS

The proposed caps for the Xing Xing Steam Supply Agreement are based on:

- (1) historical amount of purchases made by Xing Xing from Jiahua Energy Chemical Co for (i) low pressure steam for the 5-month period ended 31 December 2017 and (ii) high pressure steam for the three year ended 31 December 2017 as set out above;
- (2) the expected amount of purchases to be made by Xing Xing from Jiahua Energy Chemical Co for low (1.3Mpa) and high pressure steam for the three years ending 31 December 2020 being approximately 55,000MT and 1,095,000MT respectively, taking into account the quantity of such low and high pressure steam transacted between Xing Xing and Jiahua Energy Chemical Co for the year 2017 being approximately 50,000MT and 995,000MT respectively;
- (3) the expected increase of production capacities of ethylene and polyethylene of Xing Xing for the three years ending 31 December 2020 after the introduction of OCU (“**Olefins Conversion Unit**”) production facility into Xing Xing’s operation in 2018 and, in turn, the expected increase in its demand for steam for production purposes (with the estimated annual quantity of low and high pressure steam demanded by Xing Xing for each of the three years ending 31 December 2020 being estimated to be approximately 1,150,000MT for each year respectively) as OCU requires an additional input of high pressure steam and low (1.3Mpa) pressure steam of 36,800MT and 89,600MT respectively on an annual basis; and
- (4) the expected unit price of steam, taking into account the average unit prices of (i) low pressure steam transacted between Xing Xing and Jiahua Energy Chemical Co for 3 months period between 1 August 2017 to 31 October 2017 being RMB170/MT, being the actual figures available to the Company at the time when the Company made the relevant Annual Caps estimation, and (ii) high pressure steam transacted between Xing Xing and Jiahua Energy Chemical Co for 10 months period ended 31 October 2017 being RMB206/MT, being the actual figures available to the Company at the time when the Company made the relevant Annual Caps estimation.

The proposed caps for the Sanjiang Chemical Steam Supply Agreement and Sanjiang New Material Steam Supply Agreement are based on:

- (1) the expected amount of purchases to be made by Sanjiang Chemical and Sanjiang New Material from Jiahua Energy Chemical Co for low and medium pressure steam for the period of approximately three years ending 31 December 2020 being approximately 639,000MT and 540,000MT respectively, taking into account the

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quantity of low and medium pressure steam transaction between each of Sanjiang Chemical and Sanjiang New Material with Jiahua Energy Chemical Co for the year ended 2017 being approximately 474,800MT and 598,900MT respectively;

- (2) the expected future growth of the production capacities of ethylene oxide (“EO”), ethylene glycol (“EG”) and polypropylene (“PP”) of the Group for the period of approximately three years ending 31 December 2020 as a result of a) the expected completion of production process improvement measures in Q2 of 2018 for the 5th Phases EO/EG production facilities which will increase the production efficiency for such facilities as a result of the fine-tuning of the production processes and hence, the total output of the 5th Phase EO/EG production facilities will increase by more than 20% on a yearly basis and the Group expected such 20% increment of output will require an additional input of steam by approximately 120,000MT on a yearly basis; and b) the expected ramp up of the 2nd Phase PP production facility with 300,000MT production capacity on a yearly basis in Q2 of 2018, and in turn, the expected increase in the Group’s demand for steam of approximately 60,000MT on a yearly basis for production purpose (with the estimated annual quantity of low and medium pressure steam demanded by Sanjiang Chemical and Sanjiang New Material for the period of approximately three years ending 31 December 2020 being estimated to be approximately 1,065,000MT, 1,143,000MT and 1,179,000MT for each year respectively);
- (3) the expected unit price of steam, taking into account the average unit prices of low and medium pressure steam transacted between each of Sanjiang Chemical and Sanjiang New Material with Jiahua Energy Chemical Co for the 10 months period ended 31 October 2017 being RMB169/MT and RMB215/MT respectively, being the actual figures available to the Company at the time when the Company made the relevant Annual Caps estimation;
- (4) the Group’s latest production estimation based on the latest catalyst changeout plan that the steam usage requirement of Sanjiang Chemical would increase when comparing with the existing cap amount in 2018 while the steam usage requirement of Sanjiang New Material would decrease by the similar increment of Sanjiang Chemical’s steam usage amount when comparing with the existing cap amount in 2018, which is affected by the nature of catalyst where the input/output ratio changes over the catalyst life cycle for EO/EG production, where, for the production of same amount of EO/EG, the Group uses more amount of ethylene and in the same time uses less amount of steam at the final stage of catalyst life cycle while, after changeout of catalysts, this situation will reverse and for the production of same amount of EO/EG, the Group uses less amount of ethylene and in the same time uses more amount of steam at the initial stage of catalyst life cycle; and
- (5) the historical amount of purchases made by Sanjiang Chemical and Sanjiang New Material from Jiahua Energy Chemical Co for low and medium pressure steam as set out above.

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REASONS FOR THE RENEWED STEAM SUPPLY TRANSACTIONS

The Group is principally engaged in the manufacturing and supplying of ethylene, propylene, ethylene oxide, ethylene glycol and surfactants and the provision of surfactants processing service. Jiahua Energy Chemical Co is a limited company established in the PRC and is principally engaged in the businesses of production and trading of desalinated water, steam, chlorine gas and sulfuric acid.

Given that Jiahua Energy Chemical Co is the only company that provides low (0.8Mpa and 1.3Mpa), medium and high pressure steam in the Zhapu area of Jiaying City, the PRC, which is the same economic development zone which the Group locates, it is impractical for the Group to source steam from another area as both steam pressure and steam heat would be lost substantially during the transmission of steam through long-distant pipelines. In particular, as the production base of the Group is situated close to that of Jiahua Energy Chemical Co, transport cost of steam from Jiahua Energy Chemical Co to the Group can be reduced. Moreover, Jiahua Energy Chemical Co has been supplying steam to the Group since the year ended 31 December 2007 and the quality of goods and services provided by it has been considered by the Group to be satisfactory. Based on past operational convenience and benefits brought to the Group and extended business relationships established between the Group and Jiahua Energy Chemical Co, such continuing relationships are expected to bring synergies to the parties. Further, as the Group has an existing transmission network for steam in place for transmission of steam from Jiahua Energy Chemical Co, the Group can procure supply of steam from Jiahua Energy Chemical Co without incurring additional fixed cost. Each of the Renewed Steam Supply Agreements is on normal commercial terms given that the pricing and terms are no more favourable for Jiahua Energy Chemical Co to all other independent purchasers. In view of the geographical proximity and to secure a constant and stable supply of high pressure steam for production purposes in the future, the Group entered into the Renewed Steam Supply Agreements.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice to be obtained from Gram Capital) are of the view that (i) the terms and conditions of the Renewed Steam Supply Agreements are fair and reasonable and the Renewed Steam Supply Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group; and (ii) it is in the interests of the Group and the Shareholders as a whole to enter into the Renewed Steam Supply Agreements.

CONNECTED PERSON

Jiahua Energy Chemical Co is a limited company established in the PRC and is principally engaged in the business of production and trading of desalinated water, steam, chlorine gas and sulphuric acid. It is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han, being executive Directors. Jiahua Energy Chemical Co is an associate of Mr. Guan and Ms. Han and is thus a Connected Person of the Company.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

As the Renewed Steam Supply Agreements (i) were entered into between members of the Group, as purchaser, and a connected persons (i.e. Jiahua Energy Chemical Co), as supplier; and (ii) are of similar nature such that the Renewed Steam Supply Agreements relate to the purchase of steam by members of the Group from the connected person with the same pricing mechanism, the Renewed Steam Supply Agreements are related and shall be aggregated pursuant to Rule 14A.81 of the Listing Rules. Given that the relevant applicable percentage ratios in respect of the Annual Caps are more than 5%, the transactions contemplated under each of the Renewed Steam Supply Agreements constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company is of the view that before the convening of the EGM, the transactions contemplated under the Xing Xing Steam Supply Agreement will not (and the Company will through its internal control system to ensure that such transactions will not) exceed the relevant thresholds that would require Independent Shareholders' approval under the Listing Rules.

Each of Mr. Guan and Ms. Han was interested in the Renewed Steam Supply Transactions and they therefore abstained from voting on board resolutions of the Company approving such transactions. Save as disclosed, none of the Directors had a material interest in the Renewed Steam Supply Agreement and none of them were therefore required to abstain from voting on board resolutions of the Company in respect of such transactions.

The Company will seek the Independent Shareholders' approval for the Renewed Steam Supply Agreements and the Annual Caps for the three years ending 31 December 2020 at the EGM.

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Renewed Steam Supply Agreements, the Renewed Steam Supply Transactions and the Annual Caps are fair and reasonable.

EGM

The Company will convene the EGM at 20/F., OfficePlus@Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong on 21 May 2018 at 10:30 a.m. (or, if later, immediately following the conclusion of the annual general meeting of the Company convened pursuant to the notice of the Company dated 19 April 2018 and to be held at 10:00 a.m. at the same location and on the same date as the EGM) to consider, among other things, the Renewed Steam Supply Agreements, the Renewed Steam Supply Transactions and the Annual Caps. The resolutions 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 60 to 62 of this Circular. As at the Latest Practicable Date, so far as the Directors are aware, Sure Capital Holdings Limited, a company beneficially controlled by Mr. Guan and Ms. Han who are executive Directors, together with Mr. Guan as the beneficial owner, owned approximately 41.97% of the entire issued share capital of the Company. Sure Capital

LETTER FROM THE BOARD

Holdings Limited, its associates and those who are involved or interested in the Renewed Steam Supply Agreements are required to abstain from voting on the resolutions to approve the Renewed Steam Supply Agreements, the Renewed Steam Supply Transactions and the Annual Caps proposed to be passed at 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 Level 22, Hopewell Centre, 183 Queen's Road East, 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.

VOTING BY POLL

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

After the conclusion of the EGM, the poll results will be published on the respective websites of the Stock Exchange and the Company.

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.

RECOMMENDATIONS

Your attention is drawn to the advice of the Independent Board Committee set out in its letter set out on page 27 of this Circular and the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in connection with the Renewed Steam Supply Agreements, the Renewed Steam Supply Transactions and the Annual Caps and the principal factors and reasons considered by them in arriving at such advice set out on page 29 to 51 in this Circular.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the Renewed Steam Supply Agreements was entered into in an ordinary and usual course of business on normal commercial terms and the terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Accordingly, the Directors, including the Independent Board Committee, recommend the Independent Shareholders to vote in favour of the ordinary resolutions approving the Renewed Steam Supply Agreements, the Renewed Steam Supply Transactions and the Annual Caps at the EGM as set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendix to this Circular.

Yours faithfully,
For and on behalf of the Board of
China Sanjiang Fine Chemicals Company Limited
Guan Jianzhong
Chairman and executive Director



三江化工

SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

19 April 2018

To the Independent Shareholders

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO RENEWAL OF
STEAM SUPPLY AGREEMENTS**

Dear Sir or Madam,

We refer to the circular issued by the Company to its Shareholders dated 19 April 2018 (“**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.

Under the Listing Rules, the Renewed Steam Supply Transactions constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

We have been appointed by the Board to consider the terms of the Renewed Steam Supply Agreements, the Renewed Steam Supply Transactions and the Annual Caps and to advise the Independent Shareholders in connection therewith and as to whether, in our opinion, such terms and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Gram Capital 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 Gram Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Gram Capital as set out in its letter of advice, we consider that the Renewed Steam Supply Transactions are in the ordinary and usual course of business of the Group and the terms of the Renewed Steam Supply Agreements are on normal commercial terms. We also consider that the Annual Caps of the Renewed Steam Supply Transactions and the terms of the Renewed Steam Supply Agreements are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Renewed Steam Supply Transactions is in the interest of the Company and the

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions approving the Renewed Steam Supply Agreements, the Renewed Steam Supply Transactions and the Annual Caps at the EGM.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. SHEN Kaijun

Ms. PEI Yu
Independent Non-executive Directors

Mr. KONG Liang

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Renewed Steam Supply Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

19 April 2018

*To: The independent board committee and the independent shareholders
of China Sanjiang Fine Chemicals Company Limited*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTION IN RELATION TO RENEWAL OF STEAM SUPPLY AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Renewed Steam Supply Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 19 April 2018 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 1 January 2018, Xing Xing (being a non wholly-owned subsidiary of the Company) entered into the Xing Xing Steam Supply Agreement with Jiahua Energy Chemical Co to renew the 2015 Xing Xing Steam Supply Agreement for another consecutive 3-year term which expired on 31 December 2017 (the “**XX CCT**”).

On 23 January 2018, (i) Sanjiang Chemical (being a wholly-owned subsidiary of the Company) entered into the Sanjiang Chemical Steam Supply Agreement with Jiahua Energy Chemical Co for a period of approximately three years from 23 January 2018 to 31 December 2020 (the “**SC CCT**”); and (ii) Sanjiang New Material, being a wholly-owned subsidiary of the Company, entered into the Sanjiang New Material Steam Supply Agreement with Jiahua Energy Chemical Co for a period of approximately three years from 23 January 2018 to 31 December 2020 (the “**SNM CCT**”).

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Renewed Steam Supply Transactions constitute continuing connected transactions of the Company and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Shen Kaijun, Ms. Pei Yu and Mr. Kong Liang (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Renewed Steam Supply Agreements (including the Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Renewed Steam Supply Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Renewed Steam Supply Agreements (including the Annual Caps) and transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Renewed Steam Supply Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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The 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 the 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Jiahua Energy Chemical Co or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Renewed Steam Supply Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

LETTER FROM GRAM CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Renewed Steam Supply Transactions, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Renewed Steam Supply Transactions

Information on the Group

With reference to the Board Letter, the Group is principally engaged in the manufacturing and supplying of ethylene, propylene, ethylene oxide, ethylene glycol and surfactants and the provision of surfactants processing service.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2017 as extracted from the annual results announcement of the Company for the year ended 31 December 2017 (the “2017 Annual Results Announcement”):

	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2016 RMB'000	Change from 2016 to 2017 %
Revenue	8,897,143	6,647,019	33.85
— <i>Sale of goods</i>	8,662,752	6,604,250	31.17
— <i>Rendering of services</i>	225,962	33,203	580.55
— <i>Rental income</i>	8,429	9,566	(11.89)
Gross profit	1,085,275	906,570	19.71
Profit for the year	623,137	598,851	4.06

As illustrated in the above table, the Group’s revenue amounted to approximately RMB8.90 billion for the year ended 31 December 2017 (the “FY2017”), representing an increase of approximately 33.85% as compared to that for the year ended 31 December 2016 (the “FY2016”). With reference to the 2017 Annual Results Announcement, the increase in revenue for FY2017 was primarily resulted from the increase in selling price of and revenue from ethylene glycol and polypropylene. The Group recorded an increase in net profit for FY2017 of approximately 4.06% as compared to that for FY2016.

With reference to the 2017 Annual Results Announcement, the Group (i) was in the progress of finalising the fine-tuning of the production processes of the 5th Phase ethylene oxide (“EO”)/ethylene glycol (“EG”) production facilities and (ii) expected that the total output of the 5th Phase EO/EG production facilities would increase by more than 20% on a yearly basis. The Group was also finalising the construction of the 2nd Phase polypropylene production facility, which has a 300,000MT production capacity on a yearly basis.

Information on Jiahua Energy Chemical Co

With reference to the Board Letter, Jiahua Energy Chemical Co is a limited company established in the PRC and is principally engaged in the businesses of production and trading of desalinated water, steam, chlorine gas and sulfuric acid.

Reasons for and benefits of the Renewed Steam Supply Transactions

As advised by the Directors, the heat energy from steam is a must for the chemical reaction during the course of production of the Group. With reference to the Board Letter, Jiahua Energy Chemical Co is the only company that provides low (0.8Mpa and 1.3Mpa), medium and high pressure steam in the Zhapu area of Jiaxing City, the PRC, which is the economic development zone (the “**Economic Development Zone**”) where the Group locates. In this regard, we noted from 《熱電聯產和煤矸石綜合利用發電項目建設管理暫行規定》 (the Interim Provisions on the Administration of the Construction of Power Generating Projects of Steam-Electricity Cogeneration and Comprehensive Utilization of Coal Sludge*) jointly published by the National Development and Reform Commission and the Ministry of Construction of the PRC that the PRC government will concentrate the heat supply in industrial zone operated by heat loading. The PRC government will concentrate the construction plan of thermoelectric projects and will not normally plan for the same type of steam thermoelectric projects within 8 kilometers. We also noted from (i) Jiahua Energy Chemical Co’s website that Jiahua Energy Chemical Co is the only company that provides steam in the Economic Development Zone and (ii) the internet that the Economic Development Zone has a planned area of approximately 16.1 square kilometers. As such, we do not doubt the statement in the Board Letter that Jiahua Energy Chemical Co is the only company that provides low (0.8Mpa and 1.3Mpa), medium and high pressure steam in the Economic Development Zone.

As such, it is impractical for the Group to source steam from another area as both steam pressure and steam heat would be lost substantially during the transmission of steam through long-distant pipelines. In particular, as the production base of the Group is situated close to that of Jiahua Energy Chemical Co, transport cost of steam from Jiahua Energy Chemical Co to the Group can be reduced.

Moreover, Jiahua Energy Chemical Co has been supplying steam to the Group since 2007 and the Group considers Jiahua Energy Chemical Co’s quality of goods and services to be satisfactory. Based on past operational convenience and benefits brought to the Group and extended business relationships established between the Group and Jiahua Energy Chemical Co, the Board expects such continuing relationships to bring synergies to both parties in terms of cost saving as no additional pipelines are required to construct. Furthermore, as the Group has an existing transmission network for steam in place for transmission of steam from Jiahua Energy Chemical Co, the Group can procure supply of steam from Jiahua Energy Chemical Co without incurring additional fixed cost. In view of the

geographical proximity and to secure a constant and stable supply of high pressure steam for production purposes in the future, the Group entered into the Renewed Steam Supply Agreements.

Having considered (i) heat energy from steam is essential for the chemical reaction during the course of production of the Group; (ii) Jiahua Energy Chemical Co is the only company that provides low (0.8Mpa and 1.3Mpa), medium and high pressure steam in the economic development zone where the Group locates; (iii) Jiahua Energy Chemical Co has been supplying steam to the Group since 2007 and the Group is satisfied with the quality of goods and services of Jiahua Energy Chemical Co; and (iv) the entering into the Renewed Steam Supply Transactions is a cost-effective option for the Group, we concur with the Directors that the Renewed Steam Supply Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Renewed Steam Supply Transactions

i. Xing Xing Steam Supply Agreement

Date

1 January 2018

Parties

Jiahua Energy Chemical Co; and

Xing Xing, a non wholly-owned subsidiary of the Company

Subject matter

Jiahua Energy Chemical Co has agreed to supply low pressure steam (1.3Mpa) and high pressure steam to Xing Xing on an ongoing basis.

Term

The Xing Xing Steam Supply Agreement shall become effective on 1 January 2018 and has an initial term ending on 31 December 2020 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Other principal terms of the Xing Xing Steam Supply Agreement

The purchase prices of low pressure steam (1.3Mpa) and high pressure steam shall calculated by reference to be the weighted average prices offered by Jiahua Energy Chemical Co to its independent purchasers for such low and high pressure steam of comparable quality during the same month of supply.

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Other principal terms of the Xing Xing Steam Supply Agreement are specified under the sub-section headed “(1) The Xing Xing Steam Supply Agreement” under the section headed “RENEWED STEAM SUPPLY AGREEMENTS” of the Board Letter.

With reference to the Board Letter, to the best knowledge of the Directors, Jiahua Energy Chemical Co is the only company that provides high pressure steam in the Zhapu area of Jiaying City, the PRC, the same region where Xing Xing locates. Given that there would be substantial loss in both steam pressure and steam heat during the course of long distance transportation from other suppliers, the Company considers that it is not meaningful to ascertain the prevailing market price of high pressure steam by obtaining the price quotations obtained from other independent suppliers outside the Zhapu area of Jiaying City and comparing them with the price quoted by Jiahua Energy Chemical Co. Further, the Xing Xing Steam Supply Agreement does not set out a formula for calculating the unit price of high pressure steam based on the unit price of coal. The purchase price of high pressure steam is market price calculated and adjusted monthly with reference to the market price of coal (purchased by Jiahua Energy Chemical Co for production of steam in the previous month). The coal to be used in the production of high pressure steam is generally ordered by Jiahua Energy Chemical Co in around two months before actual usage in the steam production during the month. For the avoidance of doubt, such market price of coal generally refers to the average market price of coal approximately two months before the relevant time of supply of high pressure steam.

The Group will conduct certain internal measures to ensure that the prices of low pressure steam (1.3Mpa) and high pressure steam offered by Jiahua Energy Chemical Co to Xing Xing pursuant to the Xing Xing Steam Supply Agreement will be in line with their respective pricing policy. For our due diligence purpose, we obtained a copy of the said internal control measures and discussed with the Directors regarding the same. Having discussed the internal control measures with the Directors and having considered, in particular, (i) that the finance department of the Group will regularly obtain invoices issued by Jiahua Energy Chemical Co to its independent third party(ies) and compare the prices charged by Jiahua Energy Chemical Co to Xing Xing and independent third party(ies); and (ii) Our Findings on Previous XX CCT as set out below, we do not doubt the effectiveness of the implementation of the internal control measures and we consider that such internal control measures are sufficient for the Company to monitor the XX CCT.

As advised by the Directors, Jiahua Energy Chemical Co did not provide low pressure steam (1.3Mpa) to Xing Xing in 2015 and 2016 but did provide low pressure steam (1.3Mpa) to Xing Xing in 2017. Jiahua Energy Chemical Co also provided high pressure steam to Xing Xing during 2015 to

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2017 pursuant to the 2015 Xing Xing Steam Supply Agreement. In addition, since Jiahua Energy Chemical Co is the only company that provides low pressure steam (1.3Mpa) and high pressure steam in the region where Xing Xing locates, Xing Xing did not enter into any agreements regarding the supply of low pressure steam (1.3Mpa) and high pressure steam with Independent Third Parties.

In relation to the purchase of low pressure steam (1.3Mpa), we randomly selected and the Company provided (i) the relevant monthly invoices issued by Jiahua Energy Chemical Co to Xing Xing during 2017; and (ii) the relevant monthly invoice summaries showing selling prices offered by Jinhua Energy Chemical Co to its independent customers and sales volumes during 2017. Furthermore, we selected one of Jiahua Energy Chemical Co's independent customers from the aforesaid invoice summaries and obtained the relevant invoices. We noted that (i) the sales volume as stated in the said invoices of the selected independent customer were approximately the same as sales volume as shown in the invoice summaries; and (ii) the selling prices as stated in the said invoices of the selected independent customer were the same as those contained in the invoice summaries. According to the aforesaid documents, the unit purchase prices of low pressure steam (1.3Mpa) offered by Jiahua Energy Chemical Co to Xing Xing were lower than the monthly weighted average price of Jiahua Energy Chemical Co's independent customers.

In relation to the purchase of high pressure steam, we randomly selected and the Company provided the relevant monthly invoices issued by Jiahua Energy Chemical Co to (i) Xing Xing; and (ii) the Independent Customer during 2015 to 2017. We noted from such documents that the unit purchase prices of high pressure steam offered by Jiahua Energy Chemical Co to Xing Xing were not less favourable than those offered by Jiahua Energy Chemical Co to the Independent Customer for the same month (together with our findings on the low pressure steam (1.3Mpa) invoices, "**Our Findings on Previous XX CCT**").

With reference to the Xing Xing Steam Supply Agreement, the purchase prices of high pressure steam shall be calculated by reference to the weighted average prices offered by Jiahua Energy Chemical Co to its independent purchaser(s) for such high pressure steam of comparable quality during the same month of supply. With reference to the Board Letter, as at the Latest Practicable Date, Jiahua Energy Chemical Co has not yet started the negotiation with the Independent Customer as to the renewal of the steam supply agreement after April 2018. Having considered that (i) the Group will regularly obtain invoices issued by Jiahua Energy Chemical Co to its independent third party(ies) and compare the prices charged by Jiahua Energy Chemical Co to Xing Xing and independent third party(ies) to ensure that the terms offered by Jiahua Energy Chemical Co to Xing Xing are no less favourable than the terms by Jiahua Energy Chemical Co to its

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independent third party(ies); and (ii) the Company will regularly analyse the prevailing market price of coal, assess the price of high pressure offered by Jiahua Energy Chemical Co to Xing Xing, and negotiate with Jiahua Energy Chemical Co to adjust the purchase price if necessary, we consider that the measures taken by the Company could ensure that the pricing formula to be fair and reasonable to the Company even if there is a change in terms of contracts regarding the supply of high pressure steam offered by Jiahua Energy Chemical Co to independent third party(ies).

In light of the above factors, we are of the view that the terms of the XX CCT are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

ii. Sanjiang Chemical Steam Supply Agreement

Date

23 January 2018

Parties

Jiahua Energy Chemical Co; and

Sanjiang Chemical

Subject matter

Jiahua Energy Chemical Co agreed to supply low pressure steam (0.8Mpa and 1.3Mpa) and medium pressure steam (3.4Mpa) to Sanjiang Chemical on an ongoing basis.

Term

The Sanjiang Chemical Steam Supply Agreements shall become effective on 23 January 2018 and has an initial term ending on 31 December 2020 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Other principal terms of the Sanjiang Chemical Steam Supply Agreement

The purchase prices of low and medium pressure steam shall be calculated by reference to the weighted average prices offered by Jiahua Energy Chemical Co to its independent purchaser(s) for such low and medium pressure steam of comparable quality during the same month of supply.

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Other principal terms of the Sanjiang Chemical Steam Supply Agreement are specified under the sub-section headed “(1) The Sanjiang Chemical Steam Supply Agreement” under the section headed “RENEWED STEAM SUPPLY AGREEMENTS” of the Board Letter.

During the transmission of low pressure steam (0.8Mpa) through pipelines there is inevitably a certain amount of steam loss over distance which happens as a result of heat loss from the pipelines, which causes steam to condense thereby reducing the steam volume. As a result the volume of such low pressure steam supplied to Sanjiang Chemical as shown by the steam meter, not having taken into account the amount of steam loss through transmission, would be smaller than the volume of steam actually supplied from the source. To cover such loss in transmission and in accordance with general market practice, an extra 2% of the tallied usage amount as shown by the steam meter will be charged, the percentage of which was determined with reference to the fees for loss in transmission charged by Jiahua Energy Chemical Co to independent third parties and the distance between Jiahua Energy Chemical Co and the steam meter which is located at the production site of Sanjiang Chemical.

With reference to the Board Letter and as advised by the Directors, the Group will conduct certain internal control measures to ensure that the prices of low and medium pressure steam offered by Jiahua Energy Chemical Co to Sanjiang Chemical are no less favourable than the prices of such steam of comparable quality to other independent purchaser(s) of Jiahua Energy Chemical Co. For our due diligence purpose, we obtained a copy of the said internal control measures and discussed with the Directors regarding the same. Having discussed the internal control measures with the Directors and having considered, in particular, (i) that the finance department of the Group will regularly obtain invoices issued by Jiahua Energy Chemical Co to its independent third party(ies) (for low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa)) and the Recommended Price (for low pressure steam (0.8Mpa)); and compare the price charged by Jiahua Energy Chemical Co to Sanjiang Chemical and independent third party(ies) (for low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa)) and the Recommended Price (for low pressure steam (0.8Mpa); and (ii) Our Findings on Previous SC CCT which is mentioned below, we do not doubt the effectiveness of the implementation of the internal control measures and we consider that such internal control measures are sufficient for the Company to monitor the SC CCT.

As advised by the Directors, Jiahua Energy Chemical Co provided low pressure steam (0.8Mpa and 1.3Mpa) and medium pressure steam (3.4Mpa) to Sanjiang Chemical in 2016 and 2017 pursuant to the Supply Agreements between Jiahua Energy Chemical Co and Sanjiang Chemical. As advised by the Directors, since Jiahua Energy Chemical Co is the only company that generates and provides low pressure steam (0.8Mpa and 1.3Mpa) and

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medium pressure steam (3.4Mpa) in the region where Sanjiang Chemical locates, Sanjiang Chemical did not enter into any agreements regarding the supply of low pressure steam (0.8Mpa and 1.3Mpa) and medium pressure steam (3.4Mpa) with Independent Third Parties.

In relation to the low pressure steam (0.8 Mpa), for our due diligence purpose, we randomly selected and the company provided (i) the relevant monthly invoices entered into between Jiahua Energy Chemical Co and Sanjiang Chemical and (ii) documents showing the Recommended Price during 2016 to 2017. We noted from such documents that the unit purchase prices of low pressure steam (0.8 Mpa) offered by Jiahua Energy Chemical Co to Sanjiang Chemical were lower than the Recommended Price in the relevant period.

In relation to the low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa), for our due diligence purpose, we randomly selected and the company provided (i) the relevant monthly invoices issued by Jiahua Energy Chemical Co to Sanjiang Chemical during 2016 to 2017; and (ii) relevant monthly invoice summaries showing selling prices offered by Jiahua Energy Chemical Co to its independent customers and sales volumes during 2016 to 2017. Furthermore, we selected one of Jiahua Energy Chemical Co's independent customers from the aforesaid invoice summaries and obtained the relevant invoices. We noted that (i) the sales volume as stated in the said invoices of the selected independent customer were approximately the same as sales volume as shown in the invoice summaries; and (ii) the selling prices as stated in the said invoices of the selected independent customer were the same as those contained in the invoice summaries. We noted from aforesaid documents that the unit purchase prices of low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa) offered by Jiahua Energy Chemical Co to Sanjiang Chemical were lower than the monthly weighted average prices of Jiahua Energy Chemical Co's independent customers (together with our findings on the low pressure steam (0.8Mpa) invoices, "**Our Findings on Previous SC CCT**").

In light of the above factors, we are of the view that the terms of the SC CCT are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

iii. Sanjiang New Material Steam Supply Agreement

Date

23 January 2018

Parties

Jiahua Energy Chemical Co; and

Sanjiang New Material

Subject matter

Jiahua Energy Chemical Co agreed to supply low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa) to Sanjiang New Material on an ongoing basis.

Term

The Sanjiang New Material Steam Supply Agreement shall become effective on 23 January 2018 and has an initial term ending on 31 December 2020 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Other principal terms of the Sanjiang New Material Steam Supply Agreement

The purchase prices of low and medium pressure steam shall be calculated by reference to the weighted average prices offered by Jiahua Energy Chemical Co to its independent purchaser(s) for such low and medium pressure steam of comparable quality during the same month of supply.

Other principal terms of the Sanjiang New Material Steam Supply Agreement are specified under the sub-section headed “(1) The Sanjiang New Material Steam Supply Agreement” under the section headed “RENEWED STEAM SUPPLY AGREEMENTS” of the Board Letter.

With reference to the Board Letter and as advised by the Directors, the Group will conduct certain internal control measures to ensure that the prices of low and medium pressure steam offered by Jiahua Energy Chemical Co to Sanjiang New Material are no less favourable than the prices of such steam of comparable quality to other independent purchaser(s) of Jiahua Energy Chemical Co. For our due diligence purpose, we obtained a copy of the said internal control measures and discussed with the Directors regarding the same. Having discussed the internal control measures with the Directors and having considered, in particular, (i) that the finance department of the Group will regularly obtain invoices issued by Jiahua Energy Chemical Co to its independent third party(ies) and compare the price charged by Jiahua Energy Chemical Co to Sanjiang New

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Material and independent third party(ies); and (ii) Our Findings on Previous SNM Invoices which is mentioned below, we do not doubt the effectiveness of the implementation of the internal control measures and we consider that such internal control measures are sufficient for the Company to monitor the SNM CCT.

As advised by the Directors, Jiahua Energy Chemical Co provided low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa) to Sanjiang New Material in 2016 and 2017 pursuant to the Supply Agreements between Jiahua Energy Chemical Co and Sanjiang New Material. As advised by the Directors, Jiahua Energy Chemical Co is the only company that provides low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa) in the region where Sanjiang New Material locates. Accordingly, Sanjiang New Material did not enter into any agreements regarding the supply of low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa) with Independent Third Parties. As such, we randomly selected and the Company provided (i) the relevant monthly invoices issued by Jiahua Energy Chemical Co to Sanjiang New Material during 2016 to 2017; and (ii) relevant monthly invoice summaries showing selling price and volume by Jiahua Energy Chemical Co to its independent customers during 2016 to 2017. Furthermore, we selected one of Jiahua Energy Chemical Co's independent customers from the aforesaid invoice summaries and obtained the relevant invoices. We noted that (i) the sales volume as stated in the said invoices of the selected independent customer were approximately the same as sales volume as shown in the invoice summaries; and (ii) the selling prices as stated in the said invoices of the selected independent customer were the same as those contained in the invoice summaries. We noted from aforesaid documents that the unit purchase prices of low pressure steam (1.3Mpa) and medium pressure steam (3.4Mpa) offered by Jiahua Energy Chemical Co to Sanjiang New Material were lower than the monthly weighted average prices of Jiahua Energy Chemical Co's independent customers ("**Our Findings on Previous SNM Invoices**").

In light of the above factors, we are of the view that the terms of the SNM CCT are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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3. Annual Caps

i. XX CCT

Set out below are (i) the historical annual caps for the three years ended 31 December 2017; (ii) the historical transaction amount for the two years ended 31 December 2016, the ten months ended 31 October 2017 and the year ended 31 December 2017; and (iii) the annual caps for the three years ending 31 December 2020 for the XX CCT summarised in accordance with relevant figures in (a) the announcement of the Company dated 1 January 2018 in relation to the XX CCT; and (b) the Board Letter:

	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2017
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Historical annual caps	235	300	290
Historical transaction amount	155.2	151.0	177.6 <i>(Note 1)</i> 192.5 <i>(Note 2)</i>
Utilisation rate	66.04%	50.33%	66.38% <i>(Note 2)</i>
	For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Proposed annual caps (the “XX Cap(s)”)	246.3	246.3	246.3

Notes:

- For the ten months ended 31 October 2017
- For the year ended 31 December 2017, historical transaction amount for the purchase of low pressure steam (1.3Mpa) and high pressure steam were approximately RMB8.5 million and RMB184 million respectively

As advised by the Directors, in arriving at the XX Caps, the Directors considered factors set out under the section headed “BASIS OF THE ANNUAL CAPS” of the Board Letter.

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To assess the fairness and reasonableness of the XX Caps, we have obtained and reviewed the calculation of the XX Caps (the “**XX Calculation**”). We noted from the XX Calculation (i) the average unit price and purchase unit for the XX CCT for the ten months ended 31 October 2017, being the latest available information to the Directors when determining the XX Caps; and (ii) the estimated unit price and purchase unit for the XX CCT for each of the three years ending 31 December 2020.

According to the above table, the estimated transaction amount of the XX CCT for each of the three years ending 31 December 2020 represented (i) an increase of approximately 15.6% as compared to the annualized historical transaction amount for the year ended 31 December 2017 of approximately RMB213.1 million (i.e. RMB177.6 million/10 x 12 = RMB213.1 million); and (ii) an increase of approximately 27.9% as compared to actual historical transaction amount for the year ended 31 December 2017.

Based on the XX Calculation, (i) the estimated unit price is the same as the average unit price for the ten months ended 31 October 2017; (ii) there is an approximately 10% increase in estimated purchase unit for each of the three years ending 31 December 2020 as compared to the annualized purchase unit for the year ended 31 December 2017; and (iii) a buffer for 5% is included for each of the three years ending 31 December 2020 (i.e. the aforesaid increase in transaction amount is due to the 10% increase in estimated purchase unit and the 5% buffer).

As advised by the Directors, Xing Xing’s production facilities consist of the methanol-to-olefins (“**MTO**”) technology-based production facility and Olefins Conversion Unit (“**OCU**”) production facility. During the period from 2015 to 2017, only the MTO technology-based production facility was in operation. In 2018, Xing Xing plans to commence the operation of another production facility (i.e. the OCU production facility). As further advised by the Directors, the production capacity of Xing Xing will increase as a result of the operation of the OCU production facility, which may also increase the demand of steam to fuel the chemical reaction for the extra production capacity. We further obtained the project application report of Xing Xing which contains details of the MTO and OCU production facilities (such as capacity, production mix and annual operating hours). We noted that OCU production facility’s production capacity represented approximately 15% of MTO technology-based production facility. As such, we consider the 10% increase in the estimated purchase unit for the XX CCT for each of the three years ending 31 December 2020 (from the XX Calculation) as compared to the annualized purchase unit for the XX CCT for the year ended 31 December 2017 (the “**XX Unit Increase**”) to be acceptable.

We also noted from the XX Calculation that the unit price of high pressure steam for each of the three years ending 31 December 2020 was the same as that for the ten months ended 31 October 2017. As advised by the Directors, such estimation was arrived taking into account of the market price of coal (being the major fuel for generating steam). For our due diligence purpose, we reviewed the

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latest Bohai-rim Steam-Coal Price Index (“**BSPI**”) as published by 秦皇島煤炭網 (Qinhuangdao Coal Website*) (<http://www.cqcoal.com>) and latest thermal coal price index of the PRC (the “**Coal Index**”) as published by 價格監測中心 under National Development and Reform Commission of the PRC. According to “Notice on the Commissioning Operation of the Bohai Bay Thermal Coal Price Index” (《關於開展環渤海動力煤價格指數試運行工作的通知》), BSPI is authorized and guided by National Development and Reform Committee. It is periodically published by Qinhuangdao Seaborne Coal Market Co., Ltd. and is an index system which reflects the free on board price and price volatility of Bohai Bay thermal coal. We noted that the latest BSPI and the Coal Index were relatively stable during 2017 (“**Our Findings on Coal Price**”). Accordingly, we are of the view that estimated unit price of XX CCT for each of the three years ending 31 December 2020, being the same as the average unit price for the ten months ended 31 October 2017, to be reasonable.

As for the 5% buffer, taking into account that (i) the OCU production facility’s production capacity represented approximately 15% of MTO technology-based production facility, the XX Unit Increase of 10% from the XX Calculation is a relatively prudent estimation of the increase in unit demand; and (ii) the OCU production facility was not operated by Xing Xing before 2018, the buffer could cover circumstances unforeseen by the Directors, we consider the buffer of 5% to be acceptable.

In light of the above factors, we consider that the XX Caps are fair and reasonable.

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ii. SC CCT

Set out below are (i) the historical annual caps for the three years ending 31 December 2018; (ii) the historical transaction amount for the year ended 31 December 2016, the ten months ended 31 October 2017 and the year ended 31 December 2017; and (iii) the annual caps for the three years ending 31 December 2020 for the SC CCT summarised in accordance with relevant figures in (a) the announcement of the Company dated 23 January 2018 in relation to the SC CCT and SNM CCT; and (b) the Board Letter:

	For the year ended 31 December 2016 <i>RMB' million</i>	For the year ended 31 December 2017 <i>RMB' million</i>	For the year ending 31 December 2018 <i>RMB' million</i>
Historical annual caps	86.9	86.9	86.9
Historical transaction amount	30.8	71 <i>(Note 1)</i> 84.7 <i>(Note 2)</i>	N/A
Utilisation rate	35.44%	97.47% <i>(Note 2)</i>	N/A
		For the year ending 31 December 2018 <i>(Note 3)</i> <i>RMB' million</i>	For the year ending 31 December 2019 <i>RMB' million</i>
		For the year ending 31 December 2020 <i>RMB' million</i>	
Proposed annual caps (the “SC Cap(s)”)	118	123	128

Notes:

1. For the ten months ended 31 October 2017
2. For the year ended 31 December 2017
3. For the period between 23 January 2018 and 31 December 2018

As advised by the Directors, in arriving at the SC Caps, the Directors considered factors set out under the section headed “BASIS OF THE ANNUAL CAPS” of the Board Letter.

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To assess the fairness and reasonableness of the SC Caps, we have obtained and reviewed the calculation of the SC Caps (the “**SC Calculation**”). We noted from the SC Calculation the (i) average unit price and purchase amount for the SC CCT for the ten months ended 31 October 2017, being the latest available information to the Directors when determining the SC Caps; and (ii) the estimated unit price and purchase unit for the SC CCT for each of the three years ending 31 December 2020.

We noted from the SC Calculation that the unit prices of steam for each of the three years ending 31 December 2020 are the same as those for the ten months ended 31 October 2017. As advised by the Directors, such estimation was arrived taking into account of the market price of coal (being the major fuel for the production of steam). Having considered Our Findings on Coal Price as mentioned above, we are of the view that the estimation of unit prices of steam, which are the same as those for historical unit prices, to be acceptable.

According to the above table, (i) the utilization rate of the historical annual cap for the year ended 31 December 2017 was approximately 98.04% based on the annualized historical transaction amount for the year ended 31 December 2017 of approximately RMB85.2 million (i.e. RMB71 million/10 x 12 = RMB85.2 million) or approximately 97.47% based on actual historical amount; and (ii) the annualized historical transaction amount for the year ended 31 December 2017 represents an increase of approximately 176.62% as compared to historical transaction amount for the year ended 31 December 2016. The SC Cap for the year ending 31 December 2018 represents an increase of approximately 38% (the “**SC 2018 Increase**”) as compared to the annualized historical transaction amount for the year ended 31 December 2017; while the SC Caps for each of the two years ending 31 December 2020 respectively represents an increase of approximately 4% (the “**SC 2019 Increase**”/“**SC 2020 Increase**”) as compared to the respective previous years.

With reference to the Board Letter, the expected completion of production process improvement measures in the second quarter 2018 for the 5th Phases EO/EG production facilities will increase the production efficiency for such facilities as a result of the fine-tuning of the production processes. Hence, the total output of the 5th Phase EO/EG production facilities will increase by more than 20% on a yearly basis and the Group expected such 20% increment of output will require an additional input of steam by approximately 120,000MT on a yearly basis. In addition, we noted from the announcement (the “**October Announcement**”) of the Company dated 9 October 2017 in relation to a placing of new shares under general mandate. According to the October Announcement, the Company intended to utilise approximately RMB160 million of net proceeds from the placing for construction of a polypropylene production facility. As advised by the Directors, the polypropylene production facility (completion expected to be in second quarter of 2018) will be part of Sanjiang Chemical production facilities and is expected to increase the Group’s demand for steam by approximately 60,000MT on a yearly basis. As such, the Directors expected the SC 2018 Increase

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would be mainly attributable to increase in production efficiency as a result of the improvement in production efficiency of the 5th Phases EO/EG production facilities and the addition of the polypropylene production facility.

For our due diligence purpose, we discussed with the management of Sanjiang Chemical, who has more than 10 years of experience in the industry, in relation to the said increase in Sanjiang Chemical's steam demand. We noted from the management of Sanjiang Chemical (i) the details of production process improvement measures of the 5th Phases EO/EG production facilities (such as how the measures will increase the output and steam demand of the facilities); (ii) the details of the polypropylene production facility (such as the scale of the construction project and its progress; and its brief production process); and (iii) the basis of the expected increase in steam demand (120,000MT annually for the 5th Phases EO/EG production facilities and 60,000MT annually for the polypropylene production facility). During our discussion with the management, we have not identified any major factor which caused us to doubt the fairness and reasonableness of the expected increase in steam demand.

The said factors would in aggregate increase the Group's demand for steam by approximately 180,000MT in 2018, representing approximately 38% of the quantity of low and medium pressure steam purchased by Sanjiang Chemical from Jiahua Energy Chemical Co for the year ended 31 December 2017 of approximately 474,800MT. Such increase is consistent with the SC 2018 Increase. As such, we consider that the SC 2018 Increase to be justifiable.

With reference to the annual report of the Company for the year ended 31 December 2016, the management of the Group always looked for ways to improve energy conservation and resource utilization rate as the management of the Group believed improvement of energy conservation or resource utilization rate could lead to the increase in production efficiency and in turn the increase in gross profit margin. As advised by the Directors, it is the Group's long-term on-going measure to fine-tune the structure of the pipelines with the intention of increasing the production efficiency. Having considered the above factors, we consider the SC 2019 Increase and SC 2020 Increase to be justifiable.

In light of the above factors, we consider that the SC Caps are fair and reasonable.

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iii. SNM CCT

Set out below are (i) the historical annual caps for the three years ending 31 December 2018; (ii) the historical transaction amount for the year ended 31 December 2016, the ten months ended 31 October 2017 and the year ended 31 December 2017; and (iii) the annual caps for the three years ending 31 December 2020 for the SNM CCT summarised in accordance with relevant figures in (a) the announcement of the Company dated 23 January 2018 in relation to the SC CCT and SNM CCT; and (b) the Board Letter:

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ending 31 December 2018
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Historical annual caps	127.8	127.8	127.8
Historical transaction amount	89	94 <i>(Note 1)</i> 108.7 <i>(Note 2)</i>	N/A
Utilisation rate	69.64%	85.05% <i>(Note 2)</i>	N/A
	For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
	<i>(Note 3)</i> <i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Proposed annual caps (the “SNM Cap(s)”)	90	96	99

Notes:

1. For the ten months ended 31 October 2017
2. For the year ended 31 December 2017
3. For the period between 23 January 2018 and 31 December 2018

As advised by the Directors, in arriving at the SNM Caps, the Directors considered factors set out under the section headed “BASIS OF THE ANNUAL CAPS” of the Board Letter.

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To assess the fairness and reasonableness of the SNM Caps, we have obtained and reviewed the calculation of the SNM Caps (the “**SNM Calculation**”). We noted from the SNM Calculation the (i) average unit price and purchase amount for the SNM CCT for the ten months ended 31 October 2017, being the latest available information to the Directors when determining the SNM Caps; and (ii) the estimated unit price and purchase unit for the SNM CCT for each of the three years ending 31 December 2020.

We noted from the SNM Calculation that the unit prices of steam for each of the three years ending 31 December 2020 are the same as those for the ten months ended 31 October 2017. As advised by the Directors, such estimation was arrived taking into account of the market price of coal (being the major fuel for the production of steam). In light of Our Findings on Coal Price as mentioned in the section above, we are of the view that the estimation of unit prices of steam, which are the same as those for historical unit prices, to be reasonable.

According to the above table, (i) the utilization rate of the historical annual cap for the year ended 31 December 2017 is approximately 88.26% based on the annualized historical transaction amount for the year ended 31 December 2017 of approximately RMB112.8 million (i.e. RMB94 million/10 x 12 = RMB112.8 million) or approximately 85.05% based on the actual historical transaction amount; and (ii) the annualized historical transaction amount for the year ended 31 December 2017 represents an increase of approximately 26.74% as compared to the year ended 31 December 2016 (the “**SNM 2017 Increase**”). The SNM Cap for the year ending 31 December 2018 represents a decrease of approximately 20% as compared to the annualized historical transaction amount for the year ended 31 December 2017 (the “**SNM 2018 Decrease**”); while the SNM Caps represent an increase of approximately 7% (the “**SNM 2019 Increase**”) and 3% (the “**SNM 2020 Increase**”) for each of the two years ending 31 December 2020 as compared to the respective previous years.

With reference to the Board Letter, based on the latest catalyst changeout plan, the steam usage requirement of Sanjiang Chemical would increase when comparing with the historical annual cap in 2018 while the steam usage requirement of Sanjiang New Material would decrease by the similar increment of Sanjiang Chemical’s steam usage amount when comparing with the historical annual cap in 2018. As advised by the Directors, as the product mixes of Sanjiang Chemical and Sanjiang New Material are similar, production processes for certain products can be operated by both Sanjiang Chemical and Sanjiang New Material (therefore Sanjiang Chemical and Sanjiang New Material both require the same types of steam for use in production process). For our due diligence purpose, we obtained sales information of Sanjiang Chemical and Sanjiang New Material for the year ended 31 December 2017. We noted from the above information that Sanjiang Chemical (i) had broader product mix than Sanjiang New Material; and (ii) was able to provide similar products as provided by Sanjiang New Material. Taking into account the aforesaid capacity improvement of Sanjiang Chemical, it is the Group’s business decision to utilise more of Sanjiang Chemical’s production

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facilities. In this regard, we noted from the SC Calculation and SNM Calculation that the increase in purchase unit of Sanjiang Chemical in 2018 is similar to the decrease in purchase unit of Sanjiang New Material in 2018. Having considered (i) that it is the Group's business decision to formulate its production plan and to decide on which production facilities to utilize; (ii) the aforementioned reason for the SC 2018 Increase; and (iii) the SC 2018 Increase being justifiable, we consider the SNM 2018 Decrease to be justifiable.

Considering the Group's effort in improving its production efficiency as mentioned above and the SNM 2017 Increase, we consider the SNM 2019 Increase and SNM 2020 Increase to be justifiable.

In light of the above factors, we consider that the SNM Caps are fair and reasonable.

Shareholders should note that as the Annual Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2020, and they do not represent forecasts of cost to be incurred from the Renewed Steam Supply Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Renewed Steam Supply Transactions will correspond with the Annual Caps.

4. Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Renewed Steam Supply Transactions must be restricted by their respective Annual Caps; (ii) the terms of the Renewed Steam Supply Transactions (including their respective Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Renewed Steam Supply Transactions must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Renewed Steam Supply Transactions (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded their respective Annual Caps. In the event that the total amounts of the Renewed Steam Supply Transactions are anticipated to exceed their respective Annual Caps, or that there is any proposed material amendment to the terms of the Renewed Steam Supply Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Renewed Steam Supply Transactions and thus the interest of the Independent Shareholders would be safeguarded.

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RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Renewed Steam Supply Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Renewed Steam Supply Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Renewed Steam Supply Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

* *For identification purposes only*

1. DIRECTORS' INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, 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	Interests in controlled corporation	Long	498,451,000 ordinary (<i>Note</i>)	41.89%
	Beneficial owner	Long	990,000 ordinary (<i>Note</i>)	0.08%
Ms. Han	Interest of spouse	Long	499,441,000 ordinary (<i>Note</i>)	41.97%

Note: These Shares were held by 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	8,473	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 and short positions in the shares, underlying shares and debentures of the Company or any 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 for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, 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 2017, 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, save as the following agreements, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement was subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group:
- (i) the port loading and service agreement entered into between Sanjiang Chemical and 浙江乍浦美福碼頭倉儲有限公司 (Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.*) (“**Mei Fu Port**”) dated 10 April 2015 as disclosed in the announcements of the Company dated 27 April 2015, 11 November 2015 and 11 December 2016, whereby Mei Fu Port is a subsidiary of Jiahua Energy Chemical Co which is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;
 - (ii) the port and loading service agreement entered into between Xing Xing and Mei Fu Port dated 10 April 2015 as disclosed in the announcements of the Company dated 27 April 2015, 11 November 2015 and 11 December 2016, whereby Mei Fu Port is a subsidiary of Jiahua Energy Chemical Co which is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han, while Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;
 - (iii) the methanol agency agreement entered into between Sanjiang Chemical and Xing Xing dated 1 September 2015 as disclosed in the announcement of the Company dated 2 September 2015, whereby Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;

- (iv) the ethylene supply agreement entered into between Xing Xing, Sanjiang Chemical and 浙江三江化工新材料有限公司(Zhejiang Sanjiang New Material Co., Ltd.*) (“**Sanjiang New Material**”) dated 1 September 2015 as disclosed in the circular of the Company dated 22 October 2015 (the “**2015 October Circular**”), whereby Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;
- (v) the nitrogen supply agreement entered into between Sanjiang Chemical and Xing Xing dated 1 September 2015 as disclosed in the 2015 October Circular, whereby Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;
- (vi) the C-4 purchase agreement entered into between Xing Xing and Mei Fu Petrochemical dated 1 September 2015 as disclosed in the 2015 October Circular, whereby Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;
- (vii) the low pressure steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the circular of the Company dated 16 March 2016 (the “**2016 March Circular**”), whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;
- (viii) the low pressure steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;
- (ix) the medium pressure steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;
- (x) the medium pressure steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;

- (xi) the low pressure steam supply agreement entered into between Sanjiang Chemical, Sanjiang New Material and 嘉興興港熱網有限公司 (Jiaying Xinggang Rewang Co., Ltd.*) dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiaying Xinggang Rewang Co., Ltd is indirectly owned by Mr. Guan and Ms. Han as to approximately 40%;
- (xii) the water and miscellaneous materials supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;
- (xiii) the water and miscellaneous materials supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;
- (xiv) the desalinated water supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co dated 14 June 2017 as disclosed in the announcement of the Company dated 15 June 2017, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han, while Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;
- (xv) the condensate water purchase agreement entered into between Xing Xing and Jiahua Energy Chemical Co dated 14 June 2017 as disclosed in the announcement of the Company dated 15 June 2017, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han, while Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;
- (xvi) the framework agreement entered into between the Company and 嘉興港區港安工業設備安裝有限公司 (Jiaying Gangqu Gangan Industrial Equipment Installation Co., Ltd*) (“**Gangan Industrial**”) dated 1 August 2017 as disclosed in the announcement of the Company dated 1 August 2017, whereby Gangan Industrial is owned as to 50% by Mr. Guan and as to 50% by 嘉興港區江浩投資發展有限公司 (Jiaying Gangqu Jianghao Investment Development Company Limited*) (“**Jianghao Investment**”), which is owned by Mr. Guan and Ms. Han as to 80% and 20% respectively;

- (xvii) the mixed C-4 purchase agreement entered into between Sanjiang Chemical and Xing Xing dated 10 July 2017 (as amended by the supplemental purchase agreement dated 9 August 2017) as disclosed in the Company's circular dated 11 August 2017, whereby Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;
- (xviii) the management agreement entered into between the Company, Capitol International and Grand Novel dated 6 November 2017 as disclosed in the Company's announcement dated 6 November 2017, whereby Grand Novel is owned as to 100% by Mr. Guan;
- (xix) the fatty alcohol supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 1 January 2018 as disclosed in the announcement of the Company dated 1 January 2018, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;
- (xx) the condensate water purchase agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 1 January 2018 as disclosed in the announcement of the Company dated 1 January 2018, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;
- (xxi) the desalinated water and miscellaneous materials supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co dated 24 January 2018 as disclosed in the announcement of the Company dated 24 January 2018, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han, while Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;
- (xxii) the condensate water purchase agreement entered into between Xing Xing and Jiahua Energy Chemical Co dated 24 January 2018 as disclosed in the announcement of the Company dated 24 January 2018, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han, while Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and Independent Third Parties as to approximately 77.5%, 9.5% and 13% respectively;
- (xxiii) the desalinated water and miscellaneous materials supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 24 January 2018 as disclosed in the announcement of the Company dated 24 January 2018, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han;

(xxiv) the desalinated water and miscellaneous materials supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co dated 24 January 2018 as disclosed in the announcement of the Company dated 24 January 2018, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han; and

(xxv) the oxygen gas supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 31 March 2018 as disclosed in the announcement of the Company dated 31 March 2018, whereby Jiahua Energy Chemical Co is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han.

(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.

2. 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.

3. 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 2017, being the date to which the latest published audited financial statements of the Group were made up.

4. 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.

5. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group within two years immediately preceding the date of this Circular:

- the sale and purchase agreement dated 17 June 2016 (as amended by the supplemental sale and purchase agreement dated 11 August 2016) entered into between Sanjiang Chemical and Capitol International as vendors and Sure Capital and Jianghao Investment as purchasers, in respect of the disposal of 51%

equity interest in Mei Fu Petrochemical, as disclosed in the Company's announcement dated 17 June 2016, for an aggregate consideration of RMB306,000,000;

- the loan and guarantee agreement dated 17 June 2016 (as amended by the supplemental loan and guarantee agreement dated 11 August 2016) entered into between the Company and Mei Fu Petrochemical, in respect of (i) providing a loan to Mei Fu Petrochemical and (ii) guaranteeing certain repayment obligations of Mei Fu Petrochemical for a term of three years after the completion of the disposal of Mei Fu Petrochemical, as disclosed in the Company's announcement dated 17 June 2016; and
- the acquisition agreement dated 15 December 2017 entered into between Sanjiang Chemical as purchaser and Jiahua as vendor, in respect of the purchase of 2.5% equity interest in Xing Xing for an aggregate consideration of RMB20,000,000, as disclosed in the Company's announcement dated 15 December 2017.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was or is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was or is known to the Directors to be pending or threatened by or against any members of the Group.

7. QUALIFICATION AND CONSENT OF EXPERT

Gram Capital is a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. Gram Capital has given and has not withdrawn its written consent to the issue of this Circular with the reference to its name and its letter in the form and context in which they respectively appear.

As at the Latest Practicable Date, Gram Capital 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 shares in any member of the Group.

As at the Latest Practicable Date, Gram Capital did not have any interest, direct or indirect, in any assets which since 31 December 2017, the date to which the latest published audited financial statements of the Group were made up, have 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.

8. GENERAL

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

- (b) The head office and principal place of business of the Company in Hong Kong is located at Room 1702, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong.
- (c) The company secretary of the Company is Mr. Yip Ngai Hang, who is also the financial controller of the Group. Mr. Yip is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of the Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999. He joined the Group in 2010.
- (d) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The English text of this Circular prevails over its Chinese translation in the case of discrepancy.

9. 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 1702, 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 Renewed Steam Supply Agreements;
- (b) the material contracts referred to in the paragraph headed "5. Material contracts" in this appendix;
- (c) 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;
- (d) the letter from Gram Capital 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 Gram Capital" in this Circular;
- (e) the written consent referred to in the paragraph headed "7. Qualification and consent of expert" in this appendix; and
- (f) this Circular.



三江化工

SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Sanjiang Fine Chemicals Company Limited (“**Company**”) will be held at 20/F., OfficePlus@Sheung Wan, 93–103 Wing Lok Street, Sheung Wan, Hong Kong on 21 May 2018 at 10:30 a.m. (or, if later, immediately following the conclusion of the annual general meeting of the Company convened pursuant to the notice of the Company dated 19 April 2018 and to be held at 10:00 a.m. at the same location and on the same date as the EGM) for the purpose of considering and, if thought fit, with or without amendments, passing the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **“THAT**

- (a) the renewed steam supply agreement dated 1 January 2018 entered into between 浙江嘉化能源化工股份有限公司 (Zhejiang Jiahua Energy Chemical Co., Ltd.*) (“**Jiahua Energy Chemical Co**”) and 浙江興興新能源科技有限公司 (Zhejiang Xing Xing New Energy Technology Co., Ltd.*) for the supply of low and high pressure steam (“**Xing Xing Steam Supply Agreement**”) be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2020 in relation to the transactions contemplated under the Xing Xing Steam Supply Agreement be and is hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorized to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Xing Xing Steam Supply Agreement and the transactions contemplated thereunder.”

NOTICE OF EGM

2. **“THAT**

- (a) the steam supply agreement dated 23 January 2018 entered into between Jiahua Energy Chemical Co and 三江化工有限公司 (Sanjiang Chemical Co. Ltd.*) for the supply of low and medium pressure steam (**“Sanjiang Chemical Steam Supply Agreement”**) be and are hereby approved, confirmed and ratified;
- (b) the annual caps for a period of approximately three years ending 31 December 2020 in relation to the transactions contemplated under the Sanjiang Chemical Steam Supply Agreement be and is hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorized to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Sanjiang Chemical Supply Agreement and the transactions contemplated thereunder.”

3. **“THAT**

- (a) the steam supply agreement dated 23 January 2018 entered into between Jiahua Energy Chemical Co and 浙江三江化工新材料有限公司 (Zhejiang Sanjiang New Material Co., Ltd.*) for the supply of low and medium pressure steam (**“Sanjiang New Material Steam Supply Agreement”**) be and are hereby approved, confirmed and ratified;
- (b) the annual caps for a period of approximately three years ending 31 December 2020 in relation to the transactions contemplated under the Sanjiang New Material Steam Supply Agreement be and is hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorized to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Sanjiang New Material Steam Supply Agreement and the transactions contemplated thereunder.”

Yours faithfully,
For and on behalf of the Board of
China Sanjiang Fine Chemicals Company Limited
Guan Jianzhong
Chairman and executive Director

Hong Kong, 19 April 2018

NOTICE OF EGM

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

Principal place of business in Hong Kong:
Room 1702, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the articles of the Company, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time of the above meeting or any adjourned meeting.
3. 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.
4. 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.

As at the date hereof, the Board comprises the following Directors:

Executive Directors:
Mr. GUAN Jianzhong (*Chairman*)
Ms. HAN Jianhong
Mr. HAN Jianping
Mr. RAO Huotao

Independent non-executive Directors:
Mr. SHEN Kaijun
Ms. PEI Yu
Mr. KONG Liang