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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
(1) STEAM SUPPLY AGREEMENTS
(2) SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT
(3) PORT AND STORAGE SERVICES AGREEMENTS
AND
ADOPTION OF SHARE OPTION SCHEME
AND
NOTICE OF EGM

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



Titan Financial Services Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 7 to 40 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 41 to 42 of this circular. A letter from Titan Financial Services to the Independent Board Committee and the Independent Shareholders is set out on pages 43 to 89 of this circular.

A notice convening the EGM to be 24/F, Office Plus @ Wan Chai, 303 Hennessy Road, Wan Chai, Hong Kong at 10:30 a.m. on Monday, 21 December 2020 is set out on pages EGM-1 to EGM-7 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 54, 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.

3 December 2020

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DEFINITIONS

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

“Adoption Date”	the day on which the Share Option Scheme is adopted by the Shareholders at the EGM
“Announcements”	the Continuing Connected Transactions Announcement and the Share Option Scheme Announcement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	board of Directors of the Company
“Company”	China Sanjiang Fine Chemicals Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions Announcement”	the announcement of the Company dated 12 November 2020 in relation to the entering into of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things (i) the entering into of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements; (ii) the proposed annual caps for the three years ending 31 December 2023 for the transactions contemplated under each of the Steam Supply Agreements, each of the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement by the Independent Shareholders; and (iii) the adoption of the Share Option Scheme by the Shareholders
“Group”	the Company and its subsidiaries, from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee, comprising all independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements

DEFINITIONS

“Independent Shareholders”	Shareholders who are not involved or interested in the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements (i.e. Shareholders other than Mr. Guan and Ms. Han and their respective associates)
“Jiahua”	浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), a joint stock company established in the PRC with limited liability on 15 March 2000 and a company which is ultimately controlled by Mr. Guan and Ms. Han
“Jiahua Energy Chemical Co.”	浙江嘉化能源化工股份有限公司 (Zhejiang Jiahua Energy Chemical Co. Ltd.*) (formerly known as 浙江嘉化工業園投資發展有限公司 (Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.*)), a company established in the PRC with limited liability on 20 January 2001 and currently listed on the Shanghai Stock Exchange (stock code: 600273) and a non-wholly owned subsidiary of Jiahua
“Latest Practicable Date”	30 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Mei Fu Port”	浙江乍浦美福碼頭倉儲有限公司 (Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd*), a limited liability company incorporated in the PRC and is a wholly-owned subsidiary of Jiahua Energy Chemical Co.
“MPa”	a metric unit of pressure
“Mr. Guan”	Mr. Guan Jianzhong, a controlling Shareholder of the Company and the spouse of Ms. Han
“Ms. Han”	Ms. Han Jianhong, an executive Director and the spouse of Mr. Guan
“MT”	metric tonne(s)
“Original Port and Storage Services Agreement(s)”	collectively, the Port and Storage Services Agreements entered into between Mei Fu Port with each of Sanjiang Chemical, Sanjiang New Material and Xing Xing dated 9 January 2018 and with Sanjiang Haojia dated 8 May 2019, each for a period ending 31 December 2020

DEFINITIONS

- “Original Sanjiang Chemical Steam Supply Agreement” the steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 23 January 2018 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (0.8MPa and 1.3MPa) and medium pressure steam (3.4MPa) to Sanjiang Chemical for the three years ending 31 December 2020, as approved in the extraordinary general meeting of the Company dated 21 May 2018
- “Original Sanjiang Haojia Steam Supply Agreement” the steam supply agreement entered into between Sanjiang Haojia and Jiahua Energy Chemical Co. dated 8 May 2019 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam to Sanjiang Haojia for the period ending 31 December 2020
- “Original Sanjiang New Material Steam Supply Agreement” the steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co. dated 23 January 2018 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2020, as approved in the extraordinary general meeting of the Company dated 21 May 2018
- “Original Steam Supply Agreements” collectively, the Original Xing Xing Steam Supply Agreement, Original Sanjiang Chemical Steam Supply Agreement, Original Sanjiang New Material Steam Supply Agreement and the Original Sanjiang Haojia Steam Supply Agreement
- “Original Xing Xing Steam Supply Agreement” the steam supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co. dated 1 January 2018 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (1.3MPa) and high pressure steam (4.6MPa) to Xing Xing for the three years ending 31 December 2020, as approved in the extraordinary general meeting of the Company dated 21 May 2018
- “Port and Storage Services” the provision of port unloading/loading, storage, customs reporting, inspection and land transportation services for various chemical products i.e. ethane, ethylene, propane, propylene, liquefied petroleum gas, methanol, naphtha and so on as contemplated under the Port and Storage Services Agreements

DEFINITIONS

“Port and Storage Services Agreements”	collectively, the Xing Xing Port and Storage Services Agreement, Sanjiang Chemical Port and Storage Services Agreement, Sanjiang New Material Port and Storage Services Agreement, Sanjiang Haojia Port and Storage Services Agreement and Sanjiang Chemical and Jiahua Energy Storage Services Agreement
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau and Taiwan
“RMB”	the 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 and Jiahua Energy Storage Services Agreement”	the port and storage service agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023
“Sanjiang Chemical Ethylene Sales Agreement”	the ethylene sales agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Sanjiang Chemical has agreed to supply ethylene to Jiahua Energy Chemical Co. for a period of three years ending 31 December 2023
“Sanjiang Chemical Port and Storage Services Agreement”	the port and storage service agreement entered into between Sanjiang Chemical and Mei Fu Port dated 12 November 2020 pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023
“Sanjiang Chemical Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for the three years ending 31 December 2023
“Sanjiang Haojia”	三江浩嘉高分子材料科技有限公司 (Sanjiang Haojia High Polymer Material Technology Co., Ltd*), a company established in the PRC with limited liability on 28 December 2018, which is an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Sanjiang Haojia Port and Storage Services Agreement”	the port and storage service agreement entered into between Sanjiang Haojia and Mei Fu Port dated 12 November 2020 pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Haojia for a period of three years ending 31 December 2023
“Sanjiang Haojia Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang Haojia and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (0.8MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023
“Sanjiang New Material”	浙江三江化工新材料有限公司 (Zhejiang Sanjiang New Material Co., Ltd*), a company established in the PRC with limited liability on 23 December 2011, which is an indirect wholly-owned subsidiary of the Company
“Sanjiang New Material Port and Storage Services Agreement”	the port and storage service agreement entered into between Sanjiang New Material and Mei Fu Port dated 12 November 2020 pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang New Material for a period of three years ending 31 December 2023
“Sanjiang New Material Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	shares in the Company
“Share Option Scheme Announcement”	the announcement of the Company dated 12 November 2020 in respect of the adoption of the Share Option Scheme
“Share Option Scheme”	the share option scheme proposed to be adopted by the Company at the EGM, a summary of the principal terms of which is set out in Appendix I to this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Steam Supply Agreements”	collectively, the Xing Xing Steam Supply Agreement, Sanjiang Chemical Steam Supply Agreement, Sanjiang New Material Steam Supply Agreement and the Sanjiang Haojia Steam Supply Agreement
“Titan Financial Services” or “Independent Financial Adviser”	Titan Financial Services Limited, a licensed corporation to carry out type 1 (dealing with securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement
“Xing Xing”	浙江興興新能源科技有限公司 (Zhejiang Xingxing New Energy Technology Co., Ltd.*), a limited liability company established in the PRC and a non-wholly owned subsidiary of the Company, which is owned as to 87% by Sanjiang Chemical and as to 6%, 3%, 2% and 2% respectively by each of Mr. Guo Jinzong* (郭勁松), Mr. Guo Mingliang* (郭明良), Mr. Guo Mingdong* (郭明東) and Mr. Xin Zhangwei* (殷張偉), all of whom are third parties independent of the Company and its connected person
“Xing Xing Port and Storage Services Agreement”	the port and storage service agreement entered into between Xing Xing and Mei Fu Port dated 12 November 2020 pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Xing Xing for a period of three years ending 31 December 2023
“Xing Xing Steam Supply Agreement”	the steam supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023
“%”	per cent

* *In this Circular, the English names of the PRC entities and PRC individuals 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:

Ms. HAN Jianhong
Mr. HAN Jianping
Mr. RAO Huotao

Independent non-executive Directors:

Mr. SHEN Kaijun
Ms. PEI Yu
Mr. KONG Liang

Registered Office:

Cricket Square, Hutchins Drive
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Grand Cayman, KY1-1111
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*Head Office and Principal Place
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Room 1702, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan
Hong Kong

3 December 2020

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
(1) STEAM SUPPLY AGREEMENTS
(2) SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT
(3) PORT AND STORAGE SERVICES AGREEMENTS
AND
ADOPTION OF SHARE OPTION SCHEME
AND
NOTICE OF EGM**

LETTER FROM THE BOARD

INTRODUCTION

We refer to the Announcements. As disclosed in the Continuing Connected Transactions Announcement, on 12 November 2020 (after trading hours):

1. Xing Xing, an indirectly non wholly-owned subsidiary of the Company, entered into the Xing Xing Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023, to renew the Original Xing Xing Steam Supply Agreement which is due to expire on 31 December 2020;
2. Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company, entered into the Sanjiang Chemical Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023, to renew the Original Sanjiang Chemical Steam Supply Agreement which is due to expire on 31 December 2020;
3. Sanjiang New Material, an indirectly wholly-owned subsidiary of the Company, entered into the Sanjiang New Material Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 1.3MPa) and medium pressure steam (i.e. 3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023, to renew the Original Sanjiang New Material Steam Supply Agreement which is due to expire on 31 December 2020;
4. Sanjiang Haojia, an indirectly wholly-owned subsidiary of the Company, entered into the Sanjiang Haojia Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023, to renew the Original Sanjiang Haojia Steam Supply Agreement which is due to expire on 31 December 2020;
5. Sanjiang Chemical entered into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co. pursuant to which Sanjiang Chemical has agreed to supply ethylene to Jiahua Energy Chemical Co. for a period of three years ending 31 December 2023;
6. Mei Fu Port entered into the Xing Xing Port and Storage Services Agreement with Xing Xing pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Xing Xing for a period of three years ending 31 December 2023, to renew the Original Port and Storage Services Agreement between Xing Xing and Mei Fu Port which is due to expire on 31 December 2020;

LETTER FROM THE BOARD

7. Mei Fu Port entered into the Sanjiang Chemical Port and Storage Services Agreement with Sanjiang Chemical pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023, to renew the Original Port and Storage Services Agreements between Sanjiang Chemical and Mei Fu Port which is due to expire on 31 December 2020;
8. Mei Fu Port entered into the Sanjiang New Material Port and Storage Services Agreement with Sanjiang New Material pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang New Material for a period of three years ending 31 December 2023, to renew the Original Port and Storage Services Agreements between Sanjiang New Material and Mei Fu Port which is due to expire on 31 December 2020;
9. Mei Fu Port entered into the Port and Storage Services Agreement with Sanjiang Haojia pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Haojia for a period of three years ending 31 December 2023, to renew the Original Port and Storage Services Agreements between Sanjiang Haojia and Mei Fu Port which is due to expire on 31 December 2020; and
10. Sanjiang Chemical entered into the Sanjiang Chemical and Jiahua Energy Storage Services Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

As disclosed in the Share Option Scheme Announcement, the Board proposes the adoption of the Share Option Scheme for the approval by the Shareholders at the EGM. The adoption of the Share Option Scheme will enable the Group to grant options to selected participants as incentives of rewards for their contribution to the Group. The Board is of the view that the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group.

The purpose of this circular is to provide you with (i) further details of each of the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and Port and Storage Services Agreements and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the advice from Titan Financial Services to the Independent Board Committee and the Independent Shareholders; (iv) further details of the Share Option Scheme; (v) a notice of the EGM and the form of proxy; and (vi) other information required under the Listing Rules.

LETTER FROM THE BOARD

The principal terms of each of the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and Port and Storage Services Agreements are set out as follows.

(1) THE STEAM SUPPLY AGREEMENTS

(I) Xing Xing Steam Supply Agreement

Date

12 November 2020

Parties

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

Subject matter

Pursuant to the Xing Xing Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023.

Term

The Xing Xing Steam Supply Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

Pursuant to the Xing Xing Steam Supply Agreement, the purchase price for high pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Xing Xing in respect of purchases under the Xing Xing Steam Supply Agreement shall be tallied on the end of each calendar month and, shall be payable by Xing Xing on or before the end of the following month.

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

LETTER FROM THE BOARD

Determination of the pricing policy of 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 no less favourable than the price of supplying high pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:

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

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of 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 Shareholders, taking into account that the above procedures will make reference to prices Jiahua Energy Chemical Co. offers

LETTER FROM THE BOARD

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.

(II) Sanjiang Chemical Steam Supply Agreement

Date

12 November 2020

Parties

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

Subject matter

Pursuant to the Sanjiang Chemical Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023.

Term

The Sanjiang Chemical Steam Supply Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

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

LETTER FROM THE BOARD

Determination of the pricing policy of steam

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

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

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of low, medium and high pressure steam as described above can ensure that the transactions contemplated under Sanjiang Chemical Steam Supply Agreement will be conducted on normal commercial

LETTER FROM THE BOARD

terms and not prejudicial to the interests of the Company and its 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.

(III) Sanjiang New Material Steam Supply Agreement

Date

12 November 2020

Parties

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

Subject matter

Pursuant to the Sanjiang New Material Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 1.3MPa) and medium pressure steam (i.e. 3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023.

Term

The Sanjiang New Material Steam Supply Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

Pursuant to the Sanjiang New Material Steam Supply Agreement, the purchase price for low and medium pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Sanjiang New Material in respect of purchases under the Sanjiang New Material Steam Supply Agreement shall be tallied on the end of each calendar month and, shall be payable by Sanjiang New Material on or before the end of the following month.

LETTER FROM THE BOARD

Determination of the pricing policy of steam

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

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

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of low and medium pressure steam as described above can ensure that the transactions contemplated under Sanjiang New Material Steam Supply Agreement will be conducted on normal commercial

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terms and not prejudicial to the interests of the Company and its 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.

(IV) Sanjiang Haojia Steam Supply Agreement

Date

12 November 2020

Parties

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

Subject matter

Pursuant to the Sanjiang Haojia Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023.

Term

The Sanjiang Haojia Steam Supply Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

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

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Determination of the pricing policy of steam

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

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low 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 Sanjiang Haojia are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
- (2) in the event that the prices of low pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Haojia 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 Sanjiang Haojia are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang Haojia 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 Sanjiang Haojia 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.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of low pressure steam as described above can ensure that the transactions contemplated under Sanjiang Haojia Steam Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders, taking into account that the above procedures will make reference to prices Jiahua Energy Chemical Co. offers

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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.

Historical Figures, Existing Caps and Annual Proposed Caps

Set out below are the historical figures for each of the two years ended 31 December 2019 and the 8-month period ended 31 August 2020 and the proposed annual caps for each of the three years ending 31 December 2023 in respect of the transactions contemplated under each of the Steam Supply Agreements:

Nature of transaction	Historical amount			Proposed cap amount		
	For the year ended		For the	For the year ending		
	31 December		8-month	31 December		
	2018	2019	period ended	2021	2022	2023
	RMB'000	RMB'000	31 August	RMB'000	RMB'000	RMB'000
			RMB'000			
(i) Purchase of steam by Xing Xing from Jiahua Energy Chemical Co.						
— Historical amount	138,734	172,959	111,526			
— Historical cap	246,300	246,300	246,300			
— Proposed cap				223,400	223,400	223,400
(ii) Purchase of steam by Sanjiang Chemical from Jiahua Energy Chemical Co.						
— Historical amount	117,939	91,973	65,157			
— Historical cap	118,000	123,000	128,000			
— Proposed cap				297,700	765,300	765,300
(iii) Purchase of steam by Sanjiang New Material from Jiahua Energy Chemical Co.						
— Historical amount	88,642	93,195	71,378			
— Historical cap	90,000	96,000	99,000			
— Proposed cap				120,000	120,000	120,000
(iv) Purchase of steam by Sanjiang Haojia from Jiahua Energy Chemical Co.						
— Historical amount	N/A	3,358	1,939			
— Historical cap	N/A	6,000	6,000			
— Proposed cap				6,300	6,300	6,300

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Basis of Annual Caps

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

- (1) the historical amount of purchases made by Xing Xing from Jiahua Energy Chemical Co. for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;
- (2) the expected amount of purchases to be made by Xing Xing from Jiahua Energy Chemical Co. for high pressure steam for the three years ending 31 December 2023; and
- (3) the expected unit price of steam, taking into account the average unit prices of high pressure steam transacted between Xing Xing and Jiahua Energy Chemical Co. for the 8-month period ended 31 August 2020, being the actual figures available to the Company at the time when the Company made the relevant annual cap estimation.

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

- (1) the expected amount of purchases to be made by Sanjiang Chemical from Jiahua Energy Chemical Co. for low, medium and high pressure steam for the period of three years ending 31 December 2023;
- (2) the growth of the production capacities of ethylene oxide (“EO”) and ethylene glycol (“EG”) of Sanjiang Chemical for the period of three years ending 31 December 2023 as a result of the ramp up of the new production facilities with 1,000,000MT output of EO/EG as middlestream level capacity increment and 1,250,000MT output of ethylene as upstream level capacity increment on a yearly basis, which led to an increase in the Group’s demand for steam by approximately 3,100,000MT on a yearly basis for production purposes;
- (3) the expected unit price of steam, taking into account the average unit prices of low, medium and high pressure steam transacted between Sanjiang Chemical with Jiahua Energy Chemical Co. for the 8-month period ended 31 August 2020, being the actual figures available to the Company at the time when the Company made the relevant annual caps estimation;
- (4) the Group’s production plan based on the latest catalyst changeout plan under which the Group uses less ethylene and in the same time uses more steam at the initial stage of the catalyst life cycle; and
- (5) the historical amount of purchases made by Sanjiang Chemical from Jiahua Energy Chemical Co. for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020.

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

- (1) the expected amount of purchases to be made by Sanjiang New Material from Jiahua Energy Chemical Co. for the period of three years ending 31 December 2023;
- (2) the expected unit price of steam, taking into account the average unit prices of low and medium pressure steam transacted between Sanjiang New Material with Jiahua Energy Chemical Co. for the 8-month period ended 31 August 2020, being the actual figures available to the Company at the time when the Company made the relevant annual caps estimation;
- (3) the Group's production plan based on the latest catalyst changeout plan under which the Group uses less ethylene and in the same time uses more steam at the initial stage of the catalyst life cycle; and
- (4) the historical amount of purchases made by Sanjiang New Material from Jiahua Energy Chemical Co. for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020.

The proposed cap for the Sanjiang Haojia Steam Supply Agreement are based on:

- (1) the expected future usage and growth of the production capacities of polypropylene ("PP") of Sanjiang Haojia for the three years ending 31 December 2023;
- (2) the expected amount of purchases to be made by Sanjiang Haojia from Jiahua Energy Chemical Co. for low pressure steam for the three years ending 31 December 2023; and
- (3) the expected unit price of steam, taking into account the average unit prices of low pressure steam transacted between Sanjiang Haojia with Jiahua Energy Chemical Co. for the 8-month period ended 31 August 2020, being the actual figures available to the Company at the time when the Company made the relevant annual caps estimation.

Such projections are assumed solely for determining the annual caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group.

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(2) THE SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT

Date

12 November 2020

Parties

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

Subject matter

Pursuant to the Sanjiang Chemical Ethylene Sales Agreement, Sanjiang Chemical has agreed to supply ethylene to Jiahua Energy Chemical Co. for the three years ending 31 December 2023.

Term

The Sanjiang Chemical Ethylene Sales Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

Pursuant to the Sanjiang Chemical Ethylene Sales Agreement, the selling price for ethylene shall be at a price which is the weighted average of those offered by Sanjiang Chemical to its independent customers for the relevant product of comparable quality during the same month of supply.

In order to ensure that the selling price is no less favourable than the prevailing market price, the Group would compare the selling price offered by Sanjiang Chemical to its independent customers after taking into account the additional transportation costs that may be incurred and analyse such market information, and the unit purchase price ethylene will be agreed after arm's length negotiation with Jiahua Energy Chemical Co. In particular, the Group will seek to employ the following measures:

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Sanjiang Chemical to its independent customers that purchases ethylene from Sanjiang Chemical; and (ii) all selling contracts regarding ethylene of comparable quality entered into between Sanjiang Chemical and other independent customers on a quarterly basis to ascertain the completeness of the calculation as to the weighted average selling prices of ethylene since the selling prices of ethylene payable by Jiahua Energy

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Chemical Co. are agreed to be the weighted average prices of such ethylene of comparable quality offered by Sanjiang Chemical to its independent customers during the same month of supply; and

- (2) in the event that the prices of ethylene that Sanjiang Chemical sells Jiahua Chemical Co. are lower than the weighted average selling prices of such ethylene of comparable quality offered by Sanjiang Chemical to its independent customers (in other words the prices of ethylene that Sanjiang Chemical charges Jiahua Energy Chemical Co. are less favourable than those offered by Sanjiang Chemical to independent customers) during the same month of supply, Sanjiang Chemical will negotiate with Jiahua Energy Chemical Co. to adjust the proposed selling prices of ethylene to prices that are equal to or higher than the weighted average selling prices it offers to those independent customers. If the prices of ethylene Sanjiang Chemical offers to Jiahua Energy Chemical Co. are no less favourable than the weighted average of the selling price it offers to independent customers, the finance department of the Group will arrange for the approval of the prices offered by Sanjiang Chemical by each of the head of the finance department of the Group and the general manager of the Group.

Accordingly, the Board considers that the methods and procedures can ensure that the supply of ethylene will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

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

Historical Figures and Proposed Annual Caps of the Sanjiang Chemical Ethylene Sales Agreement

Historical transactions figures

There are no historical transaction figures available as Sanjiang Chemical did not supply ethylene to Jiahua Energy Chemical Co. for the three years ending 31 December 2020.

Estimated cap and basis of cap

Based on:

- (1) the expected amount of purchases to be made by Jiahua Energy Chemical Co., based on Jiahua Energy Chemical Co.'s production capacity ramp-up plan, from Sanjiang Chemical for ethylene for the three years ending 31 December 2023; and

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- (2) the expected unit price of ethylene, taking into account the simple average prevailing market price of ethylene for the two years and 6-month period ended 30 June 2020 being approximately RMB6,300/MT due to the volatility of ethylene price in nature, being the actual figures available to the Company at the time when the Company made the relevant annual caps estimation;

it is expected that the estimated aggregated annual caps for each of the three years ending 31 December 2023 will be as follows:

	For the year ending 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Annual caps	228,100	850,000	850,000

Such projection is assumed solely for determining the annual caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group.

(3) THE PORT AND STORAGE SERVICES AGREEMENTS

(I) Xing Xing Port and Storage Services Agreement

Date

12 November 2020

Parties

- (1) Mei Fu Port, a connected person of the Company, as service provider; and
- (2) Xing Xing, an indirectly non wholly-owned subsidiary of the Company.

Subject matter

Pursuant to the Xing Xing Port and Storage Services Agreement, Mei Fu Port has agreed to provide the Port and Storage Services to Xing Xing for a period of three years ending 31 December 2023.

Term

The Xing Xing Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

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Consideration

Pursuant to the Xing Xing Port and Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB30 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

In order to ensure that the unit rate per tonne offered by Mei Fu Port is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Mei Fu Port. Currently, the Group also uses other port and storage services provided by other third parties in the same region. Should the other independent port and storage services providers be able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by the Mei Fu Port on similar terms and conditions offered by Mei Fu Port, the Group will then appoint such other port and storage service providers for the provision of port and storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis. Accordingly, the Board considers that the methods and procedures can ensure that the engagement of the Port and Storage Services will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

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(II) Sanjiang Chemical Port and Storage Services Agreement

Date

12 November 2020

Parties

- (1) Mei Fu Port, a connected person of the Company, as service provider; and
- (2) Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company.

Subject matter

Pursuant to the Sanjiang Chemical Port and Storage Services Agreement, Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

Term

The Sanjiang Chemical Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

Pursuant to the Sanjiang Chemical Port and Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB25 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

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In order to ensure that the unit rate per tonne offered by Mei Fu Port is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Mei Fu Port. Currently, the Group also uses other port and storage services provided by other third parties in the same region. Should the other independent port and storage services providers are able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by the Mei Fu Port on similar terms and conditions offered by Mei Fu Port, the Group will then appoint such other port and storage service providers for the provision of port and storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis. Accordingly, the Board considers that the methods and procedures can ensure that the engagement of the Port and Storage Services will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

(III) Sanjiang New Material Port and Storage Services Agreement

Date

12 November 2020

Parties

- (1) Mei Fu Port, a connected person of the Company, as service provider; and
- (2) Sanjiang New Material, an indirectly wholly-owned subsidiary of the Company.

Subject matter

Pursuant to the Sanjiang New Material Port and Storage Services Agreement, Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang New Material for a period of three years ending 31 December 2023.

Term

The Sanjiang New Material Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

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Consideration

Pursuant to the Sanjiang New Material Port and Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB50 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

In order to ensure that the unit rate per tonne offered by Mei Fu Port is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Mei Fu Port. Currently, the Group also uses other port and storage services provided by other third parties in the same region. Should the other independent port and storage services providers are able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by the Mei Fu Port on similar terms and conditions offered by Mei Fu Port, the Group will then appoint such other port and storage service providers for the provision of port and storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis. Accordingly, the Board considers that the methods and procedures can ensure that the engagement of the Port and Storage Services will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

(IV) Sanjiang Haojia Port and Storage Services Agreement

Date

12 November 2020

Parties

- (1) Mei Fu Port, a connected person of the Company, as service provider;
and
- (2) Sanjiang Haojia, an indirectly wholly-owned subsidiary of the Company.

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Subject matter

Pursuant to the Sanjiang Haojia Port and Storage Services Agreement, Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Haojia for a period of three years ending 31 December 2023.

Term

The Sanjiang Haojia Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

Pursuant to the Sanjiang Haojia Port and Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB30 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

In order to ensure that the unit rate per tonne offered by Mei Fu Port is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Mei Fu Port. Currently, the Group also uses other port and storage services provided by other third parties in the same region. Should the other independent port and storage services providers are able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by the Mei Fu Port on similar terms and conditions offered by Mei Fu Port, the Group will then appoint such other port and storage service providers for the provision of port and storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis. Accordingly, the Board considers that the methods and procedures can ensure that the engagement of the Port and Storage Services will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

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(V) Sanjiang Chemical and Jiahua Energy Storage Services Agreement

Date

12 November 2020

Parties

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

Subject matter

Pursuant to the Sanjiang Chemical and Jiahua Energy Storage Services Agreement, Jiahua Energy Chemical Co. has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

Term

The Sanjiang Chemical and Jiahua Energy Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

Pursuant to the Sanjiang Chemical and Jiahua Energy Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be stored and handled at a range between RMB100 per tonne and RMB250 per tonne, depending on the type of goods and level of usage and type of chemical stored, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including the storage fees and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

In order to ensure that the unit rate per tonne offered by Jiahua Energy Chemical Co. is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Jiahua Energy Chemical Co..

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The Group will seek to employ the following measures to ensure that the price of Port and Storage Services offered by Jiahua Energy Chemical Co. to Sanjiang Chemical pursuant to the Sanjiang Chemical and Jiahua Energy Storage Services Agreement will be no less favourable than the price of providing Port and Storage Services of comparable quality under comparable terms and conditions by other independent third party(ies) to Sanjiang Chemical:

- (1) Before the engagement of Jiahua Energy Chemical Co. for the provision of Port and Storage Services, the finance department of the Group will obtain quotations from independent storage service providers that are able to provide storage services of comparable quality under comparable terms and conditions and in the event that the prices of Port and Storage Services that Jiahua Energy Chemical Co. offers to Sanjiang Chemical are higher than the prices set out in the aforesaid quotations from independent storage service providers, the Group will then appoint the other independent storage services providers for the provision of storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other storage services providers on a discretionary basis.
- (2) If the prices of Port and Storage Services that Jiahua Energy Chemical Co. offers to Sanjiang Chemical are no less favourable than the prices offered by independent services providers, the finance department of the Group will arrange for the engagement of Jiahua Energy Chemical Co. for the provision of Port and Storage Services and 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.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing under the Sanjiang Chemical and Jiahua Energy Storage Services Agreement as described above can ensure that the transactions contemplated under the Sanjiang Chemical and Jiahua Energy Storage Services Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

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Historical Transaction Figures, Existing Caps and Proposed Annual Caps

Set out below are the historical figures for each of the two years ended 31 December 2019 and the 8-month period ended 31 August 2020 and the proposed annual caps for each of the three years ending 31 December 2023 in respect of the transactions contemplated under each of the Port and Storage Services Agreements:

Nature of transaction	Historical amount			Proposed cap amount		
	For the year ended		For the	For the year ending		
	31 December	31 December	8-month	31 December	2022	2023
	2018	2019	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(i) Fees paid for Port and Storage Services by Xing Xing to Mei Fu Port						
— Historical amount	52,601	61,210	48,583			
— Historical cap	70,000	70,000	70,000			
— Proposed cap				84,400	84,400	84,400
(ii) Fees paid for Port and Storage Services by Sanjiang Chemical to Mei Fu Port						
— Historical amount	4,625	8,488	6,994			
— Historical cap	5,000	13,000	13,000			
— Proposed cap				77,100	146,000	146,000
(iii) Fees paid for Port and Storage Services by Sanjiang New Material to Mei Fu Port						
— Historical amount	2,968	1,893	2,108			
— Historical cap	3,500	6,000	6,000			
— Proposed cap				8,400	8,400	8,400
(iv) Fees paid for Port and Storage Services by Sanjiang Haojia to Mei Fu Port						
— Historical amount	N/A	996	284			
— Historical cap	N/A	4,000	4,000			
— Proposed cap				5,600	5,600	5,600
(v) Fees paid for Port and Storage Services by Sanjiang Chemical to Jiahua Energy Chemical Co.						
— Historical amount	N/A	N/A	N/A			
— Historical cap	N/A	N/A	N/A			
— Proposed cap				156,000	312,000	312,000

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Basis of Annual Caps

The proposed caps for the Xing Xing Port and Storage Services Agreement are based on:

- (1) the historical amount of fees paid by Xing Xing to Mei Fu Port for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;
- (2) the expected unit fees to be paid by Xing Xing to Mei Fu Port for the three years ending 31 December 2023;
- (3) the expected unit of service to be required by Xing Xing for Port and Storage Services for the three years ending 31 December 2023; and
- (4) the expected market conditions and increase in demand for Port and Storage Services from Mei Fu Port.

The proposed caps for the Sanjiang Chemical Port and Storage Services Agreement are based on:

- (1) the historical amount of fees paid by Sanjiang Chemical to Mei Fu Port for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;
- (2) the growth of the production capacities of EO and EG of Sanjiang Chemical for the period of three years ending 31 December 2023 as a result of the ramp up of the new production facilities with 1,000,000MT output of EO/EG as middlestream level capacity increment and 1,250,000MT output of ethylene as upstream level capacity increment on a yearly basis, which led to an increase in the Group's demand for Port and Storage Services by approximately 2,000,000MT in terms of feedstock procurement on a yearly basis;
- (3) the expected unit fees to be paid by Sanjiang Chemical to Mei Fu Port for the three years ending 31 December 2023;
- (4) the expected unit of service to be required by Sanjiang Chemical for Port and Storage Services for the three years ending 31 December 2023; and
- (5) the expected market conditions and increase in demand for Port and Storage Services from Mei Fu Port.

The proposed caps for the Sanjiang New Material Port and Storage Services Agreement are based on:

- (1) the historical amount of fees paid by Sanjiang New Material to Mei Fu Port for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;

LETTER FROM THE BOARD

- (2) the expected unit fees to be paid by Sanjiang New Material to Mei Fu Port for the three years ending 31 December 2023;
- (3) the expected unit of service to be required by Sanjiang New Material for Port and Storage Services for the three years ending 31 December 2023; and
- (4) the expected market conditions and increase in demand for Port and Storage Services from Mei Fu Port.

The proposed caps for the Sanjiang Haojia Port and Storage Services Agreement are based on:

- (1) the historical amount of fees paid by Sanjiang Haojia to Mei Fu Port for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;
- (2) the expected unit fees to be paid by Sanjiang Haojia to Mei Fu Port for the three years ending 31 December 2023;
- (3) the expected unit of service to be required by Sanjiang Haojia for Port and Storage Services for the three years ending 31 December 2023; and
- (4) the expected market conditions and increase in demand for Port and Storage Services from Mei Fu Port.

The proposed caps for the Sanjiang Chemical and Jiahua Energy Storage Services Agreement are based on:

- (1) the growth of the production capacities of EO and EG of Sanjiang Chemical for the period of three years ending 31 December 2023 as a result of the ramp up of the new production facilities with 1,000,000MT output of EO/EG as middlestream level capacity increment and 1,250,000MT output of ethylene as upstream level capacity increment on a yearly basis, which led to an increase in the Group's demand for Port and Storage Services by approximately 1,300,000MT in terms of low temperature chemical storage requirement on a yearly basis;
- (2) the expected unit fees to be paid by Sanjiang Chemical to Jiahua Energy for the three years ending 31 December 2023;
- (3) the expected unit of service to be required by Sanjiang Chemical for Port and Storage Services for the three years ending 31 December 2023; and
- (4) the expected market conditions and increase in demand for Port and Storage Services from Jiahua Energy Chemical Co..

Such projection is assumed solely for determining the annual caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group.

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The difference in the consideration for the Port and Storage Services among the Port and Storage Services Agreements is mainly due to the following factors:

- (i) the need for different measures to be implemented to handle the different type of goods and chemicals;
- (ii) the difference in the degree of danger for the different type of goods and chemicals which require different level of care; and
- (iii) the difference in container sizes for transporting and storing of such type of goods and chemicals due to local rules and regulations.

INFORMATION ON THE CONNECTED PERSONS

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

Mei Fu Port is a wholly-owned subsidiary of Jiahua Energy Chemical Co. and Mei Fu Port is principally engaged in the provision of port unloading/loading, storage, customs reporting, inspection and land transportation services for various chemical products.

REASONS FOR THE TRANSACTIONS

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

(1) Reasons for entering into the Steam Supply Agreements

Given that Jiahua Energy Chemical Co. is the only company that provides low, medium and high pressure steam in the Zhapu area of Jiaying City, the PRC, which is the same economic development zone where the Group is located, 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-distance pipelines. In particular, as the production base of the Group is situated close to that of Jiahua Energy Chemical Co., the transportation cost of steam from Jiahua Energy Chemical Co. to the Group is 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

LETTER FROM THE BOARD

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 costs. Each of the Steam Supply Agreements is on normal commercial terms given that the pricing and terms are no more favourable for Jiahua Energy Chemical Co. than those given to other independent purchasers. In view of the geographical proximity and to secure a constant and stable supply of low, medium and high pressure steam for production purposes in the future, the Group entered into each of the Steam Supply Agreements.

(2) Reasons for entering into the Sanjiang Chemical Ethylene Sales Agreement

Entering into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co., the arrangement of which is non-exclusive in nature, opens up an option for the Group to sell ethylene to Jiahua Energy Chemical Co. at the price which is no less favourable than the prevailing market price (based on the aforesaid pricing mechanism and internal controls) when the Group has spare capacity in terms of ethylene output. As mentioned above, the geographical proximity between the production base of the Group and that of Jiahua Energy Chemical Co. and the long and well established business relationships between the Group and Jiahua Energy Chemical Co. bring synergies to the parties. In view of the foregoing reasons, Sanjiang Chemical entered into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co.

(3) Reasons for entering into the Port and Storage Services Agreements

The entering into of the Port and Storage Services Agreements enables the Group to have more options in terms of port and storage services accesses and there are internal controls in place to ensure that the terms and rates offered by Mei Fu Port and Jiahua Energy Chemical Co. are no less favourable than those offered by other independent port and storage services providers. In view of the foregoing reasons, the Group entered into the Port and Storage Services Agreements.

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

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

Jiahua Energy Chemical Co. is owned as to approximately 40.86% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. Mei Fu Port is a wholly-owned subsidiary of Jiahua Energy Chemical Co.. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company, Jiahua Energy Chemical Co. and Mei Fu Port are therefore associates of Mr. Guan and Ms. Han and are thus connected persons of the Company and the transactions contemplated under each of the Steam Supply Agreements and the Port and Storage Services Agreements and Sanjiang Chemical Ethylene Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, each of the proposed annual caps under each of the Steam Supply Agreements are aggregated as (i) they were entered into between members of the Group, as purchaser, and a connected person (i.e. Jiahua Energy Chemical Co.), as supplier; and (ii) they are of a similar nature relating to the purchase of steam by members of the Group from the same connected person (i.e. Jiahua Energy Chemical Co.) with similar pricing mechanism.

Pursuant to Rule 14A.81 of the Listing Rules, each of the proposed annual caps under each of the Port and Storage Services Agreements are aggregated as (i) they were entered into between members of the Group, as purchaser, and a connected person (i.e. Jiahua Energy Chemical Co.) and its wholly-owned subsidiary (i.e. Mei Fu Port), as suppliers; and (ii) they are of a similar nature relating to the provision of port and storage services by the same connected person (i.e. Jiahua Energy Chemical Co.) and its wholly-owned subsidiary (i.e. Mei Fu Port) with similar pricing mechanism to members of the Group.

As one or more of the applicable ratios in respect of each of (i) the aggregated proposed annual caps of the Steam Supply Agreements, (ii) the aggregated proposed annual caps of the Port and Storage Services Agreements and (iii) the proposed annual caps of the Sanjiang Chemical Ethylene Sales Agreement for the three years ending 31 December 2023 is more than 5%, the transactions contemplated under the Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement are therefore subject to reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ms. Han was interested in each of the Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and she therefore abstained from voting on the board resolutions of the Company approving each of the Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in each of the Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and none of them were required to abstain from voting on the board resolutions of the Company in respect thereof.

LETTER FROM THE BOARD

SHARE OPTION SCHEME

The original share option scheme of the Company expired on 24 August 2020. The proposed adoption of the Share Option Scheme will enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Board is of the view that the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group.

The Board considers that it is not appropriate to state the value of all options that can be granted under the Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the option value have not been determined. Such variables include the exercise price, exercise period, vesting period (if any), and other relevant factors (if any). The Board believes that any calculation of the value of any options which might have been granted as at the Latest Practicable Date would be based on a number of speculative assumptions and therefore not only would such calculation be meaningful or representative, but it could also potentially be misleading to the Shareholders.

At the EGM, an ordinary resolution will be proposed for the Company to approve and adopt the Share Option Scheme, which will take effect on the Adoption Date. The period of the Share Option Scheme shall be ten (10) years commencing from the Adoption Date.

Although the rules of the Share Option Scheme provides that no performance target must be achieved before an option can be exercised under the terms of the Share Option Scheme and does not prescribe any specific minimum period for which an option must be held before it can be exercised, the Board believes that the ability for the Board to prescribe at its discretion any performance target or a minimum period for which an option must be held before it can be exercised and the requirement for a minimum exercise price (which is summarised in Appendix I to this circular) of the Share Option Scheme at the grant of any option will provide the Board with more flexibility in imposing appropriate conditions in light of the circumstances of each grant and help facilitate the achievement of the purpose of the Share Option Scheme, which is to provide incentives and rewards to the selected participants for their contribution to the Group. No trustee will be appointed under the Share Option Scheme.

None of the Directors is and will be trustee of the Share Option Scheme or has a direct or indirect interest in the trustee (if any). With respect to the operation of the Share Option Scheme, the Company will, where applicable, comply with the relevant requirements under Chapter 17 of the Listing Rules.

Conditions Precedent

The Share Option Scheme will constitute a share option scheme under Chapter 17 of the Listing Rules. The Share Option Scheme is conditional upon:

- (i) the passing of the relevant resolution(s) by the Shareholders at the EGM to approve and adopt the Share Option Scheme; and

LETTER FROM THE BOARD

- (ii) the Listing Committee granting approval for the listing of, and permission to deal in, any Shares to be issued and allotted pursuant to the exercise of options granted under the Share Option Scheme.

As at the Latest Practicable Date, the issued share capital of the Company was 1,190,000,000 Shares. The number of Shares that may fall to be allotted and issued upon exercise in full of the options that may be granted under the Share Option Scheme would be 119,000,000 Shares (assuming there is no change in the number of issued Share between the Latest Practicable Date and the Adoption Date). The limit on the number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the relevant class of securities of the Company in issue from time to time.

Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme. Further details of the Share Option Scheme are listed out in Appendix I to this circular.

GENERAL

The Company will seek Independent Shareholders' approval for, if thought fit, approving, among other things, (i) the entering into of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements; (ii) the proposed annual caps for the three years ending 31 December 2023 for the transactions contemplated under each of the Steam Supply Agreements, each of the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the transactions contemplated thereunder; and (iii) the adoption of the Share Option Scheme by the Shareholders at the EGM.

The Company has established an independent board committee (comprising only and all the independent non-executive Directors) to advise the independent Shareholders as to whether the terms of each of the Steam Supply Agreements and the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the respective proposed annual caps contemplated thereunder are fair and reasonable, in the ordinary and normal course of business of the Company, on normal commercial terms and in the interests of the Company and Shareholders as whole.

THE EGM

The Company will convene the EGM at 10:30 a.m. on Monday, 21 December 2020 at 24/F, Office Plus @ Wan Chai, 303 Hennessy Road, Wan Chai, Hong Kong at which ordinary resolutions will be proposed for the Independent Shareholders and Shareholders to consider and, if thought fit, approving, among other things (i) the entering into of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and the transactions contemplated thereunder by the Independent Shareholders; and (ii) the adoption of the

LETTER FROM THE BOARD

Share Option Scheme by the Shareholders. 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 EGM-1 to EGM-7 of this circular.

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 54, 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. Both Mr. Guan and Ms. Han are required to abstain from voting at the EGM under the Listing Rules in respect of the resolutions approving, among other things, the entering into of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and the transactions contemplated thereunder. Accordingly, as Mr. Guan and Ms. Han are deemed to be interested in 523,083,000 Shares, such number of Shares held by Mr. Guan and Ms. Han shall be required to be abstained from voting at the EGM.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will not be closed for the purpose of ascertaining the right of shareholders of the Company to attend and vote at the EGM to be held on Monday, 21 December 2020. However, in order to qualify for attending and voting at the EGM, all transfers documents accompanied by the relevant share certificates must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 15 December 2020.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 41 to 42 of this circular and the letter from Titan Financial Services to the Independent Board Committee and the Independent Shareholders set out on pages 43 to 89 of this circular in connection with the Steam Supply Agreements, the Sanjiang Chemical

LETTER FROM THE BOARD

Ethylene Sales Agreement and the Port and Storage Services Agreements and transactions thereunder and the principal factors and reasons considered by Titan Financial Services in arriving at such advice.

The Independent Board Committee, having taken into account the advice from Titan Financial Services, considers that the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and the transactions thereunder were entered into on normal commercial terms and the terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Accordingly, the Directors, including the Independent Board Committee, recommend the Shareholders to vote in favour of the ordinary resolutions to approve the entering into of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and the transactions thereunder at the EGM as set out in the notice of the EGM.

ADDITIONAL INFORMATION

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

By order of the Board
China Sanjiang Fine Chemicals Company Limited
HAN Jianhong
Chairlady and executive Director



三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED
中國三江精細化工有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2198)

3 December 2020

To the Independent Shareholders

CONTINUING CONNECTED TRANSACTIONS
(1) STEAM SUPPLY AGREEMENTS
(2) SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT
(3) PORT AND STORAGE SERVICES AGREEMENTS
AND
NOTICE OF EGM

Dear Sir or Madam,

We refer to the circular of the Company dated 3 December 2020 (the “**Circular**”) to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of each of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and the transactions contemplated thereunder are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and Shareholders as a whole. Titan Financial Services has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements.

Your attention is drawn to the “Letter from the Board” set out on pages 7 to 40 of the Circular which contains, *inter alia*, information about the terms of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and the “Letter from Titan Financial Services” set out on pages 43 to

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

89 of the Circular which contains its advice in respect of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements together with the principal factors taken into consideration.

Having considered the terms of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and having taken into account the factors and reasons considered by and the advice from Titan Financial Services as stated in their letter dated 3 December 2020, we consider that the terms of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and the transactions thereunder are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms so far as the interests of the Independent Shareholders are concerned; and the entering into of each of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements are in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to ratify and approve the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements.

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

Mr. SHEN Kaijun

Ms. PEI Yu

Mr. KONG Liang

Independent Non-executive Directors

LETTER FROM TITAN FINANCIAL SERVICES

The following is the full text of the letter from Titan Financial Services Limited setting out the advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Titan Financial Services Limited
Suites 3201-02
32/F, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

3 December 2020

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

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
(1) STEAM SUPPLY AGREEMENTS
(2) SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT
AND
(3) PORT AND STORAGE SERVICES 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 Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and Port and Storage Services Agreements, details of which are set out in the announcement of the Company dated 12 November 2020 (the “**Announcement**”) and in the Letter from the Board (the “**Board Letter**”) contained in the circular dated 3 December 2020 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 12 November 2020, (i) Xing Xing (an indirectly non wholly-owned subsidiary of the Company) entered into the Xing Xing Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply high pressure steam (4.6MPa) to Xing Xing for the three years ending 31 December 2023, to renew the Original Xing Xing Steam Supply Agreement which is due to expire on 31 December 2020; (ii) Sanjiang Chemical (an indirectly wholly-owned subsidiary of the Company) entered into the Sanjiang Chemical Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (0.8MPa and 1.3MPa), medium pressure steam (3.4MPa) and high pressure steam (4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023, to renew the Original Sanjiang Chemical Steam Supply Agreement which is due to expire on 31

LETTER FROM TITAN FINANCIAL SERVICES

December 2020; (iii) Sanjiang New Material (an indirectly wholly-owned subsidiary of the Company) entered into the Sanjiang New Material Steam Supply Agreement with Jiahua Energy Chemical Co pursuant to which Jiahua Energy Chemical Co has agreed to supply low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023, to renew the Original Sanjiang New Material Steam Supply Agreement which is due to expire on 31 December 2020; and (iv) Sanjiang Haojia (an indirectly wholly-owned subsidiary of the Company) entered into the Sanjiang Haojia Steam Supply Agreement with Jiahua Energy Chemical Co pursuant to which Jiahua Energy Chemical Co has agreed to supply low pressure steam (0.8MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023, to renew the Original Sanjiang Haojia Steam Supply Agreement which is due to expire on 31 December 2020.

On 12 November 2020, Sanjiang Chemical entered into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co. pursuant to which Sanjiang Chemical has agreed to supply ethylene to Jiahua Energy Chemical Co. for a period of three years ending 31 December 2023.

On 12 November 2020, (i) Mei Fu Port (a wholly-owned subsidiary of Jiahua Energy Chemical Co.) entered into Xing Xing Port and Storage Services Agreement with Xing Xing pursuant to which Mei Fu Port has agreed to provide Port and Storage Services to Xing Xing for a period of three years ending 31 December 2023, to renew the Original Port and Storage Services Agreement between Xing Xing and Mei Fu Port which is due to expire on 31 December 2020; (ii) Mei Fu Port entered into the Sanjiang Chemical Port and Storage Services Agreement with Sanjiang Chemicals pursuant to which Mei Fu Port has agreed to provide Port and Storage Services to Sanjiang Chemicals for a period of three years ending 31 December 2023, to renew the Original Port and Storage Services Agreements between Sanjiang Chemical and Mei Fu Port which is due to expire on 31 December 2020; (iii) Mei Fu Port entered into the Sanjiang New Material Port and Storage Services Agreement with Sanjiang New Material pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang New Material for a period of three years ending 31 December 2023, to renew the Original Port and Storage Services Agreement between Sanjiang New Material and Mei Fu Port which is due to expire on 31 December 2020; (iv) Mei Fu Port entered into the Port and Storage Services Agreement with Sanjiang Haojia pursuant to which Mei Fu Port has agreed to provide Port and Storage Services to Sanjiang Haojia for a period of three years ending 31 December 2023, to renew the Original Port and Storage Services Agreement between Sanjiang Haojia and Mei Fu Port which is due to expire on 31 December 2020; and (v) Sanjiang Chemical entered into the Sanjiang Chemical and Jiahua Energy Storage Services Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

With reference to the Announcement and the Board Letter, the transactions contemplated under each of the Steam Supply Agreements, Port and Storage Services Agreements and Sanjiang Chemical Ethylene Sales Agreement constitute continuing connected transactions of the Company and are subject to reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM TITAN FINANCIAL SERVICES

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we have not aware of any relationships or interest with the Company or any of its respective substantial Shareholders or Directors, or any of their respective associates. In the last two years, we have not acted as any financial adviser role to the Company. Apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling shareholders that would reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the transaction.

THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

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 each of the Steam Supply Agreements, Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the respective proposed annual caps contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether each of the Steam Supply Agreements, Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the respective proposed annual caps contemplated thereunder 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 each of the Steam Supply Agreements, Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and transactions contemplated thereunder at the EGM. We, Titan Financial Services 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, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Company; (iii) the opinions expressed by and the representations of the Directors and management of the Group; and (iv) our review of relevant public information. We have assumed that all the statement, information, opinions 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 and/or the

LETTER FROM TITAN FINANCIAL SERVICES

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 Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the transactions contemplated thereunder.

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 Group, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Steam Supply Agreements, the Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and the transactions contemplated thereunder. 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Continuing Connected Transactions

Information of the Group

The Group is principally engaged in the manufacturing and supplying of ethylene oxide (“EO”), ethylene glycol (“EG”), polypropylene (“PP”), methyl tert-butyl ether, surfactants and the provision of the relevant processing services in the PRC.

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The following table summarises the key financial information of the Group for the two years ended 31 December 2018 and 2019 (the “**FY2018**” and “**FY2019**”, respectively) and the six months ended 30 June 2019 and 2020 (the “**1H2019**” and “**1H2020**”, respectively) as extracted from the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”):

	For the year ended			For the six months ended		
	31 December		Changes	30 June		Changes
	2019	2018		2020	2019	
(RMB'000)	(RMB'000)	%	(RMB'000)	(RMB'000)	%	
	(audited)	(audited)		(unaudited)	(unaudited)	
Revenue	9,190,893	9,585,859	(4.1)	3,778,300	4,190,077	(9.8)
— Sales of products	9,092,548	9,495,274	(4.2)	3,729,209	4,136,439	(9.8)
— Processing services	88,835	81,197	9.4	44,254	48,909	(9.5)
— Rental income	9,510	9,388	1.3	—	—	—
— Others	—	—	—	4,837	4,729	2.3
Gross profit	1,038,888	996,124	4.3	632,603	206,338	206.6
Profit for the year/ period	577,497	301,192	91.7	380,991	2,929	12,907.5

We noted from the above tables that the Group’s revenue decreased by approximately 4.1% from approximately RMB9.6 billion in FY2018 to approximately RMB9.2 billion in FY2019. With reference to the 2019 Annual Report, the decrease in revenue for FY2019 was primarily due to the decrease in the average selling price in EO and EG by approximately 24.1% and 33.2% respectively in view of the price volatility of major commodities (i.e. crude oil, nature gas and coal) during the first half of 2019 and the decrease in output of EG by approximately 32.2% as the 5th phase EO/EG production facility suspended operation during January and February 2018 because of regular repair and maintenance process and the price volatility of EG during the first half of 2019 also stalled demands for EG. Despite the slight decrease in revenue, the Group recorded a significant increase in profit of approximately 91.7% from approximately RMB301.2 million for FY2018 to approximately RMB577.5 million for FY2019, which was mainly attributed to (i) the improvement of gross profit margin of the Group’s product and (ii) the write-down of inventories of approximately RMB50.7 million in FY2018 while a reversal of inventories of approximately RMB18.7 million was recorded in FY2019.

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According to the 2020 Interim Report, the Group's revenue decreased by approximately 9.8% from approximately RMB4.2 billion for the six months ended 30 June 2019 to approximately RMB3.8 billion for the six months ended 30 June 2020, such decrease in revenue was mainly due to the decrease in average selling price of the Group's major products namely EO, EG and PP by a range from approximately 10.8% to approximately 18.4% in the first half of 2020 comparing to the corresponding period of 2019. Despite the slight decrease in revenue, the Group recorded a significant increase in profit of approximately 12,907.5% from approximately RMB2.9 million in 1H2019 to approximately RMB381.0 million in 1H2020, which was mainly attributed to the growth of gross profit as the overall utilization rate of the Group's production capacities has been maintained at a relatively high level during 1H2020.

Information on Jiahua Energy Chemical Co and Mei Fu Port

With reference to the Board Letter, Jiahua Energy Chemical Co. is a limited company established in the PRC and is principally engaged in the business of production and trading of desalinated water, steam, chlor-alkali, ortho-para, fatty alcohol and sulfuric acid. Jiahua Energy Chemical Co. is currently listed on the Shanghai Stock Exchange (stock code: 600273).

Mei Fu Port is a wholly-owned subsidiary of Jiahua Energy Chemical Co. and Mei Fu Port is principally engaged in the provision of port unloading/loading, storage, customs reporting, inspection and land transportation services for various chemical products.

Reasons for and benefits of the Steam Supply Agreements

We have discussed with the management representative of the Group (the "**Management Representative of the Group**"), who has more than 10 years of experience in the chemical production industry, 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, medium and high pressure steam in the Zhapu area of Jiaying City, the PRC, which is the same economic development zone where the Group is located. In this regard, we understand from 《熱電聯產和煤矸綜合利用發電項目建設管理暫行規定》 (the Interim Provision 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 it's the plan of the PRC government to concentrate the heat supply in industrial zone operated by heat loading and concentrate the construction plan of thermoelectric projects. We also noted from Jiahua Energy Chemical Co.'s website that Jiahua Energy Chemical Co. is the only company that provides steam in the Zhapu area of Jiaying City. Therefore,

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we do not doubt the statement in the Board Letter that Jiahua Energy Chemical Co. is the only company that provides low, medium and high pressure steam in Zhapu area of Jiaxing City.

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

Moreover, as refer to the Board Letter, Jiahua Energy Chemical Co. has been supplying steam to the Group since 2007 and the quality of goods and services provided by it has been considered by the Group to be satisfactory. Based on the past operational convenience and benefits brought to the Group and extended business relationships established between the Group and Jiahua Energy Chemical Co., the Board expected that 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. In view of the geographical proximity and to secure a constant and stable supply of low, medium and high pressure steam for production purposes in the future, the Group entered into each of the 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, medium and high pressure steam in the Zhapu area of Jiaxing City 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 Steam Supply Agreements is a cost-effective option for the Group, we concur with the Directors that the Steam Supply Agreements 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.

Reasons for and benefits of the Sanjiang Chemical Ethylene Sales Agreement

With reference to the Board Letter, entering into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co., the arrangement of which is non-exclusive in nature, opens up an option for the Group to sell ethylene to Jiahua Energy Chemical Co. at the price which is no less favorable than the prevailing market price (i.e. the weighted average price of those offered by Sanjiang Chemical to its independent customers for the relevant product of comparable quality during the same month of supply) when the Group has spare capacity in terms of ethylene output. In this regard, we have reviewed the Sanjiang

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Chemical Ethylene Sales Agreement, and the Directors confirmed that (i) the arrangement is non-exclusive in nature and (ii) the arrangement can open up an option for the Group to sell ethylene.

Further, as refer to the Board Letter, the geographic proximity between the production base of the Group and that of Jiahua Energy Chemical Co. and the long and well established business relationship between the Group and Jiahua Energy Chemical Co. bring synergies to the parties. In view of the foregoing reasons, Sanjiang Chemical entered into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co..

Having considered (i) the arrangement contemplated under the Sanjiang Chemical Ethylene Sales Agreement is non-exclusive in nature; (ii) entering into the Sanjiang Chemical Ethylene Sales Agreement can open up an option for the Group to sell ethylene at the price no less favorable than the prevailing market price; and (iii) the geographic proximity and the long established business relationship between the parties, we concur with the Directors that the Sanjiang Chemical Ethylene Sales Agreement is 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.

Reasons for and benefits of the Port and Storage Services Agreements

With reference to the Board Letter, the entering into of the Port and Storage Services Agreements enable the Group to have more options in terms of port and storage services access and there are internal controls in place to ensure that the terms and rates offered by Mei Fu Port and Jiahua Energy Chemical Co. are no less favorable than those offered by other independent port and storage services providers. In this regard, we have reviewed the Port and Storage Services Agreements and the internal control policy and discussed with the Management Representative of the Group regarding the same, and he confirmed that the agreement can enable the Group to have more options in procuring port and storage services and will only enter into the Port and Storage Services offered by Mei Fu Port when the terms and rates are more favorable than the other independent port and storage services providers. In view of the foregoing reasons, the Group entered into the Port and Storage Services Agreements.

Having considered (i) the Port and Storage Services Agreements enable the Group to have more options in terms of port and storage services access; (ii) the internal controls in place; and (iii) the terms and rates offered by Mei Fu Port and Jiahua Energy Chemical Co. are no less favorable than those offered by other independent port and storage services providers, we concur with the Directors that the Port and Storage Services Agreements 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 agreements

(i) Xing Xing Steam Supply Agreement

Date

12 November 2020

Parties

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

Subject matter

Jiahua Energy Chemical Co. agreed to supply high pressure steam (4.6MPa) to Xing Xing for the three years ending 31 December 2023.

Term

The Xing Xing Steam Supply Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 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 price for high pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply.

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

With reference to the Board Letter, the Group will conduct certain internal control measures to ensure that the price of high pressure steam offered by Jiahua Energy Chemical Co. to Xing Xing pursuant to the Xing Xing Steam Supply Agreement will be no less favorable than the price of supplying high pressure steam of comparable quality to other independent third parties by Jiahua Energy Chemical Co.. In particular, the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases high pressure steam of comparable quality; (ii) all the supply contracts regarding high pressure steam of comparable quality entered into between Jiahua

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Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation as to the weighted average purchase prices of high pressure steam contemplated under the Xing Xing Steam Supply Agreement.

For our due diligence purpose, we have requested and the Group provided a copy of the said internal control policy. To test the effectiveness of the internal control policy in the past, we have requested the Company to provide (i) the monthly invoice summaries showing the selling price of high pressure steam offered by Jiahua Energy Chemical Co. to Xing Xing for the ten months period ended 31 October 2020; and (ii) the monthly invoice summaries showing the selling price of high pressure steam offered by Jiahua Energy Chemical Co. to the independent purchasers for the ten months period ended 31 October 2020, we noted from such documents that the average unit prices of high pressure steam offered by Jiahua Energy Chemical Co. to Xing Xing were not less favorable than those offered by Jiahua Energy Chemical Co. to the independent purchasers. Furthermore, to check the accuracy of the monthly invoice summaries of independent purchasers, we have obtained one of Jiahua Energy Chemical Co.'s independent customer's invoice copies and noted the sales volume and selling price as stated in the said invoice was the same as the figures shown in the invoice summaries. As such, we do not doubt the effectiveness of the implementation of the internal control measures.

Moreover, according to the monthly invoice summaries showing the selling price of steam offered by Jiahua Energy Chemical Co. to the independent purchasers for the ten months period ended 31 October 2020, we noted that the percentage variance between the highest and lowest unit price offered by Jiahua Energy Chemical Co. to its independent steam purchasers for 4.6MPa steams was relatively insignificant, which was only approximately 4.3%, we consider the purchase price of steam, being weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers, is fair and reasonable and on normal commercial terms.

In light of the above, we are of the view that the terms of the Xing Xing Steam Supply Agreement 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

12 November 2020

Parties

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

Subject matter

Jiahua Energy Chemical Co. agreed to supply low pressure steam (0.8MPa and 1.3MPa), medium pressure steam (3.4MPa) and high pressure steam (4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023.

Term

The Sanjiang Chemical Steam Supply Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 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 price for low, medium and high pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply.

Other principal terms of the Sanjiang Chemical Steam Supply Agreement are specified under the sub-section headed “1. THE 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. As advised by the Directors, it's the market practice to charge extra 2% of the tallied usage amount to cover the steam loss in transmission which is only applied to 0.8MPa low pressure steam.

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With reference to the Board Letter, the Group will conduct certain internal control measures to ensure that the price of low, medium and high pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Chemical pursuant to the Sanjiang Chemical Steam Supply Agreement will be no less favorable than the price of supplying low, medium and high pressure steam of comparable quality to other independent third parties by Jiahua Energy Chemical Co. In particular, the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low, medium and high pressure steam of comparable quality; and (ii) all supply contracts regarding low, medium and high pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation as to the weighted average purchase prices of low, medium and high pressure steam contemplated under the Sanjiang Chemical Steam Supply Agreement.

For our due diligence purpose, we have requested and the Group provided a copy of the said internal control policy. To test the effectiveness of the internal control policy in the past, we have requested the Company to provide (i) the monthly invoice summaries showing the selling price of low, medium and high pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Chemical for the ten months period ended 31 October 2020; and (ii) the monthly invoice summaries showing the selling price of low, medium and high pressure steam offered by Jiahua Energy Chemical Co. to the independent purchasers for the ten months period ended 31 October 2020, we noted from such documents that the average unit prices of low, medium and high pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Chemical were not less favorable than those offered by Jiahua Energy Chemical Co. to the independent purchasers. Furthermore, to check the accuracy of the monthly invoice summaries of independent purchasers, we have obtained one of Jiahua Energy Chemical Co.'s independent customer's invoices copies and noted the sales volume and selling price as stated in the said invoice was the same as the figures shown in the invoice summaries. As such, we do not doubt the effectiveness of the implementation of the internal control measures.

Moreover, according to the monthly invoice summaries showing the selling price of steam offered by Jiahua Energy Chemical Co. to the independent purchasers for the ten months period ended 31 October 2020, we noted that

- the percentage variance between the highest and lowest unit price offered by Jiahua Energy Chemical Co. to its independent steam purchasers for 0.8MPa, 3.4MPa and 4.6MPa steams were relatively insignificant, which were only approximately 4.3% to 6.2%;

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- the percentage variance between the highest and lowest unit price offered by Jiahua Energy Chemical Co. to its independent steam purchasers for 1.3MPa steams was relatively wide, which was approximately 52.9%. The lowest unit price was offered to an independent major steam purchaser who had signed a long-term contract with Jiahua Energy Chemical Co. in year 2012; while the highest unit price was offered to an independent small steam purchaser who had signed only one year short-term steam purchase contract in year 2020. As a result, the weighted average unit price of steam was dragged down by the low unit price of the long-term contract of the major steam purchaser, and despite the Company only entered into a three years contract (i.e. from 2018 to 2020) with Jiahua Energy Chemical Co., the Company was able to enjoy a more favorable steam purchase price;
- there is an independent steam purchaser who also entered into a three years contract (i.e. from 2018 to 2020) with Jiahua Energy Chemical Co., the average unit prices of 1.3MPa pressure steam offered by Jiahua Energy Chemical Co. to the Company was more favorable than that offered by Jiahua Energy Chemical Co. to the independent steam purchaser

Based on the above findings (“**Our Findings on Price Range**”), we consider the purchase price of steam, being weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers, is fair and reasonable and on normal commercial terms.

In light of the above, we are of the view that the terms of the Sanjiang Chemical Steam Supply Agreement 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

12 November 2020

Parties

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

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Subject matter

Jiahua Energy Chemical Co. agreed to supply low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023.

Term

The Sanjiang New Material Steam Supply Agreement shall become effective on 1 January 2021 and has an initial term ending on 31 December 2023 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 price for low and medium pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply.

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

With reference to the Board Letter, the Group will conduct certain internal control measures to ensure that the price of low and medium pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang New Material pursuant to the Sanjiang New Material Steam Supply Agreement will be no less favourable than the price of supplying low and medium pressure steam of comparable quality to other independent third parties by Jiahua Energy Chemical Co.. In particular, 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; (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 as to the weighted average purchase prices of low and medium pressure steam contemplated under the Sanjiang New Material Steam Supply Agreement.

For our due diligence purpose, we have requested and the Group provided a copy of the said internal control policy. To test the effectiveness of the internal control policy in the past, we have requested the Company to provided (i) the monthly invoice summaries showing the selling price of low and medium pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang New Material for the ten months period ended 31 October 2020; (ii) the monthly invoice summaries showing the selling price of low and medium pressure steam offered by Jiahua Energy Chemical Co. to the independent

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purchasers for the ten months period ended 31 October 2020, we noted from such documents that the average unit prices of low and medium pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang New Material were not less favorable than those offered by Jiahua Energy Chemical Co. to the independent purchasers. Furthermore, to check the accuracy of the monthly invoice summaries of independent purchasers, we obtained one of Jiahua Energy Chemical Co.'s independent customer's invoices copies and noted the sales volume and selling price as stated in the said invoice was the same as the figures shown in the invoice summaries. As such, we do not doubt the effectiveness of the implementation of the internal control measures.

Moreover, according to Our Findings on Price Range under the sub-section headed "Principal Factors And Reasons Considered — 2. Principal terms of the agreements — (ii) Sanjiang Chemical Steam Supply Agreement" of this letter, given the Company was able to enjoy a more favorable purchase price in low pressure steam (1.3MPa) and the price range of medium pressure steam (3.4MPa) was relatively narrow, we consider the purchase price of steam, being weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers, is fair and reasonable and on normal commercial terms.

In light of the above, we are of the view that the terms of the Sanjiang New Material Steam Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(iv) Sanjiang Haojia Steam Supply Agreement

Date

12 November 2020

Parties

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

Subject matter

Jiahua Energy Chemical Co. agreed to supply low pressure steam (0.8MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023.

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Term

The Sanjiang Haojia Steam Supply Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Other principal terms of the Sanjiang Haojia Steam Supply Agreement

The purchase price for low pressure steam (0.8MPa) shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply.

Other principal terms of the Sanjiang Haojia Steam Supply Agreement are specified under the sub-section headed “1. THE 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 (0.8MPa) supplied to Sanjiang Haojia 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. As advised by the Directors, it's the market practice to charge extra 2.0% of the tallied usage amount to cover the steam loss in transmission which is only applied to 0.8MPa low pressure steam.

With reference to the Board Letter, the Group will conduct certain internal control measures to ensure that the price of low pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Haojia pursuant to the Sanjiang Haojia Steam Supply Agreement will be no less favorable than the price of supplying low pressure steam (0.8MPa) of comparable quality to other independent third parties by Jiahua Energy Chemical Co.. In particular, 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 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 as to the weighted average purchase prices of low pressure steam (0.8MPa) contemplated under the Sanjiang Haojia Steam Supply Agreement.

For our due diligence purpose, we have requested and the Group provided a copy of the said internal control policy. To test the effectiveness of the internal control policy in the past, we have requested the Company to provided (i) the monthly invoice summaries showing the selling price of low

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pressure steam (0.8MPa) offered by Jiahua Energy Chemical Co. to Sanjiang Haojia for the ten months period ended 31 October 2020; and (ii) the monthly invoice summaries showing the selling price of low pressure steam (0.8MPa) offered by Jiahua Energy Chemical Co. to the independent purchasers for the ten months period ended 31 October 2020, we noted from such documents that the average unit prices of low pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Haojia were not less favorable than those offered by Jiahua Energy Chemical Co. to the independent purchasers. Furthermore, to check the accuracy of the monthly invoice summaries of independent purchasers, we have obtained one of Jiahua Energy Chemical Co.'s independent customer's invoices copies and noted the sales volume and selling price as stated in the said invoice was the same as the figures shown in the invoice summaries. As such, we do not doubt the effectiveness of the implementation of the internal control measures.

Moreover, according to Our Findings on Price Range under the sub-section headed "Principal Factors And Reasons Considered — 2. Principal terms of the agreements — (ii) Sanjiang Chemical Steam Supply Agreement" of this letter, given the price range of medium pressure steam (0.8MPa) was relatively narrow, we consider the purchase price of steam, being weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers, is fair and reasonable and on normal commercial terms.

In light of the above, we are of the view that the terms of the Sanjiang Haojia Steam Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(v) *Sanjiang Chemical Ethylene Sales Agreement*

Date

12 November 2020

Parties

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

Subject matter

Sanjiang Chemical agreed to supply ethylene to Jiahua Energy Chemical Co. for the three years ending 31 December 2023.

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Term

The Sanjiang Chemical Ethylene Sales Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Other principal terms of the Sanjiang Chemical Ethylene Sales Agreement

The purchase price for ethylene shall be at a price which is the weighted average of those offered by Sanjiang Chemical to its independent customers for the relevant product of comparable quality during the same month of supply.

Other principal terms of the Sanjiang Chemical Ethylene Sales Agreement are specified under the sub-section headed “2. THE SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT” of the Board Letter.

With reference to the Board Letter, the Group will conduct certain internal measures in order to ensure the selling price is no less favorable than the prevailing market price, the Group would compare the selling price offered by Sanjiang Chemical to its independent customers. In particular, the finance department of the Group will obtain (i) all monthly invoices issued by Sanjiang Chemical to its independent customers that purchase ethylene from Sanjiang Chemical; and (ii) all selling contracts regarding ethylene of comparable quality entered into between Sanjiang Chemical and other independent customers on quarterly basis to ascertain the completeness of the calculation as to the weighted average selling prices of ethylene contemplated under the Sanjiang Chemical Ethylene Sales Agreement.

Having considered that (i) the Group will compare the selling price to its independent customers with the price offer to Jiahua Energy Chemical Co. in the same month to prevent any possibility that the final pricing offered to Jiahua Energy Chemical Co. will turn out to be less favorable; and (ii) in the event that the prices of ethylene that Sanjiang Chemical sells to Jiahua Energy Chemical Co. are lower than the prevailing market price, the Group will negotiate with Jiahua Energy Chemical Co. to adjust the selling price to a level equal to or higher than the weighted average selling prices it offers to those independent customers, we consider that these measures taken by the Group could ensure the selling price offer to Jiahua Energy Chemical Co. to be fair and reasonable.

In light of the above, we are of the view that the terms of the Sanjiang Chemical Ethylene Sales Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(vi) Xing Xing Port and Storage Services Agreement

Date

12 November 2020

Parties

1. Mei Fu Port, a connected person of the Company, as service provider; and
2. Xing Xing, an indirectly non wholly-owned subsidiary of the Company.

Subject matter

Mei Fu Port agreed to provide the Port and Storage Service to Xing Xing for a period of three years ending 31 December 2023.

Term

The Xing Xing Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Other principal terms of the Xing Xing Port and Storage Services Agreement

The consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB30 per tonne and RMB80 per tonne, depending on the type of goods and level of usage.

Other principal terms of the Xing Xing Port and Storage Services Agreement are specified under the sub-section headed “3. THE PORT AND STORAGE SERVICES AGREEMENTS” of the Board Letter.

With reference to the Board Letter, in order to ensure the unit rate per tonne offered by Mei Fu Port is no less favorable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm’s length negotiation with Mei Fu Port. Should the other independent port and storage services providers be able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by Mei Fu Port on similar terms and condition offered by Mei Fu Port, the Group will then appoint such other port and storage service providers for the

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provision of Port and Storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis.

For our due diligence purpose, we have requested and the Group provided a copy of the said internal control policy. To test the effectiveness of the internal control policy in the past, we have requested the Company to provide the transaction summaries for the ten months period ended 31 October 2020, showing the unit rate per tonne offered by (i) Mei Fu Port and (ii) other independent port and storage service providers, we noted from such summaries that the average unit rate per tonne offered by Mei Fu Port to Xing Xing was not less favorable than those offered by other independent service providers. Furthermore, to check the accuracy of the transaction summaries of independent service providers, we have obtained one of the invoice copies issued by an independent service provider and noted the unit rate and volume of transaction as stated in the said invoice was the same as the figures shown in the transaction summaries. As such, we do not doubt the effectiveness of the implementation of the internal control measures.

In light of the above, we are of the view that the terms of the Xing Xing Port and Storage Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(vii) Sanjiang Chemical Port and Storage Services Agreement

Date

12 November 2020

Parties

1. Mei Fu Port, a connected person of the Company, as service provider; and
2. Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company

Subject matter

Mei Fu Port agreed to provide the Port and Storage Service to Sanjiang Chemical for a period of three years ending 31 December 2023.

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Term

The Sanjiang Chemical Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Other principal terms of the Sanjiang Chemical Port and Storage Services Agreement

The consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB25 per tonne and RMB80 per tonne, depending on the type of goods and level of usage.

Other principal terms of the Sanjiang Chemical Port and Storage Services Agreement are specified under the sub-section headed “3. THE PORT AND STORAGE SERVICES AGREEMENTS” of the Board Letter.

With reference to the Board Letter, in order to ensure the unit rate per tonne offered by Mei Fu Port is no less favorable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm’s length negotiation with Mei Fu Port. Should the other independent port and storage services providers be able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by Mei Fu Port on similar terms and condition offered by Mei Fu Port, the Group will then appoint such other port and storage service providers for the provision of Port and Storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis.

For our due diligence purpose, we have requested and the Group provided a copy of the said internal control policy. To test the effectiveness of the internal control policy in the past, we have requested the Company to provide the transaction summaries for the ten months period ended 31 October 2020, showing the unit rate per tonne offered by (i) Mei Fu Port and (ii) other independent port and storage service providers, we noted from such summaries that the average unit rate per tonne offered by Mei Fu Port to Sanjiang Chemical was not less favorable than those offered by other independent service providers. Furthermore, to check the accuracy of the transaction summaries of independent service providers, we have obtained one of the invoice copies issued by an independent service provider and noted the unit rate and volume of transaction as stated in the said invoice was the

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same as the figures shown in the transaction summaries. As such, we do not doubt the effectiveness of the implementation of the internal control measures.

In light of the above, we are of the view that the terms of the Sanjiang Chemical Port and Storage Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(viii) Sanjiang New Material Port and Storage Services Agreement

Date

12 November 2020

Parties

1. Mei Fu Port, a connected person of the Company, as service provider; and
2. Sanjiang New Material, an indirectly wholly-owned subsidiary of the Company.

Subject matter

Mei Fu Port agreed to provide the Port and Storage Services to Sanjiang New Material for a period of three years ending 31 December 2023.

Term

The Sanjiang New Material Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 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 Port and Storage Services Agreement

The consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB50 per tonne and RMB80 per tonne, depending on the type of goods and level of usage.

Other principal terms of the Sanjiang New Material Port and Storage Services Agreement are specified under the sub-section headed “3. THE PORT AND STORAGE SERVICES AGREEMENTS” of the Board Letter.

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With reference to the Board Letter, in order to ensure the unit rate per tonne offered by Mei Fu Port is no less favorable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Mei Fu Port. Should the other independent port and storage services providers be able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by Mei Fu Port on similar terms and condition offered by Mei Fu Port, the Group will then appoint such other port and storage service providers for the provision of Port and Storage Services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis.

For our due diligence purpose, we have requested and the Group provided a copy of the said internal control policy. To test the effectiveness of the internal control policy in the past, we have requested the Company to provide the transaction summaries for the ten months period ended 31 October 2020, showing the unit rate per tonne offered by (i) Mei Fu Port and (ii) other independent port and storage service providers, we noted from such summaries that the average unit rate per tonne offered by Mei Fu Port to Sanjiang New Material was not less favorable than those offered by other independent service providers. Furthermore, to check the accuracy of the transaction summaries of independent service providers, we have obtained one of the invoice copies issued by an independent service provider and noted the unit rate and volume of transaction as stated in the said invoice was the same as the figures shown in the transaction summaries. As such, we do not doubt the effectiveness of the implementation of the internal control measures.

In light of the above, we are of the view that the terms of the Sanjiang New Material Port and Storage Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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(ix) Sanjiang Haojia Port and Storage Services Agreement

Date

12 November 2020

Parties

1. Mei Fu Port, a connected person of the Company, as service provider; and
2. Sanjiang Haojia, an indirectly wholly-owned subsidiary of the Company.

Subject matter

Mei Fu Port agreed to provide the Port and Storage Services to Sanjiang Haojia for a period of three years ending 31 December 2023.

Term

The Sanjiang Haojia Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Other principal terms of the Sanjiang Haojia Port and Storage Services Agreement

The consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB30 per tonne and RMB80 per tonne, depending on the type of goods and level of usage.

Other principal terms of the Sanjiang Haojia Port and Storage Services Agreement are specified under the sub-section headed “3. THE PORT AND STORAGE SERVICES AGREEMENTS” of the Board Letter.

With reference to the Board Letter, in order to ensure the unit rate per tonne offered by Mei Fu Port is no less favorable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm’s length negotiation with Mei Fu Port. Should the other independent port and storage services providers be able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by Mei Fu Port on similar terms and condition offered by Mei Fu Port, the Group will then appoint such other port and storage service providers for the

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provision of Port and Storage Services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis.

For our due diligence purpose, we have requested and the Group provided a copy of the said internal control policy. To test the effectiveness of the internal control policy in the past, we have requested the Company to provide the transaction summaries for the ten months period ended 31 October 2020, showing the unit rate per tonne offered by (i) Mei Fu Port and (ii) other independent port and storage service providers, we noted from such summaries that the average unit rate per tonne offered by Mei Fu Port to Sanjiang Haojia was not less favorable than those offered by other independent service providers. Furthermore, to check the accuracy of the transaction summaries of independent service providers, we have obtained one of the invoice copies issued by an independent service provider and noted the unit rate and volume of transaction as stated in the said invoice was the same as the figures shown in the transaction summaries. As such, we do not doubt the effectiveness of the implementation of the internal control measures.

In light of the above, we are of the view that the terms of the Sanjiang Haojia Port and Storage Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(x) Sanjiang Chemical and Jiahua Energy Storage Services Agreement

Date

12 November 2020

Parties

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

Subject matter

Jiahua Energy Chemical Co. agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

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Term

The Sanjiang Chemical and Jiahua Energy Storage Services Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Other principal terms of the Sanjiang Chemical and Jiahua Energy Storage Services Agreement

The consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be stored and handled at a range between RMB100 per tonne and RMB250 per tonne, depending on the type of goods, level of usage and type of chemical stored.

With reference to the Board Letter, in order to ensure the unit rate per tonne offered by Jiahua Energy Chemical Co. is no less favorable than the prevailing market rate, the Group will compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Jiahua Energy Chemical Co.. In the event that the prices of Port and Storage Services that Jiahua Energy Chemical Co. offers to Sanjiang Chemical are higher than the prices offered by the independent storage service providers, the Group will then appoint the other independent storage services providers for the provision of storage services as the non-exclusive arrangement under the Port and Storage Services Agreement allows the group to use other storage services providers on a discretionary basis.

Having consider that (i) the Group will compare quotations from the other independent service providers for the Port and Storage Services in the relevant area, to prevent any possibility that the terms offered to Sanjiang Chemical will turn out to be less favorable; and (ii) in the event that the prices offers to Sanjiang Chemical is higher than the prevailing market rate, the Group can use other port and storage services providers on a discretionary basis, we consider that the arrangement could ensure the terms offer by Jiahua Energy Chemical Co. to be fair and reasonable.

In light of the above, we are of the view that the terms of the Sanjiang Chemical and Jiahua Energy Storage Services Agreement 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) Xing Xing Steam Supply Agreement

Set out below are (i) the historical annual caps for the three years ending 31 December 2020; (ii) the historical transaction amount for the two years ended 31 December 2019 and the 8 months ended 31 August 2020; and (iii) the annual caps for the three years ending 31 December 2023 for the Xing Xing Steam Supply Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the 8-month ended 31 August 2020 RMB'000
Historical annual caps	246,300	246,300	246,300
Historical transaction amount	138,734	172,959	111,526 <i>(Note 1)</i> 167,289 <i>(Note 2)</i>
Utilization rate	56.3%	70.2%	67.9% <i>(Note 2)</i>
	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Proposed annual caps (the “XX Caps”)	223,400	223,400	223,400

Notes:

1. For the 8-month period ended 31 August 2020.
2. Annualized amount for the year ending 31 December 2020.

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As advised by the Directors, in arriving at the XX Caps, the Directors considered factors set out under the section headed “1. THE STEAM SUPPLY AGREEMENTS — Basis of Annual Caps” of the Board Letter.

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 that XX Calculation is derived from the estimated unit price and purchase unit for the Xing Xing Steam Supply Agreement for each of the three years ending 31 December 2023, by making reference to the historical average unit price and purchase unit of steam made by Xing Xing from Jiahua Energy Chemical Co. during the 8 months ended 31 August 2020, being the latest available information to the Directors when determining the XX Caps.

Based on the XX Calculation, (i) the estimated unit price for the three years ending 31 December 2023 is approximately the same as the average unit price for the 8 months ended 31 August 2020; (ii) the estimated purchase unit for each of the three years ending 31 December 2023 represents an approximately 10.0% increment to the annualized purchase unit for the year ending 31 December 2020; and (iii) a buffer for 20.0% is included for each of the three years ending 31 December 2023.

Regarding the 10.0% increment in the estimated purchase unit for each of the three years ending 31 December 2023, as Xing Xing is an operating subsidiary of the Group to produce ethylene and ethylene is used to produce EO. An increase in the demand of EO would in turn drive up the demand of ethylene from Xing Xing and hence more steam is needed by Xing Xing. With reference to the 2020 Interim Report, we noted that the sales volume of EO increased by approximately 28.4% in 1H2020 as compared to 1H2019. In view of the recent increase in demand of EO, we consider the 10.0% increment in the estimated steam purchase unit by Xing Xing for each of the three years ending 31 December 2023 compared to the annualized purchase unit for the year ending 31 December 2020 to be acceptable.

As for the 20.0% buffer, taking into account that the increase of approximately 28.4% in the sales volume of EO in 1H2020 as compared to 1H2019, we consider the buffer of 20.0% to be acceptable.

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

(ii) Sanjiang Chemical Steam Supply Agreement

Set out below are (i) the historical annual caps for the three years ending 31 December 2020; (ii) the historical transaction amount for the two years ended 31 December 2019 and the 8 months ended 31 August 2020; and (iii) the annual caps for the three years ending 31 December 2023 for the Sanjiang Chemical Steam

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Supply Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the 8-month period ended 31 August 2020 RMB'000
Historical annual caps	118,000	123,000	128,000
Historical transaction amount	117,939	91,973	65,157 <i>(Note 1)</i> 97,736 <i>(Note 2)</i>
Utilization rate	99.9%	74.8%	76.4% <i>(Note 2)</i>
	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Proposed annual caps (the “SC Caps”)	297,700	765,300	765,300

Notes:

1. For the 8-month period ended 31 August 2020.
2. Annualized amount for the year ending 31 December 2020.

As advised by the Directors, in arriving at the SC Caps, the Directors considered factors set out under the section headed “1. THE STEAM SUPPLY AGREEMENTS — Basis of Annual Caps” of the Board Letter.

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 that SC Calculation is derived from the estimated unit price and purchase unit for the Sanjiang Chemical Steam Supply Agreement for each of the three years ending 31 December 2023, by making reference to the historical average unit price and purchase unit of steam purchased by Sanjiang Chemical from Jiahua Energy Chemical Co. during the 8 months ended 31 August 2020, being the latest available information to the Directors when determining the SC Caps.

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Based on the SC Calculation, (i) the estimated unit price for the three years ending 31 December 2023 is approximately the same as the average unit price for the 8 months ended 31 August 2020; (ii) the estimated purchase unit for the year ending 31 December 2021 represents an approximately 167.2% increment to the annualized purchase unit for the year ending 31 December 2020, while the estimated purchase unit for the two years ending 31 December 2023 represents a further increase of approximately 164.4% as compared to that for the year ending 31 December 2021; and (iii) a buffer for 20.0% is included for each of the three years ending 31 December 2023.

Regarding the substantial increase on the estimated purchase unit of steam for the three years ending 31 December 2023, we understand from the Board Letter that the expected increment is due to, among other things, (i) the ramp up of the new production facilities with 1,000,000MT output of EO/EG as middlestream level capacity increment and 1,250,000MT output of ethylene as upstream level capacity increment on a yearly basis (“**the New Production Facilities**”) will led to an increase in the Group’s demand for steam by approximately 3,100,000MT on a yearly basis for production purposes; and (ii) the Group’s production plan based on the latest catalyst changeout plan under which the Group will use less ethylene and in the same time use more steam at the initial stage of the catalyst life cycle.

For our due diligence purpose, we have obtained the construction plan related to the estimated completion of the New Production Facilities, we noted from the above document that the New Production Facilities are expected to be put into use in late 2021, as the heat energy is a must for the chemical reaction during the course of production, the demand of steam should grow starting from 2021 in order to satisfy the need of the New Production Facilities. We have also discussed with the Management Representative of the Group in relation to the basis of expected increase in steam demand of approximately 3,100,000MT annually arising from the New Production Facilities, we were given to understand that the expected demand was based on the Company’s estimation that around 3.1MT steam is needed to produce 1MT EO/EG and 1.25MT ethylene. During the discussion with the Management Representative of the Group, we have not identified any major factor which caused us to doubt the fairness and reasonableness of the expected increase in steam demand.

As for the 20.0% buffer, taking into account that the increase of approximately 28.4% in the sales volume of EO in 1H2020 as compared to 1H2019, we consider the buffer of 20.0% to be acceptable.

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

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(iii) Sanjiang New Material Steam Supply Agreement

Set out below are (i) the historical annual caps for the three years ending 31 December 2020; (ii) the historical transaction amount for the two years ended 31 December 2019 and the 8 months ended 31 August 2020; and (iii) the annual caps for the three years ending 31 December 2023 for the Sanjiang New Material Steam Supply Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the 8-month period ended 31 August 2020 RMB'000
Historical annual caps	90,000	96,000	99,000
Historical transaction amount	88,642	93,195	71,378 <i>(Note 1)</i> 107,067 <i>(Note 2)</i>
Utilization rate	98.5%	97.0%	108.1% <i>(Note 2)</i>
	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Proposed annual caps (the “SNM Caps”)	120,000	120,000	120,000

Notes:

1. For the 8-month period ended 31 August 2020.
2. Annualized amount for the year ending 31 December 2020.

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As advised by the Directors, in arriving at the SNM Caps, the Directors considered factors set out under the section headed “1. THE STEAM SUPPLY AGREEMENTS — Basis of Annual Caps” of the Board Letter.

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 that SNM Calculation is derived from the estimated unit price and purchase unit for the Sanjiang New Material Steam Supply Agreement for each of the three years ending 31 December 2023, by making reference to the historical average unit price and purchase unit of steam made by Sanjiang New Material from Jiahua Energy Chemical Co. during 8 months period ended 31 August 2020, being the latest available information to the Directors when determining the SNM Caps.

Based on the SNM Calculation, (i) the estimated unit price for the three years ending 31 December 2023 is approximately the same as the average unit price for the 8 months ended 31 August 2020; (ii) the estimated purchase unit for each of the three years ending 31 December 2023 is also approximately the same as the annualized purchase unit for the year ending 31 December 2020; and (iii) a buffer of 12.0% is included for each of the three years ending 31 December 2023.

For our due diligence purpose, we have reviewed the SNM calculation and noted both the estimated unit rate and estimated purchase unit of steam for each of the three years ending 31 December 2023 were prepared based on historical transaction statistic of Sanjiang New Material, which we consider is an acceptable basis. As for the 12.0% buffer, in light of the high utilization rate of historical annual cap in the past few years, we consider the buffer to be acceptable.

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

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(iv) Sanjiang Haojia Steam Supply Agreement

Set out below are (i) the historical annual caps for the three years ending 31 December 2020; (ii) the historical transaction amount for the two years ended 31 December 2019 and the 8 months ended 31 August 2020; and (iii) the annual caps for the three years ending 31 December 2023 for the Sanjiang Haojia Steam Supply Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the 8-month period ended 31 August 2020 RMB'000
Historical annual caps	—	6,000	6,000
Historical transaction amount	—	3,358	1,939 <i>(Note 1)</i> 2,909 <i>(Note 2)</i>
Utilization rate	N/A	56.0%	48.5% <i>(Note 2)</i>
	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Proposed annual caps (the “SH Caps”)	6,300	6,300	6,300

Notes:

1. For the 8-month period ended 31 August 2020.
2. Annualized amount for the year ending 31 December 2020.

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As advised by the Directors, in arriving at the SH Caps, the Directors considered factors set out under the section headed “1. THE STEAM SUPPLY AGREEMENTS — Basis of Annual Caps” of the Board Letter.

To assess the fairness and reasonableness of the SH Caps, we have obtained and reviewed the calculation of the SH Caps (the “**SH Calculation**”). We noted that SH Calculation is derived from the estimated unit price and purchase unit for the Sanjiang Haojia Steam Supply Agreement for each of the three years ending 31 December 2023, by making reference to the historical average unit price and purchase unit of steam made by Sanjiang Haojia from Jiahua Energy Chemical Co. during the 8 months period ended 31 August 2020, being the latest available information to the Directors when determining the SH Caps.

Based on the SH Calculation, (i) the estimated unit price for the three years ending 31 December 2023 is approximately the same as the average unit price for the 8 months ended 31 August 2020; (ii) the estimated purchase unit for each of the three years ending 31 December 2023 represents an approximately 80.5% increment to the annualized purchase unit for the year ending 31 December 2020; and (iii) a buffer for 20.0% is included for each of the three years ending 31 December 2023.

For our due diligence on the estimated unit price, we have reviewed the SH calculation and noted the estimated unit rate of steam for each of the three years ending 31 December 2023 were prepared based on historical transaction statistic of Sanjiang Haojia, which we consider is an acceptable basis to determine the estimated unit price. For our due diligence on the estimated purchase unit, it is expected there will be an increment in the estimated purchase unit for each of the three years ending 31 December 2023. With reference to the Board Letter, the Company expected there will be a growth of the production capacities of PP of Sanjiang Haojia for the three years ending 31 December 2023, which will ramp up the demand for steam accordingly. We have discussed with the Management Representative of the Group regarding the basis of the proposed annual caps, it is noted in the 2019 Annual Report of the Group that PP contributed approximately 40.0% of the total revenue in FY2019, which was the largest business segment of the Group, and the sales volume of PP in FY2019 increased significantly by approximately 44.8% compared to that of FY2018. In light of the revenue and sales volume growth, we do not doubt the fairness and reasonableness of the SH Caps.

As for the 20.0% buffer, taking into account that the significant increase in revenue and sales volume of polypropylene in FY2019, we consider the buffer of 20.0% to be acceptable.

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

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(v) The Sanjiang Chemical Ethylene Sales Agreement

Set out below are the annual caps for the three years ending 31 December 2023 for the Sanjiang Chemical Ethylene Sales Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Proposed annual caps (the “SES Caps”)	106,000	425,000	850,000

As advised by the Directors, there are no historical transaction figures available as Sanjiang Chemical did not supply ethylene to Jiahua Energy Chemical Co. for the three years ending 31 December 2020. In arriving at the SES Caps, the Directors considered factors set out under the section headed “2. THE SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT — Historical Figures and Proposed Annual caps of the Sanjiang Chemical Ethylene Sales Agreement — Estimated cap and basis of cap” of the Board Letter.

To assess the fairness and reasonableness of the SES Caps, we have obtained and reviewed the calculation of the SES Caps (the “SES Calculation”). We noted that SES Calculation is derived from the estimated unit price and sales unit for the Sanjiang Chemical Ethylene Sales Agreement for each of the three years ending 31 December 2023. As advised by the Directors, such estimation was arrived taking into account of (i) the expected amount of sales of ethylene to Jiahua Energy Chemical Co. for the three years ending 31 December 2023; and (ii) the expected unit price of ethylene, taking into account the simple average prevailing market price of ethylene for the two years and 6-month period ended 30 June 2020 of approximately RMB6,300/MT.

For our due diligence purpose on the expected amount of sales of ethylene, we have (i) obtained the construction plan related to the estimated completion of the new ethylene production facility with one million metric tonne annual production capacity, we noted from the above document that the new ethylene production facilities are expected to be put into use in late 2021, and (ii) discussed with the Management Representative of the Group and he expects the maximum amount of ethylene to be sold to Jiahua Energy Chemical Co. for the years ending 31 December 2021, 2022 and 2023 would be approximately 17,000MT, 68,000MT and 136,000MT, which are within the annual production capacity of the new ethylene production facility. For our due diligence purpose on the unit price of ethylene, we have reviewed the latest ethylene market price on 卓創資訊 (<http://prices.sci99.com>), an independent third party platform for commodity

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market price information, which is regulated by National Development and Reform Commission of the PRC. We noted that the latest unit price of ethylene on 卓創資訊 as at 30 October 2020 is the same as the unit price on the SES Calculation which is RMB6,300/MT. Accordingly, we are of the view that the estimated sales unit and unit price of ethylene of the Sanjiang Chemical Ethylene Sales Agreement for each of the three years ending 31 December 2023, to be reasonable.

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

(vi) Xing Xing Port and Storage Services Agreement

Set out below are (i) the historical annual caps for the three years ending 31 December 2020; (ii) the historical transaction amount for the two years ended 31 December 2019 and the 8 months ended 31 August 2020; and (iii) the annual caps for the three years ending 31 December 2023 for the Xing Xing Port and Storage Services Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the 8-month ended 31 August 2020 RMB'000
Historical annual caps	70,000	70,000	70,000
Historical transaction amount	52,601	61,210	48,583 <i>(Note 1)</i> 72,875 <i>(Note 2)</i>
Utilization rate	75.1%	87.4%	104.1% <i>(Note 2)</i>

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	For the year ending 31 December 2021 <i>RMB'000</i>	For the year ending 31 December 2022 <i>RMB'000</i>	For the year ending 31 December 2023 <i>RMB'000</i>
Proposed annual caps (the “ XXP Caps ”)	84,400	84,400	84,400

Notes:

1. For the 8-month period ended 31 August 2020.
2. Annualized amount for the year ending 31 December 2020.

As advised by the Directors, in arriving at the XXP Caps, the Directors considered factors set out under the section headed “3. THE PORT AND STORAGE SERVICES AGREEMENTS — Basis of Annual Caps” of the Board Letter.

To assess the fairness and reasonableness of the XXP Caps, we have obtained and reviewed the calculation of the XXP Caps (the “**XXP Calculation**”). We noted that XXP Calculation is derived from the estimated unit rate and unit of service to be acquired under the Xing Xing Port and Storage Services Agreement for each of the three years ending 31 December 2023, by making reference to the historical average unit rate and unit of service acquired by Xing Xing from Mei Fu Port during the 8 months ended 31 August 2020, being the latest available information to the Directors when determining the XXP Caps.

Based on the XXP Calculation, (i) the estimated unit rate is approximately the same as the average unit rate for the 8 months ended 31 August 2020; (ii) the estimated unit of service for each of the three years ending 31 December 2023 is also approximately the same as the annualized purchase unit for the year ending 31 December 2020; and (iii) a buffer of 15.0% is included for each of the three years ending 31 December 2023, in light of the high utilization rate of historical annual cap in the past few years.

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

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(vii) Sanjiang Chemical Port and Storage Services Agreement

Set out below are (i) the historical annual caps for the three years ending 31 December 2020; (ii) the historical transaction amount for the two years ended 31 December 2019 and the 8 months ended 31 August 2020; and (iii) the annual caps for the three years ending 31 December 2023 for the Sanjiang Chemical Port and Storage Services Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the 8-month period ended 31 August 2020 RMB'000
Historical annual caps	5,000	13,000	13,000
Historical transaction amount	4,625	8,488	6,994 <i>(Note 1)</i> 10,491 <i>(Note 2)</i>
Utilization rate	92.5%	65.3%	80.7% <i>(Note 2)</i>
	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Proposed annual caps (the “SCP Caps”)	77,100	146,000	146,000

Notes:

1. For the 8-month period ended 31 August 2020.
2. Annualized amount for the year ending 31 December 2020.

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As advised by the Directors, in arriving at the SCP Caps, the Directors considered factors set out under the section headed “3. THE PORT AND STORAGE SERVICES AGREEMENTS — Basis of Annual Caps” of the Board Letter.

To assess the fairness and reasonableness of the SCP Caps, we have obtained and reviewed the calculation of the SCP Caps (the “**SCP Calculation**”). We noted that SCP Calculation is derived from the estimated unit rate and unit of service to be acquired under the Sanjiang Chemical Port and Storage Services Agreement for each of the three years ending 31 December 2023, by making reference to the historical average unit rate and unit of service acquired by Sanjiang Chemical from Mei Fu Port during the 8 months ended 31 August 2020, being the latest available information to the Directors when determining the SCP Caps.

Based on the SCP Calculation, (i) the estimated unit rate per tonne is approximately the same as the average unit rate for the 8 months ended 31 August 2020; (ii) the estimated unit of service for the year ending 31 December 2021 represents an approximately 514.8% increment to the annualized unit of service for the year ending 31 December 2020, while the estimated unit of service for each of the two years ending 31 December 2023 represents a further increase of approximately 87.5% as compared to the estimated unit of service for the year ending 31 December 2021; and (iii) a buffer of 20.0% is included for each of the three years ending 31 December 2023.

For our due diligence on the estimated unit rate, we have reviewed the SCP calculation and noted the estimated unit rate for each of the three years ending 31 December 2023 were prepared based on historical transaction statistic of Sanjiang Chemical, which we consider is an acceptable basis to determine the estimated unit rate.

For our due diligence purpose on the estimated unit of service, it is expected that there will be a substantial increase on the demand of Port and Storage Services for the three years ending 31 December 2023. We understand from the Board Letter that the expected increment is due to the growth of production capacities of EO and EG of Sanjiang Chemical as a result of the ramp up of the New Production Facilities, which will led to an increase in the Group’s annual demand for Port and Storage Services by approximately 2,000,000MT in terms of feedstock procurement. We have obtained the construction plan of the New Production Facilities, we noted from the above document that the New Production Facilities are expected to be put into use in late 2021, therefore the demand of Port and Storage Services should grow starting from 2021 in order to satisfy the need of in the feedstock procurement. We have also discussed with the Management Representative of the Group in relation to the basis of expected increase in demand of approximately 2,000,000MT annually arising from the New Production Facilities, during the discussion we have not identified any major factor which caused us to doubt the fairness and reasonableness of the expected increase in demand of Port and Storage Services.

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As for the 20.0% buffer, taking into account that (i) the annualized historical transaction amount for the year ending 31 December 2020 represents an increase of approximately 23.6% as compared to the historical transaction amount for the year ended 31 December 2019; and (ii) to cover the circumstances unforeseen by the Directors in relation to the Port and Storage Services derived from the new production facilities, we consider the buffer of 20.0% to be acceptable.

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

(viii) Sanjiang New Material Port and Storage Services Agreement

Set out below are (i) the historical annual caps for the three years ending 31 December 2020; (ii) the historical transaction amount for the two years ended 31 December 2019 and the 8 months ended 31 August 2020; and (iii) the annual caps for the three years ending 31 December 2023 for the Sanjiang New Material Port and Storage Services Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the 8-month period ended 31 August 2020 RMB'000
Historical annual caps	3,500	6,000	6,000
Historical transaction amount	2,968	1,893	2,108 <i>(Note 1)</i> 3,162 <i>(Note 2)</i>
Utilization rate	84.8%	31.6%	52.7% <i>(Note 2)</i>

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	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Proposed annual caps (the “SNMP Caps”)	8,400	8,400	8,400

Notes:

1. For the 8-month period ended 31 August 2020.
2. Annualized amount for the year ending 31 December 2020.

As advised by the Directors, in arriving at the SNMP Caps, the Directors considered factors set out under the section headed “3. THE PORT AND STORAGE SERVICES AGREEMENTS — Basis of Annual Caps” of the Board Letter.

To assess the fairness and reasonableness of the SNMP Caps, we have obtained and reviewed the calculation of the SNMP Caps (the “**SNMP Calculation**”). We noted that SNMP Calculation is derived from the estimated unit rate and unit of service to be acquired under the Sanjiang New Material Port and Storage Services Agreement for each of the three years ending 31 December 2023, by making reference to the historical average unit rate and unit of service acquired by Sanjiang New Material from Mei Fu Port during the 8 months ended 31 August 2020, being the latest available information to the Directors when determining the SNMP Caps.

Based on the SNMP Calculation, (i) the estimated unit rate per tonne is approximately the same as the average unit rate for the 8 months ended 31 August 2020; (ii) the estimated unit of service for each of the three years ending 31 December 2023 is approximately the same as the total annualized unit of service acquired by Sanjiang New Materials from Mei Fu Port, other independent port service providers and local land transportation during the 8 months period ended 31 August 2020; and (iii) a buffer of 20.0% is included for each of the three years ending 31 December 2023 to cover the circumstances unforeseen by the Directors in relation to the Port and Storage Services derived from the New Production Facilities.

For our due diligence purpose, we have reviewed the SNMP calculation and noted both the estimated unit rate and estimated unit of service for each of the three years ending 31 December 2023 were prepared based on historical transaction statistic of Sanjiang New Material, which we consider is an acceptable basis. As for the 20.0% buffer, taking into account that the increase of approximately 28.4% in the sales volume of EO in 1H2020 as compared to 1H2019, we consider the buffer of 20.0% to be acceptable.

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

(ix) Sanjiang Haojia Port and Storage Services Agreement

Set out below are (i) the historical annual caps for the three years ending 31 December 2020; (ii) the historical transaction amount for the two year ended 31 December 2019 and the 8 months ended 31 August 2020; and (iii) the annual caps for the three years ending 31 December 2023 for the Sanjiang Haojia Port and Storage Services Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the 8-month period ended 31 August 2020 RMB'000
Historical annual caps	—	4,000	4,000
Historical transaction amount	—	996	284 <i>(Note 1)</i> 426 <i>(Note 2)</i>
Utilization rate	—	24.9%	10.7% <i>(Note 2)</i>
	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Proposed annual caps (the “SHP Caps”)	5,600	5,600	5,600

Notes:

1. For the 8-month period ended 31 August 2020.
2. Annualized amount for the year ending 31 December 2020.

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As advised by the Directors, in arriving at the SHP Caps, the Directors considered factors set out under the section headed “3. THE PORT AND STORAGE SERVICES AGREEMENTS — Basis of Annual Caps” of the Board Letter.

To assess the fairness and reasonableness of the SHP Caps, we have obtained and reviewed the calculation of the SHP Caps (the “**SHP Calculation**”). We noted that SHP Calculation is derived from the estimated unit rate and unit of service to be acquired under the Sanjiang Haojia Port and Storage Services Agreement for each of the three years ending 31 December 2023, by making reference to the historical average unit rate and unit of service acquired by Sanjiang Haojia from Mei Fu Port during the 8 months ended 31 August 2020, being the latest available information to the Directors when determining the SHP Caps.

Based on the SHP Calculation, (i) the estimated unit rate per tonne is approximately the same as the average unit rate for the 8 months ended 31 August 2020; (ii) the estimated unit of service for each of the three years ending 31 December 2023 is approximately the same as the total annualized unit of service acquired by Sanjiang Haojia from Mei Fu Port, other independent port service providers and local land transportation during the eight months period ended 31 August 2020; and (iii) a buffer of 20.0% is included for each of the three years ending 31 December 2023 to cover the circumstances unforeseen by the Directors in relation to the Port and Storage Services.

For our due diligence purpose, we have reviewed the SHP calculation and noted both the estimated unit rate and estimated unit of service for each of the three years ending 31 December 2023 were prepared based on historical transaction statistic of Sanjiang Haojia, which we consider is an acceptable basis. As for the 20.0% buffer, taking into account that the increase of approximately 44.8% in the sales volume of PP in FY2019 as compared to FY2018, we consider the buffer of 20.0% to be acceptable.

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

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(x) Sanjiang Chemical and Jiahua Energy Storage Services Agreement

Set out below are the annual caps for the three years ending 31 December 2023 for the Sanjiang Chemical and Jiahua Energy Storage Services Agreement summarised in accordance with relevant figures in (a) the announcement of the Company dated 12 November 2020; and (b) the Board Letter:

	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Proposed annual caps (the “ SCJE Caps ”)	80,000	156,000	312,000

As advised by the Directors, there are no historical transaction figures available as Sanjiang Chemical did not procure Port and Storage Services from Jiahua Energy Chemical Co. for the three years ending 31 December 2020. In arriving at the SCJE Caps, the Directors considered factors set out under the section headed “THE PORT AND STORAGE SERVICES AGREEMENTS — Basis of Annual Caps” of the Board Letter.

To assess the fairness and reasonableness of the SCJE Caps, we have obtained and reviewed the calculation of the SCJE Caps (the “**SCJE Calculation**”). We noted that SCJE Calculation is derived from the estimated unit rate and unit of service to be acquired under the Sanjiang Chemical and Jiahua Energy Storage Services Agreement for each of the three years ending 31 December 2023.

Based on the SCJE Calculation, (i) the estimated unit rate per tonne is the prevailing market rate of Port and Storage Services with low temperature chemical storage requirement in Zhapu area of Jiaying City; (ii) the estimated unit of service represents the estimated need of Port and Storage Service by Sanjiang Chemical arising from the New Production Facilities, in which the New Production Facilities will gradually ramp up its production in late 2021 and to its full capacities in 2023; and (iii) a buffer of 20.0% is included for each of the three years ending 31 December 2023.

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For our due diligence purpose on the estimated unit rate per tonne, we have requested and the Company provided us an independent service provider quotation. We noted from the quotation that (i) the service provider offers similar port and storage services offered by Jiahua Energy Chemical Co.; and (ii) the unit rate per tonne offered by the independent service provider is RMB200 per tonne, which is an acceptable basis for the estimated unit rate of the SCJE Calculation. For our due diligence purpose on the estimated unit of service, we have obtained the construction plan related to the estimated completion of the New Production Facilities, we noted from the above document that the New Production Facilities are expected to be put into use in late 2021. We have also discussed with the Management Representative of the Group in relation to the basis of the Group's demand for Port and Storage Services by approximately 1,300,000MT annually arising from the New Production Facilities, we were given to understand that the expected demand was based on the Company's estimation that around 1.3MT low temperature chemical storage capacity is needed for 1MT EO/EG. During the discussion with the Management Representative of the Group, we have not identified any major factor which caused us to doubt the fairness and reasonableness of the expected demand in Port and Storage Service by Sanjiang Chemical.

As for the 20.0% buffer, taking into account that to cover the circumstances unforeseen by the Directors in relation to the Port and Storage Services, we consider the buffer of 20.0% to be acceptable.

In light of the above factors, we consider that the SCJE 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 2023, and they do not represent forecasts of cost to be incurred or revenue to be generated from the continuing connected transactions contemplated under the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements. Consequently, we express no opinion as to how closely the actual revenue/cost to be generated/incurred from the continuing connected transactions contemplated under the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements 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 continuing connected transactions contemplated under the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements must be restricted by their respective Annual Caps; (ii) the terms of the continuing connected transactions contemplated under the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements (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 continuing connected transactions contemplated under the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements 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 continuing connected transactions contemplated under the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements (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 continuing connected transactions contemplated under the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements are anticipated to exceed their respective Annual Caps, or that there is any proposed material amendment to the terms of the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement or the Port and Storage Services Agreements, 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 continuing connected transactions contemplated under the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements 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 Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the continuing connected transactions contemplated under the Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements 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 Steam Supply Agreements, Sanjiang Chemical Ethylene Sales Agreement and the Port and Storage Services Agreements and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,

For and on behalf of

Titan Financial Services Limited

Eric Koo

Douglas Cheung

Managing Director

Associate Director

Mr. Eric Koo is a licensed person registered with the Securities and Futures Commission and a responsible officer of Titan Financial Services Limited to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). He has over 20 years of experience in corporate finance.

Mr. Douglas Cheung is a licensed person registered with the Securities and Futures Commission and a responsible officer of Titan Financial Services Limited to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). He has over 4 years of experience in corporate finance.

The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

(a) Purpose of the Share Option Scheme

The purpose of this Share Option Scheme is to enable the Board to grant options to Eligible Persons (as defined below) as incentives or rewards for their contribution or potential contribution to the Group and to recruit and retain high calibre Eligible Persons and attract human resources that are valuable to the Group.

(b) Who may join

- (i) any employee (whether full time or part time) of the Group or any entity (the “**Invested Entity**”) in which any member of the Group holds any shareholding (including any executive director but excluding any non-executive director of the Group or any Invested Entity); and
- (ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;

(each of the above, “**Eligible Persons**”).

(c) Maximum number of Shares

- (i) Notwithstanding anything to the contrary herein, the maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30.0% of the total number of Shares in issue from time to time (“**Overall Limit**”). No option under any schemes may be granted if this will result in the Overall Limit being exceeded.
- (ii) The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 119,000,000 Shares, being 10.0% of the total number of Shares (assuming no options are granted under the Share Option Scheme) in issue on the Adoption Date (the “**Scheme Limit**”) unless approved by our Shareholders pursuant to paragraph (iv) below. Options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company shall not be counted for the purpose of calculating the Scheme Limit.

(d) Maximum entitlement of each eligible participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (“**Individual Limit**”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders at a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). A circular must be prepared by the Company explaining the proposed grant, containing, among other matters, (i) the number and terms of the Options to be granted, (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a grantee) to the independent shareholders as to voting, and (iii) information as may be required by the Stock Exchange from time to time.

In addition, where any grant of share options to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK\$5 million, in a 12-month period up to and including the date of grant, such grant of share options are subject to Shareholders’ approval in a general meeting.

(e) Time of acceptance and exercise of an option

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

(f) Performance targets

Unless the Directors otherwise determine and state in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options can be exercised.

(g) Subscription price for Shares

The subscription price of the Shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:

- (i) the closing price of Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and
- (iii) the nominal value of the Shares.

(h) Ranking of Shares

The Shares to be allotted and issued pursuant to the exercise of an option shall be subject to the Company's constitutional documents for the time being in force and shall rank *pari passu* in all respects with the Shares in issue of the Company as at the date of allotment and will entitle the holders to participate in all dividends or other distributions declared or recommended or resolved to be paid or made in respect of a record date falling on or after the date of allotment.

(i) Restrictions on the time of grant of options

No offer of an option shall be made and option shall be granted to any Eligible Person after a price sensitive event has occurred or a price sensitive matter has come to the knowledge of the Board until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's result for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year or half-year or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no option shall be granted.

(j) Period of the Share Option Scheme

Subject to earlier termination by the Company in general meeting or variation or amendment by the Board, the Share Option Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date, after which period no further option shall be granted. All options granted and accepted and remaining unexercised immediately prior to expiry of the Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

(k) Rights on cessation of employment

Where the grantee of an outstanding option ceases to be an Eligible Person for any reason other than his serious illness, death, retirement in accordance with his contract of employment or service or the termination of his contract of employment or service on one or more of the grounds specified in paragraph (m) below, the grantee may exercise his outstanding options within three months following the date of such cessation, and any such options not exercised shall lapse and determine at the end of the said period of three months.

(l) Rights on dismissal

If the grantee of an option is an Eligible Person and ceases to be an Eligible Person by reason of a termination of his contract of employment or service on any one or more grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option (to the extent not already exercised) will lapse automatically and not be exercisable on the date of cessation of being an Eligible Person.

(m) Rights on death

Where the grantee of an outstanding option dies before exercising the option in full or at all, the option may be exercised in full or in part (to the extent not already exercised) by his personal representative(s) within 12 months from the date of death or such period extended by the Board.

(n) Rights on a general offer

If a general or partial offer is made to all the Shareholders (other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror), the Directors shall as soon as practicable notify the option holder accordingly. An option holder shall be entitled to exercise his outstanding options in whole or in part within 14 days of receipt of such notice. To the extent that any option has not been so exercised, it shall upon the expiry of such period lapse and determine.

(o) Rights on winding-up

If notice is given of a general meeting of the Company at which a resolution will be proposed for the voluntary winding-up of the Company, the Company shall forthwith give notice thereof to all option holders and each option holder shall be entitled, at any time not later than two business days prior to the proposed general meeting of the Company to exercise his outstanding options in whole or in part. The Company shall as soon as possible and in any event no later than one business day

prior to the date of such general meeting, allot and issue such number of Shares to the option holders which fall to be issued on such exercise. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up.

(p) Rights on compromise or arrangement between the Company and its creditors

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all option holders on the same date as it gives notice of the meeting to the Shareholders and the Company's creditors, and thereupon each option holder shall be entitled, at any time not later than two business days prior to the proposed meeting of the Company, to exercise his outstanding options in whole or in part. The Company shall as soon as possible and in any event no later than one business day prior to the date of such general meeting, allot and issue such number of Shares to the option holders which fall to be issued on such exercise. Subject thereto, all options then outstanding shall lapse and determine upon such compromise or arrangement becoming effective.

(q) Reorganisation of capital structure

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalisation issue, rights issue, subdivision or consolidation of shares or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction), the Company shall (if applicable) make corresponding alterations (if any), in accordance with Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including but not limited to the supplemental guidance issued by the Stock Exchange on 5 September 2005) to:

- (i) the number or nominal amount of Shares comprised in each option for the time being outstanding; and/or
- (ii) the subscription price; and/or
- (iii) the Scheme Limit; and/or
- (iv) the Participant Limit;

as the auditors or the independent financial adviser to the Company shall certify in writing to the Board to be in their opinion fair and reasonable, provided that:

- (a) the aggregate Subscription Price payable by an option holder on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such adjustment;

- (b) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (c) no adjustment will be required in circumstances when there is an issue of Shares as consideration in a transaction; and
- (d) any adjustment shall be made in accordance with the provisions of Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including but not limited to the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes).

In addition, in respect of any such adjustments, other than any made on a capitalisation issue, the auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

(r) Cancellation of options

The Board may cancel an option granted but not exercised with the approval of the option holder. No compensation shall be payable to the option holder for cancellation of the options granted but not exercised. Any such options cancelled by the Company cannot be re-granted to the same Eligible Person; the issue of new options must be made under the Share Option Scheme with available unissued options (excluding the cancelled options) within the Scheme Limit.

(s) Termination of the Share Option Scheme

The Company, by resolution in general meeting, or our Board may at any time terminate the operation of the Share Option Scheme before the expiry of the Share Option Scheme and in such event no further option will be offered but in all other respects the provision of the Share Option Scheme shall remain in full force and effect. All options granted and accepted and remaining unexpired immediately prior to such termination shall continue to be valid and exercisable in accordance with their terms and the terms of the Share Option Scheme.

(t) Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable or transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (whether legal or beneficial) in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle the Company to cancel any outstanding option or part thereof granted to such grantee.

(u) Lapse of option

The right to exercise an option (to the extent not already exercised) shall lapse immediately upon the earliest of:

- (i) the expiry of the option period to be determined and notified by our Board to the grantee;
- (ii) the expiry of the periods as referred to in sub-paragraphs (l), (n), (o), (p) and (q) respectively;
- (iii) subject to sub-paragraph (p), the date of the commencement of the winding-up of our Company;
- (iv) the date on which the grantee ceases to be an Eligible Person by reason of the termination of his contract of employment or service on any one or more grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally or has been convicted of any criminal offence involving his integrity or honesty; and
- (v) the date on which the Directors cancel any outstanding option or part thereof on the ground the grantee commits a breach of the Share Option Scheme.

(v) Alterations to the Share Option Scheme

- (i) The provisions relating to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of eligible participants without the prior approval of Shareholders in a general meeting.
- (ii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by Shareholders, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (iii) The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (iv) Any change to the authority of the Directors or the administrator of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in a general meeting.
- (v) The Company must provide to all grantees all details relating to changes in the terms of the Share Option Scheme during the life of the Share Option Scheme immediately upon such changes taking effect.

(w) Conditions

The Share Option Scheme is conditional upon:

- (i) the passing of the relevant resolution(s) by the Shareholders at the EGM to approve and adopt the Share Option Scheme; and
- (ii) the Listing Committee granting approval for the listing of, and permission to deal in, any Shares to be issued and allotted pursuant to the exercise of options granted under the Share Option Scheme.

(x) Miscellaneous

The terms of the Share Option Scheme (and any other schemes adopted by the Company from time to time) shall be in accordance with the requirements set out in Chapter 17 of the Listing Rules. The Company will comply with the relevant statutory requirements and the Listing Rules from time to time in force on a continuing basis in respect of the Share Option Scheme and any other schemes of the Company.

Any dispute arising in connection with the number of Shares of an option and any of the matters referred to in paragraph (r) above shall be referred to the decision of the Company's auditors or the independent financial advisers of the Company who shall act as experts and not as arbitrators and whose decision, in the absence of manifest error, shall be final, conclusive and binding on all persons who may be affected thereby.

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS

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

(a) Long positions in the Shares

Name of Directors	Number of Shares			Total	Approximate % of issued share capital ³
	Personal Interest	Family Interest	Trust/ Corporate Interest		
Ms. Han	—	19,738,000 ¹	506,451,000 ²	526,189,000	44.22%
Mr. Rao Huotao	225,000	—	—	225,000	0.02%
Mr. Han Jianping	1,843,000	—	—	1,843,000	0.11%

Notes:

- (1) These shares are beneficially owned by Mr. Guan, the spouse of Ms. Han. Under the SFO, Ms. Han is deemed to be interested in such shares and both Mr. Guan and Ms. Han are also deemed to be interested in 506,451,000 Shares mentioned in Note 2 below.
- (2) The 506,451,000 Shares are held by Sure Capital Holdings Limited (“**Sure Capital**”), which is wholly-owned by Yihao Development Limited, which in turn is held under the Yihao Trust, the trustee of which is Vistra Trust (Singapore) Pte. Ltd (“**Vistra Singapore**”). The Yihao Trust was established by Mr. Guan and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Mr. Guan, Ms. Han, Vistra Singapore are deemed to be interested in the Shares under the SFO.
- (3) Based on 1,190,000,000 Shares in issue as at the Latest Practicable Date.

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

Name of Directors	Name of associated corporation	Personal Interest	Number of Shares			Approximate % of issued share capital ²
			Family Interest	Trust/Corporate Interest	Total	
Ms. Han	Sure Capital	—	—	506,451,000 ¹	506,451,000	42.56%

Notes:

- (1) The 506,451,000 Shares were held by Sure Capital, which is wholly-owned by Yihao Development Limited, which is in turn held under the Yihao Trust, the trustee of which was Vistra Singapore. The Yihao Trust was established by Mr. Guan and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Mr. Guan, Ms. Han, Vistra Singapore are deemed to be interested in the Shares under the SFO.
- (2) Based on 1,190,000,000 Shares in issue as at the Latest Practicable Date.

(c) Interests of substantial shareholders

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

Name of Shareholder	Capacity	Number of Shares	Approximate % of issued share capital ³
Mr. Guan	Interest of controlled corporation/ Beneficial Interest	526,189,000 ¹	44.22%
Vistra Trust (Singapore) Pte. Ltd	Trustee	506,451,000 ²	42.56%
Yihao Development Limited	Interest of controlled corporation	506,451,000 ²	42.56%
Sure Capital	Interest of controlled corporation	506,451,000 ²	42.56%

Notes:

- (1) Mr. Guan, the spouse of Ms. Han, beneficially owned 19,738,000 Shares. Under the SFO, Ms. Han is deemed to be interested in such shares and both Mr. Guan and Ms. Han are also deemed to be interested in 506,451,000 Shares mentioned in Note 2 below.
- (2) The 506,451,000 Shares were held by Sure Capital, which is wholly-owned by Yihao Development Limited, which is in turn held under the Yihao Trust, the trustee of which was Vistra Singapore. The Yihao Trust was established by Mr. Guan and Ms. Han as settlors for the benefit of the children of Mr. Guan and Ms. Han and their issue. Accordingly, each of Mr. Guan, Ms. Han, Vistra Singapore are deemed to be interested in the Shares under the SFO.

(3) Based on 1,190,000,000 Shares in issue as at the Latest Practicable Date.

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

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

- (a) the fatty alcohol supply agreement dated 1 January 2018 entered into between Jiahua Energy Chemical Co., a non-wholly owned subsidiary of Jiahua, a joint stock company established in the PRC with limited liability and a company which was ultimately controlled by Mr. Guan and Ms. Han and a connected person of the Company, and Sanjiang Chemical as disclosed in the announcement of the Company dated 1 January 2018;
- (b) the condensate water purchase agreement dated 1 January 2018 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. as disclosed in the announcement of the Company dated 1 January 2018;
- (c) the renewed steam supply agreement dated 1 January 2018 entered into between Jiahua Energy Chemical Co. and Xing Xing as disclosed in the announcement of the Company dated 2 January 2018;
- (d) the port and storage services agreement dated 9 January 2019 entered into between Mei Fu Port and each of Sanjiang Chemical, Sanjiang New Material and Xing Xing as disclosed in the announcement of the Company dated 9 January 2018;
- (e) the Sanjiang Chemical steam supply agreement dated 23 January 2018 entered into between Jiahua Energy Chemical Co. and Sanjiang Chemical and the Sanjiang New Material steam supply agreement dated 23 January 2018 entered into between Jiahua Energy Chemical Co. and Sanjiang New Material as disclosed in the announcement of the Company dated 23 January 2018;
- (f) the desalinated water and miscellaneous materials supply agreements dated 24 January 2018 entered into between Jiahua Energy Chemical Co. and Sanjiang Chemical and Sanjiang New Material as disclosed in the announcement of the Company dated 24 January 2018;

- (g) (i) the desalinated water and miscellaneous materials supply agreement dated 24 January 2018 entered into between Xing Xing and Jiahua Energy Chemical Co; and (ii) condensate water purchase agreement dated 24 January 2018 entered into between Xing Xing and Jiahua Energy Chemical Co. as disclosed in the announcement of the Company dated 24 January 2018;
- (h) the oxygen gas supply agreement dated 31 March 2018 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. as disclosed in the announcement of the Company dated 31 March 2018;
- (i) (i) the energy management agreement dated 29 June 2018 entered into between Sanjiang New Material and Jiahua Energy Chemical Co.; and (ii) the energy management agreement dated 29 June 2018 entered into between Xing Xing and Jiahua Energy Chemical Co. as disclosed in the announcement of the Company dated 29 June 2018;
- (j) the transfer agreement dated 5 December 2018 entered into between Jiahua Energy Chemical Co. and Sanjiang Chemical as disclosed in the announcement of the Company dated 5 December 2018;
- (k) the oxygen gas supply agreement dated 31 December 2018 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. as disclosed in the announcement of the Company dated 31 December 2018;
- (l) the low pressure steam supply agreement dated 1 February 2019 entered into between (i) 嘉興興港熱網有限公司 (Jiaying Xinggang Rewang Co., Ltd.*) (“**Jiaying Rewang**”), a limited liability company established in the PRC on 28 March 2002 and which is owned as to 50% by Jiahua Energy Chemical Co. and 50% by local government or local government related bodies, (ii) Sanjiang Chemical and (iii) Sanjiang New Material as disclosed in the announcement of the Company dated 1 February 2019;
- (m) (i) the energy management agreement dated 8 May 2019 entered into between Sanjiang Chemical and 浙江浩星節能科技有限公司 (Zhejiang Haoxing Energy Conservation Technology Co. Ltd.*) (“**Haoxing Energy Conservation**”), a company established on the PRC with limited liability owned as to approximately 55.5% by Mr. Guan; and (ii) the energy management agreement dated 8 May 2019 entered into between Sanjiang New Material and Jiahua Energy Chemical Co. as disclosed in the announcement of the Company dated 8 May 2019;
- (n) the port and storage services agreement dated 8 May 2019 entered into between Mei Fu Port and Sanjiang Haojia as disclosed in the announcement of the Company dated 8 May 2019;
- (o) the steam and miscellaneous materials supply agreement dated 8 May 2019 entered into between Jiahua Energy Chemical Co. and Sanjiang Haojia as disclosed in the announcement of the Company dated 8 May 2019;

- (p) the second supplemental agreement in relation to the provision of financial assistance dated 12 September 2019 entered into between the Company and 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 disclosed in the announcement of the Company dated 12 September 2019 (the “**2nd Supplemental LG Agreement**”);
- (q) the oxygen gas and miscellaneous materials sales agreement entered into between Sanjiang Chemical as supplier and Jiahua Energy Chemical Co. (including and covering its subsidiaries) as customer dated 15 May 2020, as disclosed in the announcement of the Company dated 15 May 2020;
- (r) (i) the energy management agreement dated 15 May 2020 entered into between Jiahua Energy Chemical Co. and Sanjiang New Material and (ii) the energy management agreement dated 15 2020 entered into between Jiahua Energy Chemical Co. and Xing Xing, as disclosed in the announcement of the Company dated 15 May 2020;
- (s) (i) the energy management agreement dated 15 May 2020 entered into between Haoxing Energy Conservation and Sanjiang Chemical, (ii) the energy management agreement dated 15 May 2020 entered into between Haoxing Energy Conservation and Sanjiang Haojia and (iii) the energy management agreement dated 15 May 2020 entered into between Haoxing Energy Conservation and Xing Xing, as disclosed in the announcement of the Company dated 15 May 2020;
- (t) the framework agreement in respect of repair and maintenance services for chemical plant and machineries of the Group entered into between the Company and Gangan Industrial 嘉興港區港安工業設備安裝有限公司 (Jiaxing Gangqu Gangan Industrial Equipment Installation Co., Ltd*), a company established in the PRC with limited liability and a connected person of the Company, as disclosed in the announcement of the Company dated 3 August 2020; and
- (u) the acquisition agreement dated 31 August 2020 entered into between Sanjiang Chemical as purchaser and Jiahua as vendor for the acquisition of 9.5% of the equity interest in Xing Xing, as disclosed in the announcement of the Company dated 31 August 2020 (the “**Xing Xing Acquisition Agreement**”).

Save as disclosed above, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

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

4. MATERIAL ADVERSE CHANGE

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

5. COMPETING BUSINESS INTERESTS OF DIRECTORS

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

6. EXPERT'S QUALIFICATION AND CONSENT

Titan Financial Services is a corporation licensed to carry out type 1 (dealing with securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Titan Financial Services 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, Titan Financial Services 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, Titan Financial Services did not have any interest, direct or indirect, in any assets which since 31 December 2019, 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.

7. LITIGATION

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

8. MATERIAL CONTRACTS

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

- (a) the 2nd Supplemental LG Agreement; and
- (b) the Xing Xing Acquisition Agreement.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office of the Company at Room 1702, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong for a period of 14 days from the date of this circular:

- (a) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (b) the Original Steam Supply Agreements and Original Port and Storage Services Agreements;
- (c) the circular of the Company dated 19 April 2018 in relation to the Original Steam Supply Agreements;
- (d) the Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement;
- (e) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (f) the letter from Titan Financial Services, the text of which is set out in this circular;
- (g) the written consent from Titan Financial Services referred to in the section headed “Expert’s Qualification and Consent” in this appendix;
- (h) a copy of the Share Option Scheme; and
- (i) this circular.

10. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Yeung Chi Lung. Mr. Yeung is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of the Group. Mr. Yeung is a member of the Hong Kong Institute of Certified Public Accountants. He joined the Group in 2019.

- (b) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is located at Room 1702, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong.
- (c) The principal share registrar and transfer office of the Company is Butterfield Fulcrum Group (Cayman) Limited at Butterfield House, 68 Fort Street, P.O. Box 609, Grand Cayman KY1-1107, Cayman Islands.
- (d) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

NOTICE OF EXTRAORDINARY GENERAL MEETING



三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED
中國三江精細化工有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2198)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**EGM**”) of **CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED** (the “**Company**”) will be held at 10:30 a.m. on Monday, 21 December 2020 at 24/F, Office Plus @ Wan Chai, 303 Hennessy Road, Wan Chai, Hong Kong for the purpose of considering and, if thought fit, approving the following resolutions as ordinary resolutions of the Company. Unless otherwise indicated, capitalised terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 3 December 2020.

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

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the renewed steam supply agreement dated 12 November 2020 entered into between 浙江興興新能源科技有限公司 (Zhejiang Xingxing New Energy Technology Co., Ltd.*) (“**Xing Xing**”) and 浙江嘉化能源化工股份有限公司 (Zhejiang Jiahua Energy Chemical Co. Ltd.*) (“**Jiahua Energy Chemical Co.**”), for the supply of high pressure steam (the “**Xing Xing Steam Supply Agreement**”), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2023 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 authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Xing Xing Steam Supply Agreement and the transactions contemplated thereunder.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “THAT:

- (a) the renewed steam supply agreement dated 12 November 2020 entered into between 三江化工有限公司 (Sanjiang Chemical Co. Ltd.*) (“**Sanjiang Chemical**”) and Jiahua Energy Chemical Co., for the supply of low, medium and high pressure steam (the “**Sanjiang Chemical Steam Supply Agreement**”), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2023 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 authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Sanjiang Chemical Steam Supply Agreement and the transactions contemplated thereunder.”

3. “THAT:

- (a) the renewed steam supply agreement dated 12 November 2020 entered into between 浙江三江化工新材料有限公司 (Zhejiang Sanjiang New Material Co., Ltd*) (“**Sanjiang New Material**”) and Jiahua Energy Chemical Co., for the supply of low and medium pressure steam (the “**Sanjiang New Material Steam Supply Agreement**”), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2023 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 authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Sanjiang New Material Steam Supply Agreement and the transactions contemplated thereunder.”

4. “THAT:

- (a) the renewed steam supply agreement dated 12 November 2020 entered into between 三江浩嘉高分子材料科技有限公司 (Sanjiang Haojia High Polymer Material Technology Co., Ltd*) (“**Sanjiang Haojia**”) and Jiahua Energy Chemical Co., for the supply of low pressure steam (the “**Sanjiang Haojia Steam Supply Agreement**”), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the annual caps for the three years ending 31 December 2023 in relation to the transactions contemplated under the Sanjiang Haojia Steam Supply Agreement be and is hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Sanjiang Haojia Steam Supply Agreement and the transactions contemplated thereunder.”

5. **“THAT:**

- (a) the ethylene sales agreement dated 12 November 2020 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co., for the supply of ethylene (the **“Sanjiang Chemical Ethylene Sales Agreement”**), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2023 in relation to the transactions contemplated under the Sanjiang Chemical Ethylene Sales Agreement be and is hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Sanjiang Chemical Ethylene Sales Agreement and the transactions contemplated thereunder.”

6. **“THAT:**

- (a) the renewed port and storage services agreement dated 12 November 2020 entered into between Xing Xing 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”**), for the provision of port and storage services (the **“Xing Xing Port and Storage Services Agreement”**), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2023 in relation to the transactions contemplated under the Xing Xing Port and Storage Services Agreement be and is hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Xing Xing Port and Storage Services Agreement and the transactions contemplated thereunder.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

7. “**THAT:**

- (a) the renewed port and storage services agreement dated 12 November 2020 entered into between Sanjiang Chemical and Mei Fu Port, for the provision of port and storage services (the “**Sanjiang Chemical Port and Storage Services Agreement**”), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2023 in relation to the transactions contemplated under the Sanjiang Chemical Port and Storage Services Agreement be and is hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Sanjiang Chemical Port and Storage Services Agreement and the transactions contemplated thereunder.”

8. “**THAT:**

- (a) the renewed port and storage services agreement dated 12 November 2020 entered into between Sanjiang New Material and Mei Fu Port, for the provision of port and storage services (the “**Sanjiang New Material Port and Storage Services Agreement**”), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2023 in relation to the transactions contemplated under the Sanjiang New Material Port and Storage Services Agreement be and is hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Sanjiang New Material Port and Storage Services Agreement and the transactions contemplated thereunder.”

9. “**THAT:**

- (a) the renewed port and storage services agreement dated 12 November 2020 entered into between Sanjiang Haojia and Mei Fu Port, for the provision of port and storage services (the “**Sanjiang Haojia Port and Storage Services Agreement**”), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2023 in relation to the transactions contemplated under the Sanjiang Haojia Port and Storage Services Agreement be and is hereby approved, confirmed and ratified; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

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

10. **“THAT:**

- (a) the port and storage services agreement dated 12 November 2020 entered into between Sanjiang Chemical and Jiahua Energy Chemical Co., for the provision of port and storage services (the **“Sanjiang Chemical and Jiahua Energy Storage Services Agreement”**), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the three years ending 31 December 2023 in relation to the transactions contemplated under the Sanjiang Chemical and Jiahua Energy Storage Services Agreement be and is hereby approved, confirmed and ratified; and
- (c) the directors of the Company be and are hereby authorised to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the Sanjiang Chemical and Jiahua Energy Storage Services Agreement and the transactions contemplated thereunder.”

11. **“THAT:**

- (a) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares (the **“Shares”**) of HK\$0.1 each in the capital of the Company falling to be allotted and issued pursuant to the exercise of any options granted pursuant to the share option scheme of the Company (the **“Share Option Scheme”**), the terms of which are set out in the document marked “A” which has been produced to this meeting and signed by the chairman of this meeting for the purpose of identification, the rules of the Share Option Scheme be and are hereby approved and adopted and the directors of the Company be and are hereby authorised to approve further amendments to the rules of the Share Option Scheme as may be acceptable or not objected by the Stock Exchange and to grant options and to allot, issue and deal with any Shares pursuant to the exercise of any options granted thereunder and to take all such steps as they may consider necessary or expedient to give effect to the Share Option Scheme; and
- (b) the aggregate nominal amount of share capital to be allotted and issued pursuant to resolution numbered 11(a) above, together with any issue of Shares upon the exercise of any options granted under any other share option

NOTICE OF EXTRAORDINARY GENERAL MEETING

schemes of the Company as may from time to time adopted by the Company, shall not exceed 10% of the total number of issued Shares as at the date of passing of this resolution.”

For and on behalf of the Board of
China Sanjiang Fine Chemicals Company Limited
HAN Jianhong
Chairlady and executive Director

Hong Kong, 3 December 2020

Notes:

1. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. In order to be valid, a form of proxy and the power of attorney (if any) or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof.
3. The register of members of the Company will not be closed for the purpose of ascertaining the right of shareholders of the Company to attend and vote at the EGM to be held on Monday, 21 December 2020. However, in order to qualify for attending and voting at the EGM, all transfers documents accompanied by the relevant share certificates must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 15 December 2020.
4. Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the EGM convened and in such event, the form of proxy shall be deemed to be revoked.
5. In the case of joint registered holders of any share, any one of such joint registered holders may vote at the EGM, 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 registered holders be present at the EGM, the vote of the senior who tenders a vote either personally or by proxy shall be accepted to the exclusion of the votes of the other joint registered holders and, 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.

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6. If Typhoon Signal No. 8 or above, or a “black” rainstorm warning is in effect any time after 8:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at (www.chinasanjiang.com) and on the HKExnews website of the Stock Exchange at (www.hkexnews.hk) to notify Shareholders of the date, time and venue of the rescheduled meeting.
7. At the EGM (or at any adjournment thereof), the chairman of the meeting put the above resolution to the vote by way of poll pursuant to the Listing Rules. The poll results will be published on the website of the Company and the website of the Stock Exchange in accordance with the Listing Rules.
8. In case of inconsistency between the English and Chinese version of this notice of EGM, the English version shall prevail.

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