THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This Circular is addressed to the Shareholders in connection with the EGM to be held at 10:00 a.m. on 29 August 2016.

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三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED
中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

(1) MAJOR AND CONNECTED TRANSACTION — DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY; (2) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION — FINANCIAL ASSISTANCE TO THE TARGET COMPANY UPON COMPLETION OF THE DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY; (3) PROPOSED CONDITIONAL SPECIAL DIVIDEND; AND (4) NOTICE OF EGM

Independent Financial Advisor to the
Independent Board Committee and the Independent Shareholders
Gram Capital Limited

Gram Capital Limited
嘉林資本有限公司

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 5 to 28 of this Circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 29 to 30 of this Circular. A letter from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 49 of this Circular.

A notice convening the EGM to be held at Compass Office, L20, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong at 10:00 a.m. on 29 August 2016 is set out on pages 72 to 74 of this Circular. If you are not able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

12 August 2016

CONTENTS

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

"Announcement"	announcement of the Company dated 17 June 2016 in relation to, among other matters, the Disposal and the Financial Assistance
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day(s) (excluding Saturday(s), Sunday(s) and statutory holiday(s) in Hong Kong)
"Capitol International"	Capitol International Limited (佳都國際有限公司), a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company
"Circular"	the circular of the Company dated 12 August 2016 in relation to, among other matters, the Disposal and the Financial Assistance
"Company"	China Sanjiang Fine Chemicals Company Limited (中國三江精細化工有限公司), a company incorporated in the Cayman Islands and the issued Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the SP Agreement, which shall take place on the Completion Date
"Completion Date"	the date which Completion takes place
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"Consideration"	RMB306,000,000, being the consideration for the Disposal
"Director(s)"	director(s) of the Company
"Disposal"	the disposal of the Sale Interest pursuant to the terms and conditions of the SP Agreement
"EGM"	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving and ratifying the SP Agreement, the LG Agreement and the transactions contemplated thereunder by the Independent Shareholders and approving the Special Dividend by the Shareholders
"Financial Assistance"	collectively, the Loan and the Guarantee
"Group"	collectively, the Company and its subsidiaries from time to time

"Guarantee"	the provision of guarantee by the Group to certain banks in favour of the Target Company in respect of the repayment obligations of the Target Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee of the Board comprising all the existing independent non-executive Directors that joined the Company on or before 17 June 2016, when the Company entered into the SP Agreement and LG Agreement, who have no material interest in the SP Agreement, the LG Agreement and the transactions contemplated thereunder; namely, Mr. Shen Kaijun and Ms. Pei Yu
"Independent Financial Adviser" or "Gram Capital"	Gram Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the SP Agreement, the LG Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders who are not involved or interested in the SP Agreement, the LG Agreement and the transactions contemplated thereunder (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 and a company which was owned as to 67.43% by 杭州浩明投資有限公司 (Hangzhou Haomin Investment Company Limited*), a company established in the PRC with limited liability and was owned by Mr. Guan, Ms. Han and Mr. Han Jianping (being an executive Director) as to 75.00%, 20.00% and 5.00% respectively as at the Latest Practicable Date
"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 with limited liability in the PRC and owned by Jiahua and Mr. Guan as to approximately 61.047% and 2.15% respectively, and a connected person of the Company as at the Latest Practicable Date

"Jianghao Investment"	嘉興港區江浩投資發展有限公司 (Jiaxing Gangqu Jianghao Investment Development Company Limited*), a company established in PRC with limited liability and a company which was owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% as at the Latest Practicable Date, a connected person of the Company
"Latest Practicable Date"	11 August 2016, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein
"LG Agreement"	the loan and guarantee agreement dated 17 June 2016 (as amended by the Supplemental LG Agreement) and entered into between the Company and the Target Company which will become effective upon Completion
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	the loan of approximately RMB1,050,000,000 owed by the Target Company to the Group as at the Latest Practicable Date
"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 a wholly-owned subsidiary of Jiahua Energy Chemical Co and a connected person of the Company as at the Latest Practicable Date
"Mr. Guan"	Mr. Guan Jianzhong, an executive Director
"Ms. Han"	Ms. Han Jianhong, an executive Director
"PRC"	the People's Republic of China, which for the purpose of this Circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchasers"	collectively, Sure Capital and Jianghao Investment
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interest"	an aggregate of 51.00% equity interest in the registered capital of the Target Company
"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 and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"Share(s)"	ordinary share(s) of HK$0.10 each in the capital of the Company
"Shareholders"	shareholders of the Company
"SP Agreement"	the sale and purchase agreement dated 17 June 2016 (as amended by the Supplemental SP Agreement) and entered into between the Vendors and the Purchasers in respect of, among other things, the Disposal
"Special Dividend"	special dividend in the total amount of approximately HK$148,966,000
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Supplemental LG Agreement"	the supplemental agreement to the LG Agreement dated 11 August 2016 and entered into between the Company and the Target Company
"Supplemental SP Agreement"	the supplemental agreement to the SP Agreement dated 11 August 2016 and entered into between the Vendors and the Purchasers
"Sure Capital"	Sure Capital Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a company owned as to approximately 84.71% and 15.29% by Mr. Guan and Ms. Han respectively as at the Latest Practicable Date, a connected person of the Company
"Target Company"	浙江美福石油化工有限責任公司 (Zhejiang Mei Fu Petrochemical Co., Ltd*), a company established in the PRC with limited liability and a joint venture of the Company as at the Latest Practicable Date
"Vendors"	collectively, Sanjiang Chemical and Capitol International
"Xing Xing"	浙江興興新能源科技有限公司 (Zhejiang Xing Xing New Energy Technology Co., Ltd.*), a company established in the PRC with limited liability on 19 January 2011 and a non-wholly owned subsidiary of the Company, which was indirectly owned as to 75% by the Company, 12% by Jiahua and 13% by independent third parties as at the Latest Practicable Date
"%"	per cent.

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

SANJIANG CHEMICAL

三江化工

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

Executive Directors:
Mr. Guan Jianzhong *(Chairman)*
Ms. Han Jianhong
Mr. Niu Yingshan
Mr. Han Jianping

Independent non-executive Directors:
Mr. Shen Kaijun
Ms. Pei Yu
Mr. Kong Liang

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

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

12 August 2016

(1) MAJOR AND CONNECTED TRANSACTION — DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY; (2) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION — FINANCIAL ASSISTANCE TO THE TARGET COMPANY UPON COMPLETION OF THE DISPOSAL OF 51% OF EQUITY INTEREST IN THE TARGET COMPANY; AND (3) PROPOSED CONDITIONAL SPECIAL DIVIDEND

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

Reference is made to the (i) Announcement in relation to, among other matters, the transactions contemplated under each of the SP Agreement and the LG Agreement; and (ii) announcement of the Company dated 11 August 2016 in relation to the Supplemental SP Agreement and the Supplemental LG Agreement.

The purpose of this Circular is to provide you with, among other matters, (i) further information on each of the SP Agreement and the LG Agreement and the transactions contemplated thereunder and the proposed conditional special dividend; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the advice from Gram Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM and the form of proxy.

(1) MAJOR AND CONNECTED TRANSACTION — DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY

The Directors announce that, on 17 June 2016 (as amended by the Supplemental SP Agreement), the Vendors (each a wholly-owned subsidiary of the Company) as vendors entered into the SP Agreement with the Purchasers, pursuant to which the Vendors have conditionally agreed to sell and the Purchasers have conditionally agreed to purchase the Sale Interest for a consideration of RMB306,000,000 (equivalent to approximately HK$360,000,000). The principal terms of the SP Agreement are set out below.

The SP Agreement

Date: 17 June 2016 (after trading hours)

Parties:

Vendors:

(1) Sanjiang Chemical (an indirect wholly-owned subsidiary of the Company) as vendor for 18.00% equity interest in the Target Company; and

(2) Capitol International (a direct wholly-owned subsidiary of the Company) as vendor for 33.00% equity interest in the Target Company

Purchasers:

(1) Jianghao Investment; and

(2) Sure Capital

As at the Latest Practicable Date, Sure Capital was owned by Mr. Guan and Ms. Han as to approximately 84.71% and 15.29% respectively, while Jianghao Investment was owned by Mr. Guan and Ms. Han as to 80.00% and 20.00%.

Subject matter

Pursuant to the SP Agreement, the Vendors have conditionally agreed to sell and the Purchasers have conditionally agreed to purchase the Sale Interest, being an aggregate of 51.00% equity interest in the entire registered capital of the Target Company, subject to the terms contained therein.

Consideration and payment method

The Consideration shall be RMB306,000,000, as to RMB108,000,000 to Sanjiang Chemical and RMB198,000,000 to Capitol International. The Consideration shall be payable by the respective Purchasers to the respective Vendors in the following manner:

(1) RMB30,600,000, being 10% of the Consideration, shall be payable within five Business Days from the signing of the SP Agreement as a deposit and part payment (the "**Deposit**") of the Consideration, as to RMB10,800,000 shall be payable by Jianghao Investment to Sanjiang Chemical and RMB19,800,000 shall be payable by Sure Capital to Capitol International;

(2) RMB91,800,000, being 30% of the Consideration, shall be payable within five Business Days after the Completion Date, as to RMB32,400,000 shall be payable by Jianghao Investment to Sanjiang Chemical and RMB59,400,000 shall be payable by Sure Capital to Capitol International;

(3) RMB91,800,000, being 30% of the Consideration, shall be payable within two months after the Completion Date, as to RMB32,400,000 shall be payable by Jianghao Investment to Sanjiang Chemical and RMB59,400,000 shall be payable by Sure Capital to Capitol International; and

(4) the remaining balance of RMB91,800,000, being 30% of the Consideration, shall be payable on or before 31 December 2016 or within four months after the Completion Date (whichever is later or such later date as may be agreed between the Purchasers and the Vendors in writing), as to RMB32,400,000 shall be payable by Jianghao Investment to Sanjiang Chemical and RMB59,400,000 shall be payable by Sure Capital to Capitol International.

The Consideration shall be paid by the respective Purchasers by cheque or transferring the amount payable to a bank account designated by the respective Vendors.

The Consideration was determined after arm's length negotiation between the Vendors and the Purchasers with reference to the market value in respect of the 51% equity interest in the Target Company of approximately RMB303,400,000 as at 31 March 2016, as appraised by an independent valuer.

Conditions precedent

Completion of the SP Agreement is conditional on the satisfaction (or, where applicable, waived by the Purchasers) of the following conditions:

(a) the Independent Shareholders having passed the ordinary resolutions to approve the SP Agreement and the Disposal contemplated thereunder at the EGM;

(b) the Independent Shareholders having passed the ordinary resolutions to approve the LG Agreement and the Financial Assistance contemplated thereunder at the EGM;

(c) each the board and shareholders of the respective Purchasers having passed the resolutions to approve the SP Agreement and the Disposal contemplated thereunder;

(d) the Purchasers having satisfied with the result of the due diligence exercise on the Target Company; and

(e) all necessary approvals, consents and authorisations in respect of the Disposal being obtained from the relevant PRC regulatory authorities (if applicable).

If any of the conditions precedent set out above cannot be fulfilled or (only for items (c), (d) and (e) above) waived on or before 31 December 2016 (or such later date as may be agreed between the Purchasers and the Vendors in writing), the obligations of the parties to proceed with Completion shall cease and terminate and no party shall have any claim against or liability to the other party with respect to any matter referred to in the SP Agreement save for any antecedent breaches of the SP Agreement. The respective Vendors shall, within 10 Business Days from 31 December 2016 (or such later date as may be agreed between the Purchasers and the Vendors in writing), refund the Deposit to the respective Purchasers.

Completion

Completion shall take place on the Completion Date, being fifth Business Day following the fulfilling (or waiver, where applicable) of the conditions precedent set out in the SP Agreement or any other date as mutually agreed between the Purchasers and the Vendors in writing.

In order to safeguard the Group's interests, the Vendors and the Purchasers entered into the Supplemental SP Agreement, whereby the Purchasers undertakes, upon Completion, to pledge (the "**Pledge**") the Sale Interest held by them upon Completion in favour of the Vendors as guarantee for the Target Company's obligation under the LG Agreement. Within one month from Completion, all necessary approvals, consents and authorisation in respect of the Pledge shall be obtained from the relevant PRC regulatory authorities (if necessary). If the Target

Company fails to either repay or reduce the Financial Assistance in accordance with the schedule set out in the LG Agreement and Mr. Guan fails to honour his undertaking as to his repayment of any shortfall to the Company for the Target Company to ensure the repayment and/or reduction of the Financial Assistance in accordance with the schedule set out in the LG Agreement, the Vendors, being the members of the Group, shall enforce such security. In such case, the Disposal will be undone, which means that the Target Company will be again owned by the Group as to 51% and the Vendors will forfeit the whole amount of the Consideration and there is no obligation for the Vendors to refund any amount to the Purchasers in the case where the Disposal is undone, and the Target Company will be owned by the Group as to 51%, whereby it will cease to be a connected person of the Company and will become a joint venture of the Company again. In such circumstance, the Financial Assistance will no longer constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules upon enforcement of such security. Further announcement regarding the Pledge will be made by the Company upon Completion.

The Group has also obtained another irrecoverable undertaking dated 11 August 2016 from Mr. Guan to the Company that if the Disposal is undone and the net asset value of the Target Company as of the time when the Disposal is undone is less than the net asset value of the Target Company upon Completion, Mr. Guan, being the controlling shareholder of the Purchasers, will himself repay such shortfall (i.e. the shortfall = (i) the net asset value of the Target Company as of the time when the Disposal is undone minus (ii) the net asset value of the Target Company upon Completion times (iii) 51% i.e. his effective equity holding in the Target Company) by cash to the Company directly. The net asset value of the Target Company is an audited figure to be verified by an independent auditor under PRC Generally Accepted Accounting Principles.

The management of the Company would like to emphasis that it is legally impracticable to enter into a pledge agreement between the Vendors and Purchasers before Completion as the Purchasers will be only in a position to sign a pledge agreement and arrange a pledge after Completion.

(2) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION — FINANCIAL ASSISTANCE TO THE TARGET COMPANY UPON COMPLETION OF THE DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY

The Board announces that, on 17 June 2016, the Company entered into the LG Agreement with the Target Company, pursuant to which the Company has conditionally agreed to continue to (i) provide the Loan to the Target Company; and (ii) guarantee certain repayment obligations of the Target Company for a term of three years after Completion. The principal terms of the LG Agreement are set out below.

The LG Agreement

Date:	17 June 2016 (after trading hours)
Parties:	
Lender and guarantor:	The Group
Borrower:	The Target Company

As at the Latest Practicable Date, Sure Capital was owned by Mr. Guan and Ms. Han as to approximately 84.71% and 15.29% respectively, while Jianghao Investment was owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% respectively. Upon Completion, as the Target Company will be owned by Jianghao Investment and Sure Capital as to approximately 18.00% and 33.00% respectively, the Target Company will become an associate of Mr. Guan and Ms. Han, and is thus a connected person of the Company.

Subject matter

Pursuant to the LG Agreement, the Company has conditionally agreed to continue to (i) provide the Loan to the Target Company; and (ii) guarantee certain repayment obligations of the Target Company for a term of three years after Completion. The LG Agreement will become effective upon Completion under Chapter 14A of the Listing Rules.

Loans and Guarantees

Being the controlling shareholders (in terms of Listing Rule) of the Target Company, the Company and its subsidiaries has been providing necessary funding and financial assistance to the Target Company as its working capital by way of loans and guarantees since the Company's acquisition of the 51% equity interest in the Target Company in 2013. The loans have been used as general working capital of the Target Company. Right before the Company entered into the LG Agreement with the Target Company, the Company has provided (i) loans in a total amount of approximately RMB1,050,000,000 to the Target Company, which bear interest at 10% per annum; and (ii) guarantees (on a revolving basis) in respect of repayment obligations in the aggregate amount of up to approximately RMB1,000,000,000 (i.e. gross amount of such guarantees) in favour of certain lending banks, enabling the Target Company to secure certain banking facilities, at a guarantee fee of 1% of the gross amount of the guarantees calculated on a yearly basis payable to the Group. As at the Latest Practicable Date, banking facilities, which were guaranteed by the Group, of approximately RMB400,000,000 in total has been utilised by the Target Company.

Pursuant to the LG Agreement, subject to the following terms that require the Target Company to repay and/or reduce the Financial Assistance gradually in certain amounts within certain timeframe, the Group will continue to provide (i) loans to the Target Company up to an amount of the total loan amount that the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e RMB1,050,000,000); and (ii) guarantees (on a revolving basis) in respect of repayment obligations of the Target Company of an amount up to the gross amount of such guarantee which the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e RMB1,000,000,000):

(a) the Target Company is required to repay and/or reduce at least 18% of the total amount of the Financial Assistance, being RMB369,000,000 (representing 18% of the summation of the aforesaid total loan amount (i.e. RMB1,050,000,000) and the aforesaid gross amount of the guarantees (i.e. RMB1,000,000,000)) within the first year from the Completion Date;

(b) the Target Company is required to repay and/or reduce at least 48% of the total amount of the Financial Assistance on an accumulated basis, being RMB984,000,000 (representing 48% of the summation of the aforesaid total loan amount (i.e. RMB1,050,000,000) and the aforesaid gross amount of the guarantees (i.e. RMB1,000,000,000)) within the second year from the Completion Date; and

(c) the Target Company is required to repay and/or reduce 100% of the total amount of the Financial Assistance within the third year from the Completion Date.

Pursuant to the Supplemental LG Agreement, the whole amount of the Loan will only be used for general working capital purpose by the Target Company and for no other use.

Pursuant to the LG Agreement, the Financial Assistance will be secured by the Pledge and will continue to be subject to (i) the same interest rate, that the Company has been charging the Target Company right before the Company entered into the LG Agreement with the Target Company, calculated based on the outstanding amount of loan balance as at each month end; and (ii) the same guarantee fee, that the Company has been charging the Target Company right before the Company entered into the LG Agreement with the Target Company, fee charged based on the committed gross amount of the Guarantee at each financial year end date. There is no financial ratio benchmark for the Target Company to meet. The Group does not have any priority claim on the Target Company's assets. The interest rate for the Loan and the guarantee fee for the Guarantee during the whole period of the LG Agreement were determined after arm's length negotiation and based on the following:

(i) the same historical interest rate (i.e. 10% per annum) and guarantee fee (i.e. 1% per annum) in respect of the respective loans granted by the Group to the Target Company and guarantees provided by the Group in favour of certain banks in respect of loans granted by such banks to the Target Company for the three years ended 31 December 2015; and

(ii) the similar historical interest rate (i.e. 10% per annum) in respect of respective loans granted by a related company to the Group for the year ended 31 December 2015.

Based on (i) the Purchasers undertake, upon Completion, to create the Pledge in favour of the Vendors as guarantee for the Target Company's obligation under the LG Agreement; (ii) the above; (iii) the Directors' view that there were no material changes in the market in respect of interest rate for loans granted and guarantee fee in the PRC for the three years ended 31 December 2015; and (iv) the Directors' anticipation that there would not be any material changes in the market in respect of interest rate for loans granted and guarantee fee in the PRC during the term of the LG Agreement, the Directors are of the view that the interest rate and guarantee fee is on normal commercial terms during the whole period of the LG Agreement.

Conditions precedent

The LG Agreement shall be effective upon the satisfaction of the following conditions:

(a) the Independent Shareholders having passed the ordinary resolutions to approve the SP Agreement and the Disposal contemplated thereunder at the EGM;

(b) the Independent Shareholders having passed the ordinary resolutions to approve the LG Agreement and the Financial Assistance contemplated thereunder at the EGM; and

(c) Completion.

Historical maximum transaction amounts and annual caps

The historical maximum amounts for the Financial Assistance for the three financial years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016 are as follows:

	Maximum amounts for the financial year ended 31 December			Five months ended 31 May
	2013	2014	2015	2016
Historical maximum amount of the Financial Assistance (inclusive of the related interest and guarantee fee)	RMB1,845,682,000	RMB3,036,727,000	RMB2,881,934,000	RMB1,897,083,000[Note]

Note: As the guarantees provided by the Company in respect of repayment obligations of the Target Company in favour of certain lending banks has been on a revolving basis, given certain guarantee agreements, which lapsed after expiry dates during the five months period ended 31 May 2016, has been undergoing through renewal processes, the historical amounts for the Financial Assistance for the five months ended 31 May 2016 was less than the annual cap amount for the Financial Assistance for the first year following the Completion Date. However, as the Company historically provided guarantee of approximately RMB1,000 million for the three years ended 31 December 2015 on a revolving basis, the annual cap amount for the Financial Assistance (inclusive of the related interest and guarantee fee) will be RMB2,165 million, exceeding the historical amount for the five months ended 31 May 2016.

The Directors propose the annual caps for the Financial Assistance for the three years following the Completion Date to be as follows:

	Annual cap amounts for the period		
	First year following the Completion Date	Second year following the Completion Date	Third year following the Completion Date
Annual cap amount for the Financial Assistance (inclusive of the related interest and guarantee fee)	RMB2,165,000,000	RMB1,792,310,000	RMB1,171,160,000

The annual caps are determined based on the following factors:

(i) the maximum historical loan and guarantee amounts for the three financial years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016;

(ii) the expected maximum Loan and Guarantee amounts for each of the three years following the Completion Date pursuant to the LG Agreement, taking into account the requirement for the Target Company to repay and/or reduce the Financial Assistance gradually in certain amounts within certain timeframe as set out under the LG Agreement; and

(iii) the maximum amount of interest income under the Loan and guarantee fee under the Guarantee to be received by the Group under the LG Agreement, assuming the Financial Assistance is utilised by the Target Company to the maximum extent as provided under the LG Agreement.

The Directors consider that the annual caps for the Financial Assistance under the LG Agreement are fair and reasonable and in the interest of the Group and the Shareholders as a whole.

Mr. Guan's undertakings

In relation to the Loan and the Guarantee, the Group has obtained an irrevocable undertaking from Mr. Guan to the Company that if the Company claims against the Target Company for failing to repay and/or reduce the Financial Assistance and/or to pay the related interest and/or guarantee fee, as the case may be, within the agreed timeframe, he will himself repay such amount to the Company directly for any loss that may be incurred by the Group.

The Group has obtained another irrevocable undertaking from Mr. Guan to the Company, pursuant to which, if Mr. Guan ceases to be a controlling shareholder of the Company, the loan (under the Financial Assistance) will become immediately repayable to the Group, and the Target Company and Mr. Guan will also carry out immediate measures (such as replacing the guarantee obligations of the Group with Mr. Guan's personal guarantee or guarantee provided by company(ies) owned by Mr. Guan which is/are not part of the Group) for the purpose of releasing the guarantee obligation of the Group (under the Financial Assistance), subject to the processing time of the relevant banks may require. To the best of the Directors' knowledge and belief, based on their past experience, the estimated processing time in releasing the guarantee obligation will not be more than three months. Pursuant to the irrevocable undertakings given by Mr. Guan, the Group does not have any prior claim against on Mr. Guan's assets.

Pursuant to the Supplemental SP Agreement, the Purchasers undertakes, upon Completion, to create the Pledge. Within one month from Completion, all necessary approvals, consents and authorisation in respect of the Pledge shall be obtained from the relevant PRC regulatory authorities (if necessary). If the Target Company fails to either repay or reduce the Financial Assistance in accordance with the schedule set out in the LG Agreement and Mr. Guan fails to honour his undertaking as to his repayment of any shortfall to the Company for the Target Company to ensure the repayment and/or reduction of the Financial Assistance in accordance with the schedule set out in the LG Agreement, the Vendors, being the members of the Group, shall enforce such security. In such case, the Disposal will be undone, which means that the Target Company will be again owned by the Group as to 51% and the Vendors will forfeit the whole amount of the Consideration and there is no obligation for the Vendors to refund any amount to the Purchasers in the case where the Disposal is undone, and the Target Company will be owned by the Group as to 51%, whereby it will cease to be a connected person of the Company and will become a joint venture of the Company again. In such circumstance, the Financial Assistance will no longer a constitute continuing connected transaction for the Company under Chapter 14A of the Listing Rules upon enforcement of such security. Further announcement regarding the Pledge will be made by the Company upon Completion.

The Group has also obtained another irrecoverable undertaking dated 11 August 2016 from Mr. Guan to the Company that if the Disposal is undone and the net asset value of the Target Company as of the time when the Disposal is undone is less than the net asset value of the Target Company upon Completion, Mr. Guan, being the controlling shareholder of the Purchasers, will himself repay such shortfall (i.e. the shortfall = (i) the net asset value of the Target Company as of the time when the Disposal is undone minus (ii) the net asset value of the Target Company upon Completion times (iii) 51% i.e. his effective equity holding in the Target Company), to the Company by cash directly. The net asset value of the Target Company is an audited figure to be verified by an independent auditor under PRC Generally Accepted Accounting Principles.

The management of the Company would like to emphasis that it is legally impracticable to enter into a pledge agreement between the Vendors and Purchasers before the Completion as the Purchasers will be only in a position to sign a pledge agreement and arrange a pledge after Completion.

Pursuant to the Supplemental LG Agreement, the whole amount of the Loan will only be used for general working capital purpose by the Target Company and for no other use.

As at the Latest Practicable Date, Mr. Guan (together with his spouse) were interested in (i) approximately 50.29% equity interest of the Company (as at the Latest Practicable Date, the market value of such Shares was approximately HK$849.0 million; and (ii) approximately 45.67% equity interest of Zhejiang Jiahua Energy Chemical Industry Co., Ltd. (stock code: SH600273, as at the Latest Practicable Date, the market value of the said shares was approximately RMB5,208.1 million). The value of the said Shares and shares of Zhejiang Jiahua Energy Chemical Industry Co., Ltd. are larger than the maximum amount of the Financial Assistance (inclusive of the related interest and guarantee fee) of approximately RMB2,165.0 million under the LG Agreement, and thus the Board considers the creditability of Mr. Guan to be satisfactory for the purpose of providing the abovementioned irrevocable undertakings.

Internal control's measures

Although there is no financial ratio benchmark for the Target Company to meet, in order to ensure the Target Company is capable of honouring its obligations under the Financial Assistance to safeguard the Company's interest under the Financial Assistance, in addition to the obtainment of the (i) Pledge; and (ii) aforesaid two irrevocable undertakings from Mr. Guan, the Company will request the Target Company to provide its management account each month and have regular discussion with the management of the Target Company in order to ensure the Target Company being able to repay and/or reduce the Financial Assistance gradually. When determining whether the Target Company is able to repay or reduce the Financial Assistance, the Company will consider the sales order list, raw materials order list, trade receivable balance, trade payable balance, and cash and bank monthly balance of the Target Company, to

(1) ascertain whether the Target Company is able to repay monthly interest on time; and

(2) estimate whether the Target Company will be able to repay or reduce the principal amounts as required on time.

In addition, the Company will also discuss with Mr. Guan the cash flow and liquidity status of the Target Company on a quarterly basis and the Company will require Mr. Guan to provide fundings to the Target Company (if necessary) to ensure the Target Company is able to repay the interest and principal amounts on time. Furthermore, the Company will attend all the meetings held between the Target Company and its banks on a monthly basis to ensure the relevant banks can release the Group's guarantee as required on time. Last but not least, the Company will discuss with Mr. Guan the financing and banking facilities status of the Target Company on a quarterly basis and the Company will require Mr. Guan to provide his own guarantee and all other measures to ensure the relevant banks can release the Group's guarantee on time.

(3) PROPOSED DECLARATION OF CONDITIONAL SPECIAL DIVIDEND

The Board announces, on 29 June 2016, the declaration of the Special Dividend in the total amount of approximately HK$148,966,000 (equivalent to an amount of approximately HK$15.0 cents per Share based on 993,104,000 Shares in issue as at the Latest Practicable Date and approximately RMB126,621,000 payout in total) conditionally, subject to:

(i) the Shareholders having passed the ordinary resolution to approve the distribution of the Special Dividend at the EGM;

(ii) the Independent Shareholders having passed the ordinary resolutions to approve the SP Agreement and the Disposal contemplated thereunder at the EGM;

(iii) the Independent Shareholders having passed the ordinary resolutions to approve the LG Agreement and the Financial Assistance contemplated thereunder at the EGM; and

(iv) Completion.

If all of the above conditions are fulfilled, the Special Dividend will be paid to the Shareholders whose names appear on the register members of the Company at the close of business on 5 September 2016.

Closure of Register of Members

In order to ascertain the entitlement for the Special Dividend, the register of members of the Company will be closed from 2 September 2016 to 5 September 2016 (both dates inclusive) during which no transfer of Shares may be effected. Shareholders are reminded that in order to qualify for, among others, the Special Dividend, all transfer of Shares accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, the Hong Kong branch share registrar of the Company for registration no later than 4:30 p.m. on 1 September.

INFORMATION ON THE COMPANY, THE TARGET COMPANY AND THE PURCHASERS

The Company

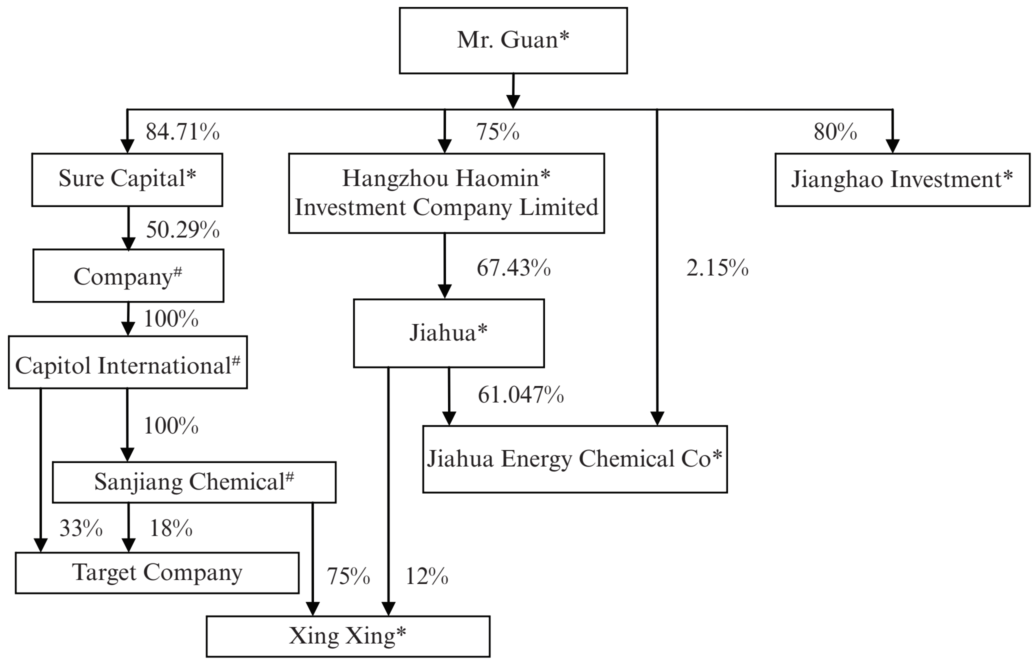
The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service.

The Target Company

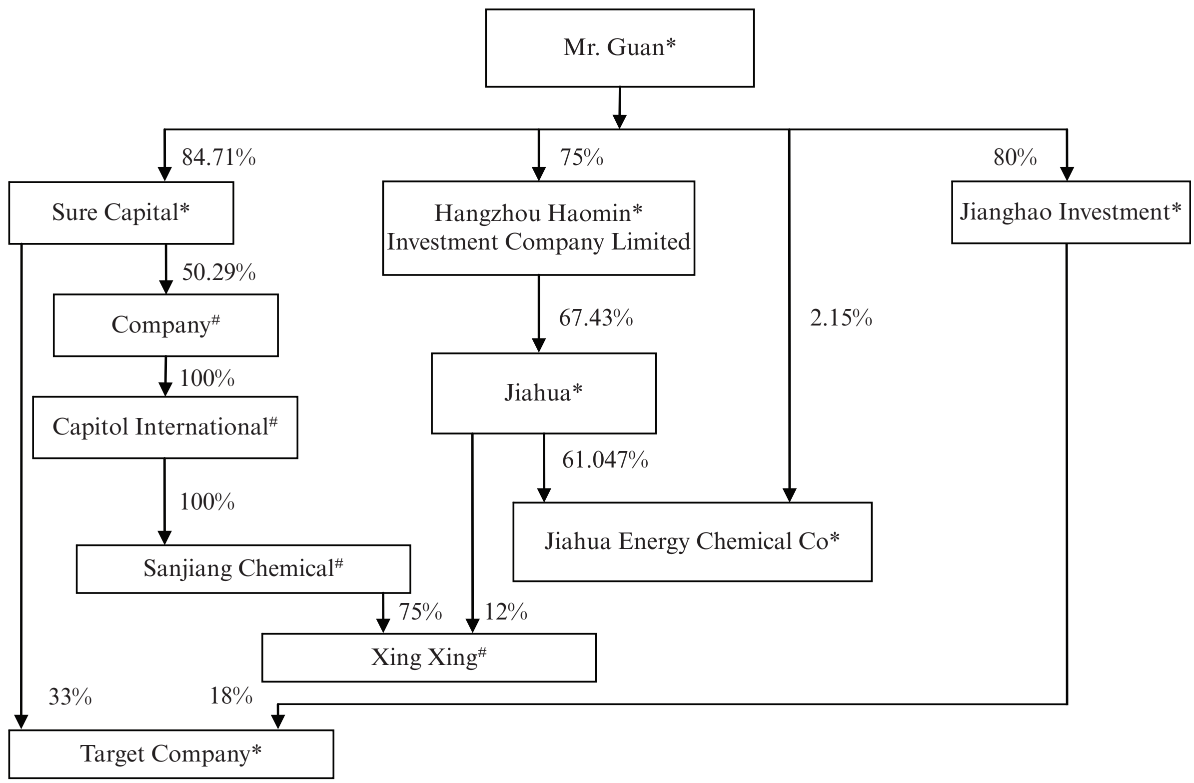
The Target Company is principally engaged in the manufacture and sale of various aromatics and heat transfer fluids. The Group acquired 51% of the equity interest of the Target Company from an independent third party in July 2013 at a consideration of approximately RMB174,881,000. According to the unaudited financial statements of the Target Company, the net asset value of the Target Company was approximately RMB249,104,000 as at 31 December 2015 and the results (after tax) of the Target Company for the year ended 31 December 2013, 2014 and 2015 were approximately RMB103,738,000 (net profit), RMB135,646,000 (**net loss**) and RMB75,214,000 (net profit) respectively.

After Completion, the Target Company will cease to be a joint venture of the Company and will be indirectly owned by Mr. Guan as to 51%. The relevant shareholding structure of the Group and the Target Company before and after Completion are shown below:

Before Completion



After Completion



Notes:

\#	Companies and its subsidiaries

*	Connected person of the Company

The following table sets out the agreements which the Target Company entered into with the respective connected persons of the Company as at the Latest Practicable Date:

Transactions which will continue to be continuing connected transactions for the Company upon Completion

	Date of agreement	Connected person	Nature of the transaction
1.	1 September 2015	Xing Xing	Xing Xing agreed to procure methanol as an agent on behalf of the Target Company at market service fee for a term commencing from 1 September 2015 to 31 August 2018, details of which are set out in the announcement of the Company dated 2 September 2015
2.	1 September 2015	Xing Xing	The Target Company agreed to supply miscellaneous materials, including liquefied petroleum gas, to Xing Xing at market price for a term commencing from 1 September 2015 to 31 August 2018, details of which are set out in the announcement of the Company dated 2 September 2015
3.	1 September 2015	Xing Xing	Xing Xing agreed to supply C-4 to the Target Company at market price for a term commencing from 1 October 2015 to 30 September 2018, details of which are set out in the announcement of the Company dated 2 September 2015
4.	1 September 2015	Xing Xing	Xing Xing agreed to supply propylene to the Target Company at a market price for a term commencing from 1 October 2015 to 30 September 2018, details of which are set out in the announcement of the Company dated 2 September 2015

Given Xing Xing is a non-wholly-owned subsidiary of the Company indirectly owned as to approximately 75% by the Company, 12% by Jiahua Energy Chemical Co and 13% by third parties independent from the Group, transactions contemplated under the agreements no. 1 to 4 as set out above will continue to constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules upon Completion.

Transactions which will cease to be continuing connected transactions for the Company upon Completion

	Date of agreement	Connected person	Nature of the transaction
1.	15 December 2014	Jiahua Energy Chemical Co	The Target Company agreed to supply sulphur to Jiahua Energy Co at market price for a term commencing from 15 December 2014 to 14 December 2017, details of which are set out in the announcement of the Company dated 16 December 2014
2.	15 December 2014	Jiahua Energy Chemical Co	Jiahua Energy Chemical Co agreed to supply steam to the Target Company at market price for a term commencing from 15 December 2014 to 14 December 2017, details of which are set out in the announcement of the Company dated 16 December 2014
3.	15 December 2014	Jiahua Energy Chemical Co	Jiahua Energy Chemical Co agreed to supply miscellaneous materials such as sodium hydroxide and hydrochloric acid to the Target Company at market price for a term commencing from 15 December 2014 to 14 December 2017, details of which are set out in the announcement of the Company dated 16 December 2014
4.	10 April 2015	Mei Fu Port	Mei Fu Port agreed to provide port loading, unloading and storage service to the Target Company at market price for a term commencing from 10 April 2015 to 31 December 2017, details of which are set out in the announcements of the Company dated 27 April 2015 and 11 November 2015

Prior to Completion, the above transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules by virtue of the Target Company being considered as a connected non wholly-owned subsidiary of the Company under Listing Rules. Upon Completion, the Target Company will cease to be a joint venture of the Company, thus will also cease to be considered as a connected non wholly-owned subsidiary of the Company under Listing Rules, and accordingly the above transactions (i.e. agreements no. 1 to 4 as set out above) will cease to constitute continuing connected transactions for the Company under Chapter 14A of the Company.

The Purchasers

Each of the Sure Capital and Jianghao Investment is an investment holding company.

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

Based on (i) the Group's interests in the unaudited net asset value of the Target Company as at 31 December 2015; (ii) goodwill on acquisition of the Target Company as at 31 December 2015; (iii) the Consideration; and (iv) estimated professional fee incurred in relation to the Disposal and the Financial Assistance, it is estimated that the Group will record a gain of approximately RMB109,394,000 (equivalent to approximately

HK$128,699,000) (before tax) from the Disposal after deducting the estimated expenses attributable to the Disposal of approximately RMB1,500,000. Shareholders should note that the actual amount of gain on the Disposal to be recognised in the consolidated financial statements of the Company depends on the audited net asset value of the Target Company as at the Completion Date and therefore may be different from the amount mentioned above.

Upon Completion, the Company will cease to hold any equity interest of the Target Company and the Target Company will cease to be a joint venture of the Company.

Upon Completion, the gross and net proceeds that arise from the Consideration from the Disposal will be approximately RMB306,000,000 and RMB304,500,000 respectively. Apart from the aforesaid proceeds from the Disposal, the Group's liquidity and gearing will also be benefited by having the opportunity to unlock financial resources (i.e. the Financial Assistance) of approximately RMB2.0 billion in total pursuant to the provisions of the LG Agreement. As being the controlling shareholders of the Target Company, the Group has been providing enormous financial resource by way of either direct loan advancement to the Target Company or provision of guarantees to certain banks securing the Target Company's banking facility arrangements for the purpose of supporting the Target Company's working capital requirements. Upon Completion, pursuant to the provisions of the LG Agreement, the Purchasers will take up the Target Company's working capital of the Financial Assistance in the first year after Completion with at least 18% reduction of the Financial Assistance in the first year after Completion; at least 48% reduction of the Financial Assistance in the second year after Completion; and 100% reduction of the Financial Assistance in the third year after Completion.

The Board intends to apply the proceeds from the Disposal (i) as to approximately RMB126,621,000 for distribution of Special Dividend; and (ii) as to the remaining balance (being approximately RMB177,879,000) for the Group's general working capital purpose.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND THE FINANCIAL ASSISTANCE

The Group (including the Target Company) is principally engaged in the manufacture and sale of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service.

The Directors have been continuously evaluating the current business strategies of the Group with an aim to streamline its business, increase its overall performance and prospect and its attractiveness with the investors in the market. The Directors are of the view that:

(i) The business of the Target Company (i.e. the manufacture and sale of various aromatics and heat transfer fluids in the PRC) is not a core business to the Group and is highly sensitive to the pricing of feedstock (i.e. low sulphur fuel oil) and has not been able to provide a stable and reasonable return to the Group since the Group's acquisition of the 51% equity interest in the Target Company in 2013, while the Group has being required to provide enormous financial support to enable the Target Company to continue its operations which exposes the Group to unnecessary risks.

In terms of investment return, the Target Company operates in fuel oil refinery industry which typically requires enormous capital expenditures and working capital requirements with relatively minimal net profit margin and any volatility of feedstock pricing might result in the Target Company suffering a loss. The results (after tax) of the Target Company for the year ended 31 December 2013, 2014 and 2015 were approximately RMB103,738,000 (net profit), RMB135,646,000 (**net loss**) and RMB75,214,000 (**net profit**), representing net profit margin of approximately 4.2%, net loss margin of 4.2% and net profit margin of 2.8% respectively.

In terms of the provision of financial support, the Target Company's 49% equity interest is owned by independent third parties, which could not be able to provide any financial support to the Target Company and the burden as to the provision of financial support solely relies on the Group while the Group only has 51% equity interests in the Target Company and its exposes the Group to additional risks.

(ii) The fundamental business environment and the investment assumptions have changed when comparing to 2013 when the Group acquired 51% equity interests in the Target Company — The Group acquired the 51% equity interest in the Target Company because the investment offer which was available to the Company at that time was good in terms of valuation and the crude oil pricing hovered at USD100 per barrel level at a relatively stable manner in 2013, which was expected to enable the Target Company to operate at a relatively promising return. With significant volatility of crude oil pricing since last year, the Company considered its initial investment assumptions have changed and it is a high time for the Company to exit the investment and lock up capital gain. Based on (i) the Group's interests in the unaudited net asset value of the Target Company as at 31 December 2015; (ii) goodwill on acquisition of the Target Company as at 31 December 2015; (iii) the Consideration; and (iv) estimated professional fee incurred in relation to the Disposal and the Financial Assistance, it is estimated that the Group will record a gain of approximately RMB109,394,000 (before tax) from the Disposal after deducting the estimated expenses attributable to the Disposal of approximately RMB1,500,000.

(iii) Furthermore, the Directors consider that the Disposal represents a good opportunity for the Group to restructure its strategic business position and focus its resources in pursuing development opportunities on, including but not limited to, the existing businesses such as the manufacturing and sale of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service. The Disposal enables the Company to free up its financial resources (i.e. the Financial Assistance) of approximately RMB2.0 billion in total in three years' time. As being the controlling shareholders of the

Target Company, the Company has been providing enormous financial resource by way of either direct loan advancement to the Target Company or provision of guarantees to certain banks securing the Target Company's banking facility arrangements for the purpose of supporting the Target Company's working capital requirements. Upon Completion, the Purchasers will take up the Target Company's working capital requirements gradually in three years' time after Completion with at least 18% reduction of the Financial Assistance in the first year after Completion; at least 48% reduction of the Financial Assistance in the second year after Completion; and 100% reduction of the Financial Assistance in the third year after Completion.

(iv) In respect of the LG Agreement, the terms of which regarding the repayment of the Loan and the release of the Guarantee were determined after arm's length negotiation between the Company and the Target Company, having considered that (i) the Loan and the Guarantee have existed prior to the entering of the SP Agreement; (ii) the considerable amount of each of the Loan and Guarantee as at the date of the Announcement, whereby neither the Target Company nor the Purchasers will be able to repay such amount all at once; and (iii) Mr. Guan has provided an irrevocable undertaking to the Company that he shall irrevocably undertake that if the Company claims against the Target Company for failing to repay and/or reduce the Financial Assistance and/or to pay the related interest and/or guarantee fee, as the case may be, within the agreed timeframe, he will himself repay such amount to the Company directly for any loss that may be incurred by the Group, the Directors considers such arrangements are considered to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(v) In respect of the fact that the Loan carries an interest rate of 10.0% per annum and the Guarantee carries a guarantee fee at 1.0% per annum, having considered that, by providing the aforesaid irrevocable undertaking to the Company, Mr. Guan has in substance borne all the credit risk in the case of default, the Directors consider such arrangements are considered to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In light of the above, the Directors consider that (i) the terms of the SP Agreement and the Disposal contemplated thereunder; and (ii) the terms of the LG Agreement and the Financial Assistance (including the related rate of interest and the guarantee fee) contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Mr. Guan and Ms. Han are considered to have material interests in the Disposal and the Financial Assistance by virtue of their respective interests in the Purchasers, and therefore they have abstained from voting on the Board resolutions approving the Disposal and the Financial Assistance. Save as disclosed above, no other Directors have abstained from voting on the said Board resolutions.

CONNECTED PERSONS

As at the Latest Practicable Date, Sure Capital was owned by Mr. Guan and Ms. Han, each being an executive Director, as to approximately 84.71% and 15.29% respectively, while Jianghao Investment was owned by Mr. Guan and Ms. Han, also being an executive Director, as to 80.00% and 20.00% respectively. Each of the Purchasers is an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company.

IMPLICATIONS UNDER THE LISTING RULES

Major and connected transaction — Disposal of 51% equity interest in the Target Company

As certain of the applicable percentage ratios for the Disposal under the Listing Rules are more than 25% but is less than 100%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Sure Capital and Jianghao Investment are connected persons of the Company, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules which is subject to, among other things, the Independent Shareholders' approval at the EGM.

Mr. Guan and Ms. Han and their respective associate(s) are required to abstain from voting on the resolutions to be proposed for approving the SP Agreement and the transactions contemplated thereunder at the EGM.

Major and continuing connected transaction — Financial Assistance to the Target Company upon Completion of the Disposal of 51% equity interest in the Target Company

As certain of the applicable percentage ratios for the Financial Assistance under the Listing Rules are more than 100%, the Financial Assistance constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Financial Assistance is subject to the reporting, announcement and shareholders' approval requirement under Chapter 14 of the Listing Rules.

Upon Completion, as the Target Company will be owned by Jianghao Investment and Sure Capital as to approximately 18.00% and 33.00% respectively, the Target Company will become an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company. Upon Completion, the Financial Assistance will become a continuing connected transaction for the Company under Chapter 14A of the Listing Rules which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Guan and Ms. Han and their respective associate(s) are required to abstain from voting on the resolutions to be proposed for approving the LG Agreement and the Financial Assistance contemplated thereunder at the EGM.

The Special Dividend

No Shareholders are required to abstain from voting on the resolution to approve the Special Dividend proposed to be passed at the EGM.

GENERAL

The Company will seek the Independent Shareholders' approval each of the SP Agreement, the LG Agreement and the transactions contemplated thereunder at the EGM.

The Company has established an independent board committee (which comprise only and all the existing independent non-executive Directors that joined the Company on or before 17 June 2016, when the Company entered into the SP Agreement and LG Agreement) to advise the Independent Shareholders as to whether (i) the terms of the SP Agreement and the Disposal contemplated thereunder; (ii) the terms of the LG Agreement and the Financial Assistance contemplated thereunder are fair and reasonable and in the interests of the Company and Shareholders as a whole. The Independent Board Committee has approved the appointment of Gram Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with each of the SP Agreement and the LG Agreement and the transactions contemplated thereunder.

EGM

The Company will convene the EGM at 10:00 a.m. on 29 August 2016 at Compass Office, L20, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong at which ordinary resolutions will be proposed for the Independent Shareholders and Shareholders to consider, and if thought fit, to approve the transactions contemplated under each of the SP Agreement and the LG Agreement, and the Special Dividend respectively. 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 72 to 74 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

VOTING BY POLL

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

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

RESPONSIBILITY STATEMENT

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

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 29 to 30 of this Circular and the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders set out on pages 31 to 49 of this Circular in connection with each of the SP Agreement and the LG Agreement and the transactions contemplated thereunder and the principal factors and reasons considered by Gram Capital in arriving at such advice.

The Independent Board Committee, having taken into account the advice from Gram Capital, considers that each of the SP Agreement and the LG Agreement was 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 although they are not in the ordinary and usual course of business of the Group.

Accordingly, the Directors, including the Independent Board Committee, recommend the Shareholders to vote in favour of the ordinary resolutions to approve (i) the SP Agreement and the Disposal contemplated thereunder, the LG Agreement and the Financial Assistance contemplated thereunder; and (ii) the Special Dividend at the EGM as set out in the notice of the EGM.

ADDITIONAL INFORMATION

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

Shareholders and potential investors should note that completion of the Disposal is subject to the fulfilment of the conditions precedent in the SP Agreement. As the Disposal, hence the Financial Assistance and the Special Dividend, may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

By order of the Board
China Sanjiang Fine Chemicals Company Limited
GUAN Jianzhong
Chairman and executive Director

三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED
中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

12 August 2016

To the Independent Shareholders

(1) MAJOR AND CONNECTED TRANSACTION — DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY; (2) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION — FINANCIAL ASSISTANCE TO THE TARGET COMPANY UPON COMPLETION OF THE DISPOSAL OF 51% OF EQUITY INTEREST IN THE TARGET COMPANY; AND (3) PROPOSED CONDITIONAL SPECIAL DIVIDEND

Dear Sir or Madam,

We refer to the circular of the Company dated 12 August 2016 (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, (i) the terms of the SP Agreement and the Disposal contemplated thereunder; and (ii) the terms of the LG Agreement and the Financial Assistance contemplated thereunder are fair and reasonable and in the interests of the Company and Shareholders as a whole. Gram Capital has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with each of the SP Agreement and the LG Agreement and the transactions contemplated thereunder.

Your attention is drawn to the "Letter from the Board" set out on pages 5 to 28 of the Circular which contains, *inter alia*, information about the terms of each of the SP Agreement and the LG Agreement, and the "Letter from Gram Capital" set out on pages 31 to 49 of the Circular which contains its advice in respect of each of the SP Agreement and the LG Agreement together with the principal factors taken into consideration in arriving at such.

Having considered the terms of each of the SP Agreement and LG Agreement and having taken into account the factors and reasons considered by and the advice from Gram Capital as stated in their letter dated 12 August 2016, we consider that (i) the terms of each of the SP Agreement and the LG Agreement are fair and reasonable and on normal commercial terms so far as the interests of the Independent Shareholders are concerned; and (ii) the entering into each of the SP Agreement and the LG Agreement are in the interests of the Company and the Independent Shareholders as a whole, although each of the SP Agreement and the LG Agreement are not entered into in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to ratify and approve each of the SP Agreement and the LG Agreement.

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

Mr. SHEN Kaijun
Independent non-executive Director

Ms. PEI Yu
Independent non-executive Director

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the SP Agreement, the LG Agreement, and the transactions contemplated thereunder for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

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

12 August 2016

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

Dear Sirs,

(I) MAJOR AND CONNECTED TRANSACTION; AND (II) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION

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 SP Agreement, the LG Agreement, and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 12 August 2016 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.

The Disposal

On 17 June 2016, the Vendors, (each of a wholly-owned subsidiary of the Company) entered into the SP Agreement with the Purchasers, pursuant to which the Vendors have conditionally agreed to sell and the Purchasers have conditionally agreed to purchase the Sale Interest for a consideration of RMB306,000,000 (equivalent to approximately HK$360,000,000). Upon Completion, the Company will cease to have any interest in the Target Company, and the Target Company would cease to be a joint venture of the Company.

With reference to the Board Letter, the Disposal constitutes a major and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules respectively. As such, the Disposal are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Financial Assistance

On the even date, the Company entered into the LG Agreement with the Target Company, pursuant to which the Company has agreed to provide (i) loans to the Target Company up to an amount of not more than the total loan amount that the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e RMB1,050,000,000); and (ii) guarantees (on a revolving basis) in respect of repayment obligations of the Target Company of an amount up to the gross amount of such guarantee which the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e RMB1,000,000,000).

On 11 August 2016, the Supplemental LG Agreement was entered into between the Vendors and Purchasers. Pursuant to the Supplemental LG Agreement, the Purchasers undertakes, upon Completion, to pledge the Sale Interest held by them upon Completion in favour of the Vendors as guarantee of for the Target Company's obligation under the LG Agreement.

With reference to the Board Letter, the Financial Assistance constitutes a major and continuing connected transaction for the Company under Chapters 14 and 14A of the Listing Rules respectively. As such, the Financial Assistance are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

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

OUR INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Mr. Graham Lam was the person signing off the opinion letter from the independent financial adviser contained in the circular dated 16 March 2016 in respect of continuing connected transactions of the Company. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the SP Agreement and the LG Agreement.

Besides that, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

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

We have not made an independent evaluation or appraisal of the assets and liabilities of either the Group or the Target Company and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report dated 31 March 2016, prepared by Crowe Horwath (HK) Consulting & Valuation Limited (the "**Valuer**"), being an independent valuer, in respect of the Target Company (the "**Valuation Report**"). Since we are not experts in the valuation of business, we have relied upon the Valuation Report for the market value of the Target Company as at 31 March 2016.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that 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 in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Vendors, the Purchasers, the Target Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the

Shareholders as a result of the Disposal and the Financial Assistance. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Disposal and the Financial Assistance, we have taken into consideration the following principal factors and reasons:

Business overview of the Group

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

Set out below are the audited consolidated financial results of the Group for the two years ended 31 December 2015 as extracted from the Company's annual report for the year ended 31 December 2015 (the "**Annual Report**"):

	For the year ended 31 December 2015	**For the year ended 31 December 2014**	**Year on year change**
	RMB'000	*RMB'000*	*%*
Revenue	4,966,427	3,636,800	36.56
Gross profit	164,449	242,122	(32.08)
Profit/(loss) for the year	(227,232)	130,806	N/A

According to the above table, the Group recorded an increase of approximately 36.56% in revenue from 2014 to 2015. With reference to the Annual Report, the increase in revenue for 2015 was mainly driven by the completion of the ramp-up of two major production facilities — the Methanol To Olefins ("**MTO**") production facility and the 5th phase EO/EG production facilities and the commencement of commercial operation by them in Q2 and Q3 of 2015 respectively. Despite that the Group recorded an increase in revenue from 2014 to 2015, the Group recorded net loss for the year ended 31 December

2015 as compared to net profit for the year ended 31 December 2014. With reference to the Annual Report, the loss for the year ended 31 December 2015 was due to significant price volatility, unusual price slump of crude oil and depreciation of RMB versus US$ which leads to a foreign exchange loss of approximately RMB195.1 million in 2015 (2014: loss of RMB15.3 million) and the Group unrecognized deferred tax assets in respect of available tax losses carried forwards of approximately RMB88.2 million.

With reference to the Annual Report, as at 31 December 2015, the Group recorded (i) cash and cash equivalents of approximately RMB91.7 million; (ii) pledged deposits of approximately RMB701.5 million; (iii) due from the Target Company of approximately RMB910.3 million; and (iv) due to the Target Company of approximately RMB55.3 million.

Information on the Purchasers

With reference to the Board Letter, each of the Purchasers is an investment holding company.

Information on Target Company

As referred to in the Board Letter, the Target Company operates in fuel oil refinery industry and principally engaged in the manufacture and sale of various aromatics and heat transfer fluids. The Group acquired 51% of equity interest of the Target Company in year 2013 at a consideration of RMB174,881,000 (the "**Cost**").

With reference to the Board Letter, according to the unaudited financial statements of the Target Company, the net asset value of the Target Company was approximately RMB249,104,000 as at 31 December 2015 and the results (after tax) of the Target Company for the year ended 31 December 2013, 2014 and 2015 were approximately RMB103,738,000 (net profit), RMB135,646,000 (**net loss**) and RMB75,214,000 (net profit) respectively.

According to the Annual Report, on 1 July 2014, the Group entered into contractual management agreements with the shareholders of the Target Company, pursuant to which, among other things, shareholder A of the Target Company granted the Group and shareholder B of the Target Company the rights to operate and manage the Target Company from 1 June 2014 to 31 May 2017 (the "**Contractual Management Period**"). Furthermore, pursuant to the contractual management agreements, the Group and shareholder B of the Target Company have rights to receive the distributable profits and the obligation to fund the losses of the Target Company generated and incurred during the Contractual Management Period according to an agreed percentage of sharing between the Group and the shareholder B of 74.1% and 25.9%, respectively. Details of the contractual management agreements are set out under the note 15 — "Investment in joint ventures" to the Annual Report.

(A) The Disposal

Background of the Disposal

On 17 June 2016, the Vendors, (each of a wholly-owned subsidiary of the Company) entered into the SP Agreement with the Purchasers, pursuant to which the Vendors have conditionally agreed to sell and the Purchasers have conditionally agreed to purchase the Sale Interest for a consideration of RMB306,000,000 (equivalent to approximately HK$360,000,000). Upon Completion, the Company will cease to have any interest in the Target Company, and the Target Company would cease to be a joint venture of the Company.

Reasons for the Disposal

With reference to the Board Letter, the Directors have been continuously evaluating the current business strategies of the Group with an aim to streamline its business, increase its overall performance and prospect and its attractiveness with the investors in the market. Details of the reasons for the Disposal are set out under the section headed "Reasons for and benefits of the Disposal and the Financial Assistance" of the Board Letter.

In addition, as advised by the Directors, when the Company acquired for 51% of the equity interest in the Target Company during year 2013, the crude oil pricing hovered at around US$100 per barrel level, which was expected to enable the Target Company to operate at a relatively promising return. However, according to BP Statistical Review of World Energy June 2016 published in June 2016 by BP p.l.c., being one of the world's leading integrated oil and gas companies, that Dated Brent averaged US$52.39 per barrel in 2015, representing a decline of US$46.56 per barrel from the 2014 level; and being the lowest annual average since 2004.

With reference to the Annual Report, the Directors took a medium-to-long-term view in making any investment decision and if the Directors looked at a time frame of a decade or more, coal or natural gas, being the ultimate feedstock, is being considered more cost effective in terms of outputs when comparing with crude oil in most of the time. In that sense, the Directors are optimistic that, in a long run, the comparative relationship between coal or natural gas and crude oil will maintain and methanol, being the downstream product of coal or natural gas, and MTO production facility will regain its position as a more competitive way to produce ethylene and propylene when comparing to oil refinery approach, which the Target Group adopted.

Despite that the Target Group recorded net profit for the year ended 31 December 2015, while the Group recorded net loss for the year ended 31 December 2015, having considered that (i) the reasons for the loss for the year ended 31 December 2015 as mentioned in the section headed "Business overview of the Group" above; (ii) the Consideration exceeds the Cost; and (iii) in a long run, the comparative relationship between coal or natural gas and crude oil will maintain and methanol, being the downstream product of coal or natural gas, and MTO production facility will regain its position as a more competitive way to produce ethylene and propylene when comparing to oil refinery approach, which the Target Group adopted, we concur with the Directors that the Disposal is fair and reasonable.

Based on (i) the Group's interests in the unaudited net asset value of the Target Company as at 31 December 2015; (ii) goodwill on acquisition of the Target Company as at 31 December 2015; (iii) the Consideration; and (iv) estimated professional fee incurred in relation to the Disposal and the Financial Assistance, it is estimated that the Group will record a gain of approximately RMB109,394,000 (equivalent to approximately RMB109,394,000 (approximately HK$128,699,000) (before tax) from the Disposal after deducting the estimated expenses attributable to the Disposal of approximately RMB1,500,000.

The net proceeds receivable from the Disposal are intended to be used for (i) approximately RMB126,621,000 for distribution of Special Dividend; and (ii) remaining balance will be used for the Group's general working capital purpose.

As advised by the Directors, save as and except for the Disposal, there was no alternative offer regarding the acquisition of Target Group received by the Company.

Having considered the above factors, we concur with the Directors that the Disposal, although is not conducted in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

Principal terms of the SP Agreement

On 17 June 2016, the Vendors (each of a wholly-owned subsidiary of the Company) entered into the SP Agreement with the Purchasers, pursuant to which the Vendors have conditionally agreed to sell and the Purchasers have conditionally agreed to purchase the Sale Interest for a consideration of RMB306,000,000 (equivalent to approximately HK$360,000,000).

The Consideration

With reference to the Board Letter and as confirmed by the Directors, the Consideration is determined by the Vendors and the Purchasers after arm's length negotiations with reference to the market value in respect of the 51% equity interest in the Target Company of approximately RMB303,400,000 as at 31 March 2016, as appraised by the Valuer.

According to the Valuation Report, the valuation amounted to RMB303,400,000 as at 31 March 2016 (the "**Valuation**"). The Consideration represents a premium of approximately 0.86% over the Valuation. In preparing the Valuation Report, the Valuer adopted market approach to appraise the Valuation.

We have reviewed and enquired into the Valuer on the methodology adopted and the basis and assumptions adopted in arriving at the Valuation in order for us to understand the Valuation Report. As advised by the Valuer, the Valuation Report was prepared in compliance with The RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors and International Valuation Standards published by the International Valuation Standards Council and the Listing Rules. As confirmed by the Valuer, the market approach is one of the commonly adopted approaches for valuation of companies and is also consistent with normal market practice. For our due diligence purpose, we have searched for the circular (the "**Comparable Circulars**"), which (i) was published by the Hong Kong listed companies regarding acquisition/disposal of business entities; and (ii) contained a business valuation as prepared by the professional valuer, at the websites of the Stock Exchange in recent three months period. Based on our observation, we noted that there is adoption of market approach and the majority of professional valuers indicated in the Comparable Circulars that the market approach is a generally accepted approach.

For our due diligence purpose, we have also discussed and interviewed with the Valuer to understand the major evaluation parameters (including but not limited to the selection criteria, selection period, adjustment to the Valuation (if any), detailed transaction structure of the comparable transactions) and evaluation procedures adopted for the Valuation. Furthermore, we have searched for the acquisition transactions, the targets of which were engaged in the similar business operation to the Target Group, in recent two years as announced by companies listed on the PRC stock exchanges, and we did not find additional comparable transactions which met the said selection criteria. Based on our finding, we do not doubt the fairness and representativeness of the comparable transactions used in the Valuation Report.

Moreover, we have interviewed the Valuer as to its qualifications, expertise and independence to the Company, the Target Company, Purchasers, Vendors and their respective connected persons and reviewed their terms of engagement. During our discussion with the Valuer, we understood that Ms. Stella Law, being the person signing off the Valuation Report, (i) is an Accredited Senior Appraiser (ASA) of the American Society of Appraisers, Member of Royal Institution Chartered Surveyors (MRICS) and Registered Business Valuers of the Hong Kong Business Valuation Forum (HKBVF); and (ii) specializes in valuation of business and intangible assets with over 10 years' experience in the industry. Based on information as provided by the Valuer and our independent research through the internet, we also noted that the Valuer has performed several business valuations during recent years.

The Valuation Report is set out in Appendix II to the Circular. During our discussion with the Valuer, we have not identified any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Valuation. However, Shareholders should note that valuation of assets or companies usually involves assumptions and therefore the Valuation may or may not reflect the value of the Target Group as at 31 March 2016 accurately.

Having considered that the Consideration represents a premium over the Valuation, we are of the opinion that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Possible financial effects of the Disposal

As confirmed by the Directors, after the completion of the Disposal, the Target Company will cease to be a joint venture of the Company.

With reference to the Board Letter, based on (i) the Group's interests in the unaudited net asset value of the Target Company as at 31 December 2015; (ii) goodwill on acquisition of the Target Company as at 31 December 2015; (iii) the Consideration; and (iv) estimated professional fee incurred in relation to the Disposal and the Financial Assistance, it is estimated that the Group will record a gain of approximately RMB109,394,000 (before tax) from the Disposal after deducting the estimated expenses attributable to the Disposal of approximately RMB1,500,000.

With reference to the Annual Report, the consolidated net assets value of the Group were approximately RMB2.2 billion as at 31 December 2015. As confirmed by the Directors, it is expected that the net assets value of the Group would increase upon the Completion.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon Completion.

(B) The Financial Assistance

Background of the Financial Assistance

On the even date, the Company entered into the LG Agreement with the Target Company, pursuant to which the Company has agreed to provide (i) loans to the Target Company up to an amount of not more than the total loan amount that the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e RMB1,050,000,000); and (ii) guarantees (on a revolving basis) in respect of repayment obligations of the Target Company of an amount up to the gross amount of such guarantee which the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e RMB1,000,000,000).

On 11 August 2016, the Supplemental LG Agreement was entered into between the Vendors and Purchasers. Pursuant to the Supplemental LG Agreement, the Purchasers undertake, upon Completion, to pledge the Sale Interest held by them upon Completion in favour of the Vendors as guarantee of for the Target Company's obligation under the LG Agreement. Within one month from Completion, all necessary approvals, consents and authorisation in respect of the Pledge shall be obtained from the relevant PRC regulatory authorities. If (i) the Target Company fails to either repay or reduce the Financial Assistance in accordance with the schedule set out in the LG Agreement; and (ii) Mr. Guan fails to honor the Irrevocable Undertakings, the Vendors, being the members of the Group, shall enforce such security. In addition, pursuant to the Supplemental LG Agreement, the whole amount of the Loan will only be used for general working capital purpose by the Target Company.

Reasons for the Financial Assistance

With reference to the Board Letter, being the controlling shareholders of the Target Company, the Company and its subsidiaries has been providing necessary funding and financial assistance to the Target Company as its general working capital by way of loans and guarantees since the Company's acquisition of the 51% equity interest in the Target Company in 2013.

Details of the reasons for the Financial Assistance are set out under the section headed "Reasons for and benefits of the Disposal and the Financial Assistance" of the Board Letter.

We noted that in relation to the Loans and the Guarantee, the Group has obtained three irrevocable undertaking (the "**Irrevocable Undertakings**") from Mr. Guan to the Company that

(i) if the Company claims against the Target Company for failing to repay and/or reduce the Financial Assistance and/or to pay the related interest and/or guarantee fee, as the case may be, within the agreed timeframe, he will himself repay such amount to the Company directly for any loss that may be incurred by the Group;

(ii) if he ceases to be the controlling shareholder of the Company, the loan (under the Financial Assistance) will become immediately repayable to the Group, and the Target Company and Mr. Guan will also carry out immediate measures (such as replacing the guarantee obligations of the Group with Mr. Guan's personal guarantee or guarantee provided by company(ies) owned by Mr. Guan which is/are not part of the Group) for the purpose of releasing the guarantee obligation of the Group (under the Financial Assistance), subject to the processing time of the relevant banks may require; and

(iii) if the Disposal is undone and the net asset value of the Target Company (the "**Target Company's NAV**") as of the time when the Disposal is undone (the "**Undone NAV**") is less than the Target Company's NAV upon Completion (the "**Completion NAV**"), Mr. Guan, being the controlling shareholder of the Purchasers, will himself repay such shortfall (the "**NAV Repay Shortfall**") (i.e. the shortfall = (The Undone NAV – The Completion NAV) X 51%), to the Company directly. The Target Company's NAV is an audited figure to be verified by an independent auditor under PRC Generally Accepted Accounting Principles.

As at the Latest Practicable Date, Mr. Guan (together with his spouse) were interested in (i) approximately 50.29% equity interest of the Company (as at the Latest Practicable Date, the market value of the said shares was approximately HK$849.03

million); and (ii) approximately 45.67% equity interest of Zhejiang Jiahua Energy Chemical Industry Co., Ltd. (stock code: SH600273, as at the Latest Practicable Date, the market value of the said shares was approximately RMB5,208.15 million). The value of the said shares are larger than the maximum amount for the Financial Assistance (inclusive of the related interest and guarantee fee) of RMB2,165.0 million under the LG Agreement, and thus the Board considers the creditability of Mr. Guan to be satisfactory for the purpose of providing the Irrevocable Undertakings.

As mentioned above, if (i) the Target Company fails to either repay or reduce the Financial Assistance in accordance with the schedule set out in the LG Agreement; and (ii) Mr. Guan fails to honor the Irrevocable Undertakings ((i) and (ii) collectively, the "**Fail Repayment Scenario**"), the Vendors, being the members of the Group, shall enforce such security. In the aforesaid senior, the Disposal will be undone.

The Directors considered that despite that the Financial Assistance accounted for a material amount of the Group's total assets, Mr. Guan has in substance borne all the credit risk in case of default, by providing the Irrevocable Undertakings to the Company.

As advised by the Directors, in the event that the Company does not provide the Loan to the Target Company after the Completion, the Company will deposit the repaid amount of Loan into independent commercial banks or will utilise for its future investment opportunities which the Company has been seeking from time to time. Nevertheless, the Board has not identified any concrete investment opportunity which is suitable for the Group as at the Latest Practicable Date.

Furthermore, we noted that, as at the Latest practicable Date, as announced by the People's Bank of China, the prevailing benchmark interest rate for (i) loans, which will be matured over one year and up to five years, in RMB is 4.75% per annum; and (ii) one-year time deposit, two-year time deposit and three-year time deposit are 1.50%, 2.10% and 2.75% per annum respectively. The interest rate of the Loan exceeds the prevailing benchmark interest rate for the above-mentioned loans and time deposits.

Despite that before the LG Agreement being entered into between the Group and the Target Company, the Company provided a revolving loan of RMB1,050 million and guarantees of RMB1,000 million, which accounted for approximately 9.8% and 9.4% respectively to the Group's total assets, to the Target Company, as advised by the Directors, there is no concrete investment opportunities suitable for the Group had been identified as at the Latest Practicable Date and the Directors considered that it is in the commercial interest of and beneficial to the Group to enter into the LG Agreement and continue to provide the Financial Assistance to the Target Company for a higher return than to keeping the repaid amount of the Financial Assistance as bank deposit. The Directors advised us that the Company received an annual interest rate of 4.35% per annum for most of its existing bank deposits.

Having considered that

(i) the Group (other than the Target Company) has been providing necessary funding and financial assistance to the Target Company as its general working capital by way of loans and guarantees since the Company's acquisition of the 51% equity interest in the Target Company in 2013;

(ii) the interest rate is 10% per annum on loan and guarantee fee is 1% of the gross amount of the guarantees calculated on a yearly basis payable to the Group;

(iii) the interest rate of the Loan exceeds the prevailing benchmark interest rate for the above-mentioned loans and time deposits;

(iv) the worst case scenario of (a) depositing funds in a commercial bank; and (b) the Loan, and their respective interest rates;

(v) the Directors considered that despite that the Financial Assistance accounted for a material amount of the Group's total assets, Mr. Guan has in substance borne all the credit risk in case of default, by providing the Irrevocable Undertakings to the Company;

(vi) (a) the cash and cash equivalents; (b) the amounts due from/to the Target Company; and (c) pledged deposits of the Group as at 31 December 2015; and

(vii) in the event of the Fail Repayment Scenario, (a) the Vendors will forfeit the whole amount of the Consideration; and (b) the Target Company, with then Target Company's NAV not less than the Completion NAV (or otherwise be compensated by the NAV Repay Shortfall), will be owned by the Group as to 51%,

we consider that the Financial Assistance, although is not conducted in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

Principal terms of the LG Agreement

The table below summarises the major terms of the LG Agreement:

Date	:	17 June 2016
Financial Assistance	:	(i) loans in a total amount of approximately RMB1,050,000,000 to the Target Company; and (ii) guarantees (on a revolving basis) in respect of repayment obligations in the aggregate amount of up to approximately RMB1,000,000,000 (i.e. gross amount of such guarantees)
Borrower	:	The Target Company
Guarantor	:	Mr. Guan
Lender	:	The Group
Final maturity	:	The expiry of three years from the Completion Date on which all conditions precedent of the LG Agreement shall have been fulfilled or waived.
Interest on Loan	:	10% per annum
Guarantee fee	:	1% per annum

The interest rate and guarantee fee

With reference to the Board Letter, pursuant to the LG Agreement, the Financial Assistance will continue to be subject to the same interest rate and guarantee fee that the Company has been charging the Target Company right before the Company entered into the LG Agreement with the Target Company.

For our due diligence purpose, we enquired into the Directors regarding (i) the interest rate on borrowings of the Group and were advised by the Directors that the such interest rate on borrowings of the Group ranged from 0.8% to 7.0% per annum for the period from 1 January 2015 to 31 December 2015; and (ii) the interest rate per annum on the Group's bank deposit and were advised by the Directors that the Company received an annual interest rate of 4.35% per annum for most of its existing bank deposits. Furthermore, as mentioned above, as at the Latest practicable Date, as announced by the People's Bank of China, the prevailing benchmark interest rate for (i) loans, which will be matured over one year and up to five years, in RMB is 4.75% per annum; and (ii) one-year time deposit, two-year time deposit and three-year time deposit are 1.50%, 2.10% and 2.75% per annum respectively.

For our further due diligence purpose, we have further searched for transactions regarding the provision of financial assistance with the loan amount of not less than RMB100 million by Hong Kong listed companies to their respective connected person(s) which were announced during the one year period prior to and including the date of the SP Agreement (the "**Loan Comparable(s)**"). To the best of our knowledge and as far as we are aware of, we found 9 connected transactions which met the said criteria and are exhaustive as far as we are aware of. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Loan Comparables:

Company	**Announcement date**	**Term** *(years)*	**Interest rate** *(%)*	**Loan amount** *(RMB' million)*	**Pledge**	**Loan amount to market capitalisation** *(Note 6)* *(%)*	**Loan amount to total assets** *(Note 7)* *(%)*
Gemdale Properties and Investment Corporation Limited (535)	4 August 2015	2	5.25	420	No relevant disclosure	7.63	2.82
Minmetals Land Limited (230)	4 August 2015	3	Benchmark interest rate *(Note 1)*	2,205	No	92.95	7.78
Greenland Hong Kong Holdings Limited (337)	13 August 2015	0.5	7.9	391	Yes *(Note 2)*	4.55	0.95
China Merchants Land Limited (978)	18 September 2015	1	14.35 *(Note 3)*	753.4	No relevant disclosure	13.61	1.93
Joy City Property Limited (207)	30 October 2015	0.5	4.58925	563.3	No relevant disclosure	3.80	0.82
Shanghai Industrial Holdings Limited (363)	21 January 2016	3	Benchmark interest rate *(Note 4)*	500	No relevant disclosure	3.26	0.44
Gemdale Properties and Investment Corporation Limited (535)	26 January 2016	1	Floating rate *(Note 5)*	200	No relevant disclosure	3.80	0.80
Gemdale Properties and Investment Corporation Limited (535)	29 March 2016	1	Floating rate *(Note 5)*	480	No relevant disclosure	7.82	1.91
Shanghai Industrial Holdings Limited (363)	1 June 2016	1	4.64	100	No relevant disclosure	0.62	0.08
The Loan						**118.95**	**9.84**

Notes:

1. The benchmark interest rate to be announced by the People's Bank of China from time to time, which is 4.75% per annum (for one year to five years) as at the Latest Practicable Date.

2. The entrusted loan will be secured by a pledge of 50% of the shareholding interest in the project company (the "**Project Company**") by Tianjin Xuda Real Estate Information Consultancy Limited ("**Xuda Real Estate**"), 10% of the shareholding interest in Xuda Real Estate by Tianjin Xuhai Real Estate Development Limited ("**Xuhai Real Estate**", being the sole shareholder of Xuda Real Estate), and a mortgage of the land of the Project Company by the Project Company, and will be guaranteed by CIFI Holdings (Group) Co. Ltd. (stock code: 884, being the sole shareholder of Xuhai Real Estate) and the Project Company. Xuda Real Estate shall repay, on a one-off basis, the entire amount of the Entrusted Loan on its maturity. The value of the aforesaid pledge was not disclosed in the relevant announcement.

3. The interest rate is 10% above the benchmark lending interest rate quoted by the People's Bank of China (for one year or less than one year) per annum, which is 4.35% per annum (for one year or less than one year) as at the Latest Practicable Date.

4. Benchmark interest rate of RMB denominated loans for the same period as announced by the People's Bank of China, which is 4.35% per annum (for one year or less than one year) as at the Latest Practicable Date and 4.75% per annum (for one year to five years) as at the Latest Practicable Date.
5. Floating rate in accordance with the benchmark lending rate in the People's Bank of China, which is 4.35% per annum (for one year or less than one year) as at the Latest Practicable Date.
6. The market capitalisation of the Loan Comparables are calculated based on the closing price of the corresponding Loan Comparables and their respective number of shares as at the date of their respective announcement.
7. The total assets of the Loan Comparables are based on their respective latest published financial information immediately before the date of their respective announcement.

According to the above table, we noted that the Loan Comparables carried an annual interest rate of 4.35% (being the benchmark lending interest rate as announced by the People's Bank of China as at the Latest Practicable Date) to 14.35% (being 10% above the benchmark lending interest rate quoted by the People's Bank of China (for one year or less than one year) per annum, which is 4.35% per annum (for one year or less than one year) as at the Latest Practicable Date). As such, the interest rate of 10% per annum on the Loan falls within the aforesaid interest rate range. Among the Loan Comparables, eight out of nine transactions carried an annual interest rate of less than 10% per annum.

Furthermore, we noted from the Loan Comparables that only two relevant transactions disclosed if there is any pledge on relevant loan, i.e. Minmetals Land Limited (230) ("**Minmetals**") and Greenland Hong Kong Holdings Limited (337) ("**Greenland**").

According to the announcement of Minmetals dated 4 August 2015, Minmetals may during the term commencing from 1 May 2015 to 30 April 2018 provide unsecured loans by way of entrustment loans to its connected person for an amount not exceeding RMB2,205 million with an annual interest rate to be determined with reference to the benchmark interest rate to be announced by the People's Bank of China from time to time (i.e. 4.75% per annum (for one year to five years) as at the Latest Practicable Date).

According to the announcement of Greenland dated 13 August 2015, Shanghai Ying Xuan Investment Management Limited ("**Shanghai Ying Xuan**"), being an indirect wholly owned subsidiary of Greenland entered into a project financing framework agreement on 12 August 2015 with Xuda Real Estate, the Project Company and Xuhai Real Estate. Pursuant to the project financing framework agreement dated 12 August 2015, among other things, Shanghai Ying Xuan will engage a bank to provide entrusted loan in the amount of RMB391 million to Xuda Real Estate at an interest rate of 7.9% per annum for a term of six months. The entrusted loan will be secured by a pledge of 50% of the shareholding interest in the Project Company by Xuda Real Estate, 10% of the shareholding interest in Xuda Real Estate by Xuhai Real Estate, and a mortgage of the land of the Project Company by the Project Company, and will be guaranteed by CIFI Holdings (Group) Co. Ltd. (stock code: 884, being the sole shareholder of Xuhai Real Estate) and the Project Company. Xuda Real Estate shall repay, on a one-off basis, the entire amount of the Entrusted Loan on its maturity. The value of the aforesaid pledge was not disclosed in the relevant announcement.

Despite that the risk of default of (i) deposits in banks and provision of Loan to the Target Company; and (ii) provision of Loan to the Target Company by the Company and to the respective connected persons of the Loan Comparables, are different, given (i) that the interest rate under the LG Agreement is higher than (a) the interest rate on the borrowings of the Group and the benchmark interest rate for loans, which will be matured over one year and up to five years; and (b) the interest rate on the Group's deposits and the benchmark interest rate for the time deposits for term of one year to three years; (ii) despite the guarantee fee under the LG Agreement is 1% of the gross amount of the guarantees, Mr. Guan will himself repay such amount to the Company directly for any loss that may be incurred by the Group under the LG Agreement; and (iii) the results of the above comparable analysis, we consider that the interest rate and guarantee fee under the LG Agreement is acceptable.

Upon our enquiry, the Directors also advised us that the Target Company had paid the interest and guarantee fee under the LG Agreement in a timely manner.

Furthermore, we noted from the Loan Comparables that the loan amount to market capitalisation ratio and the loan amount to total assets ratio (collectively, the "**Ratios**") of the Loan are above the Ratios of the Loan Comparables. However, having balanced that (i) a higher return (e.g. the interest rate) will be received by the Group (other than the Target Group) as compared to most of the Loan Comparables; (ii) pursuant to the Supplemental Agreement, the Purchasers undertakes, upon Completion, to pledge the Sale Interest held by them upon Completion in favour of the Vendors as guarantee of for the Target Company's obligation under the LG Agreement, whereas no pledge on relevant loan or no relevant disclosure regarding the pledge in announcements of most of the Loan Comparables; and (iii) the Irrevocable Undertakings, we consider that the Ratios of the Loan to be acceptable.

Irrevocable Undertakings

In relation to the Loans and the Guarantee, the Group has obtained Irrevocable Undertakings from Mr. Guan to the Company that:

(i) if the Company claims against the Target Company for failing to repay and/or reduce the Financial Assistance and/or to pay the related interest and/or guarantee fee, as the case may be, within the agreed timeframe, he will himself repay such amount to the Company directly for any loss that may be incurred by the Group;

(ii) if he ceases to be the controlling shareholder of the Company, the loan (under the Financial Assistance) will become immediately repayable to the Group, and the Target Company and Mr. Guan will also carry out immediate measures (such as replacing the guarantee obligations of the Group with Mr. Guan's personal guarantee or guarantee provided by company(ies) owned by Mr. Guan which is/are not part of the Group) for the purpose of releasing the guarantee obligation of the Group (under the Financial Assistance), subject to the processing time of the relevant banks may require; and

(iii) if the Disposal is undone and the Undone NAV is less than the Completion NAV, Mr. Guan, being the controlling shareholder of the Purchasers, will himself repay the NAV Repay Shortfall, to the Company directly. The Target Company's NAV is an audited figure to be verified by an independent auditor under PRC Generally Accepted Accounting Principles.

Taking into account the principal terms of the LG Agreement as discussed above, in particular, the interest rate of the Loan exceeds the benchmark interest rate of loans as announced by the People's Bank of China, we consider that the terms of the LG Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

The Caps

The following tables sets out the historical maximum accounts for the Financial Assistance and the annual caps ("**Caps**") of the Financial Assistance under the LG Agreement for each of the following periods:

	Maximum amounts for the financial year ended 31 December			Five months ended 31 May
	2013	2014	2015	2016
Historical maximum amount of Financial Assistance (inclusive of the related interest and guarantee fee)	RMB1,845,682,000	RMB3,036,727,000	RMB2,881,934,000	RMB1,897,083,000

	Annual cap amounts for the period		
	First year following the Completion Date	Second year following the Completion Date	Third year following the Completion Date
Caps amount for Financial Assistance (inclusive of the related interest and guarantee fee)	RMB2,165,000,000	RMB1,792,310,000	RMB1,171,160,000

With reference to the Board Letter, the Caps were determined with reference to

(i) the maximum historical Loan and Guarantee amounts for the three financial years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016 and as at the Latest Practicable Date;

(ii) the expected maximum Loan and Guarantee amounts for each of the three years following the Completion Date pursuant to the LG Agreement; and

(iii) the maximum amount of interest income under the Loan and guarantee fee under the Guarantee to be received by the Group under the LG Agreement.

To assess the fairness and reasonableness of the Caps, we have enquired into the Directors regarding the basis and assumptions underlying the projection of the Caps.

We understood from the Directors that the Company has already provided (i) loans of approximately RMB1,050,000,000, which bear interest at 10% per annum; and (ii) guarantees (on a revolving basis) in respect of repayment obligations in the aggregate amount of approximately RMB1,000,000,000 at a guarantee fee of 1%. The sum of the (i) the loans amount with interest (as calculated by the interest rate of 10% per annum; and (ii) the maximum guarantees amount with guarantee fee (as calculated by the guarantee fee of 1%) is RMB2,165,000,000.

In addition, with reference to the Board Letter, the guarantees provided by the Company in respect of repayment obligations of the Target Company in favour of certain lending banks has been on a revolving basis. Certain guarantee agreements, which lapsed after expiry dates during the five months period ended 31 May 2016, has been undergoing through renewal processes. Accordingly, the historical maximum amounts for the Financial Assistance for the five months ended 31 May 2016 was less than the annual cap amount for the Financial Assistance for the first year following the Completion Date. However, as the Company historically provided guarantee of approximately RMB1,000 million for the three years ended 31 December 2015 on a revolving basis, the annual cap amount for Financial Assistance (inclusive of the related interest and guarantee fee) will be RMB2,165 million, exceeding the historical amount for the five months ended 31 May 2016. The maximum amount of Financial Assistance (inclusive of the related interest and guarantee fee) for the five months ended 31 May 2016 represented approximately 87.6% to the Cap for the first year following the Completion Date.

Having considered the above factors, we consider that the Cap for the first year following the Completion Date is fair and reasonable.

Furthermore, the Directors advised us that the Target Company is required to repay and/or reduce (i) at least 18% of the total amount of the Financial Assistance within the first year from the Completion Date; and (ii) at least 48% of the total amount of the Financial Assistance on an accumulated basis within the second year from the Completion Date (the "**Repayment Arrangement**"). For our due diligence purpose, we obtained the calculation of the Caps for the second and third year following the Completion Date and noted that the calculation of the Caps for the second and third year following the Completion Date is in line with the Repayment Arrangement. Accordingly, we considered that the Caps for the second and third year following the Completion Date are acceptable.

Having considered that, including but limited to (i) Group had already provided the Loan and the Guarantee since 2013 and the Target Company will not be able to settle the Loan upon Completion; (ii) the Caps for each of the three years following the Completion Date pursuant to the LG Agreement are decreasing each year; and (iii) the calculation of the Caps, we consider that the Caps are fair and reasonable so far as the Independent Shareholders are concerned.

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 Financial Assistance must be restricted by the Caps for the corresponding period; (ii) the terms of the LG Agreement 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 LG Agreement 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 stating, among other things, whether anything has come to their attention that causes them to believe that the Financial Assistance are not, in all material respects, in accordance with the pricing policies of the Company, and whether the Caps are being exceeded. In the event that the max amounts of the Financial Assistance are anticipated to exceed the Caps, or that there is any proposed material amendment to the terms of the LG Agreement, the Company, as confirmed by the Directors, shall re-comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

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 Financial Assistance and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the SP Agreement and LG Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Disposal and the Financial Assistance, although are not conducted in the ordinary and usual course of business of the Group, 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 SP Agreement, the LG Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

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

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.

* *For identification purposes only*

1. SUMMARY OF FINANCIAL INFORMATION

Details of the financial information of the Group for each of the three years ended 31 December 2013, 2014 and 2015 are disclosed in the annual reports of the Company for the years ended 31 December 2013, 2014 and 2015 respectively. These annual reports are published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.chinasanjiang.com):

- annual report of the Company for the year ended 31 December 2015, on pages 4 to 7, and on pages 31 to 110;
- annual report of the Company for the year ended 31 December 2014, on pages 6 to 8, and on pages 27 to 107; and
- annual report of the Company for the year ended 31 December 2013, on pages 7 to 13, and on pages 33 to 111.

2. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources available to the Group including internally generated funds and other financial resources and the effect of the Disposal and Financial Assistance, the Group will have sufficient working capital for its present requirements, that is for at least the next twelve months from the date of publication of this Circular, in the absence of unforeseeable circumstances.

3. STATEMENT OF INDEBTEDNESS

Borrowings

At the close of business on 30 June 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Group had aggregate outstanding borrowings of approximately RMB5,440,624,000, details of which are set out below:

Bank borrowings — secured	RMB524,383,000
Bank borrowings — unsecured	RMB4,623,745,000
Amount due to a related company (for financing purpose) — unsecured	RMB292,496,000

Amount due to a related company (for financing purpose) is interest bearing at 10% per annum and repayable on demand.

The Group has pledged certain properties, plants and equipments, leasehold land use right and cash deposits to secure the bank borrowings of the Group.

Guarantees

At the close of business on 30 June 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Group had guarantees given to banks in connection with facilities granted to a joint operation (i.e. Sanjiang Honam Chemicals Co., Ltd) and a joint venture (i.e. the Target Company) of approximately RMB389,950,000 and RMB1,000,000,000 respectively. As at 30 June 2016, the banking facilities granted to a joint operation and a joint venture subject to guarantees given to banks by the Group were utilised to the extent of approximately RMB79,718,000 and RMB227,839,000 respectively.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables in the ordinary course of business of the Group, as at the close of business on 30 June 2016, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantee or other material contingent liabilities.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the manufacture and sale of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service. The Group, as well as all the stakeholders in oil and chemical sector (the "**Sector**"), have been facing a very tough economic environment since 2015, primarily resulted from the significant price volatility and the unusual price slump of crude oil, as well as other major commodities like silver, which have dragged down the overall gross profit margins of the Group and the Sector. The Directors consider the Disposal as well as the Financial Assistance allow the Group to, in this very critical moment, restructure its strategic business position for the purpose of enhancing its liquidity, improving its gearing level and focusing its resources in pursuing its existing core businesses such as the manufacturing and sale of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service. Upon Completion, based on (i) the Group's interests in the unaudited net asset value of the Target Company as at 31 December 2015; (ii) goodwill on acquisition of the Target Company as at 31 December 2015; (iii) the Consideration; and (iv) estimated professional fee incurred in relation to the Disposal and the Financial Assistance, it is estimated that the Group will record a gain of approximately RMB109,394,000 (subject to the review and confirmation of the Company's auditors) and free up its financial resources (i.e. the Financial Assistance) of approximately RMB2.0 billion in total in three years' time, which will largely improve the cash position of the Group and facilitate the Group in responding to the potential volatility of the Sector and the economic environments.

5. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015 (being the date to which the latest published audited financial statements of the Company have been made up) and up to and including the Latest Practicable Date.

Crowe Horwath™

國富浩華（香港）諮詢評估有限公司
Crowe Horwath (HK) Consulting & Valuation Limited
Member Crowe Horwath International

香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong
電話 Main +852 2894 6888
傳真 Fax +852 2895 3752
www.crowehorwath.hk

Date: 12 August 2016

Board of the Directors
China Sanjiang Fine Chemicals Company Limited
Rooms 601–602,
Infinitus Plaza,
Sheung Wan, Hong Kong

Dear Sirs,

RE: Valuation of 51% equity interest of Zhejiang Meifu Petrochemical Company Limited for China Sanjiang Fine Chemicals Company Limited

In accordance with an instruction from China Sanjiang Fine Chemicals Company Limited (the "**China Sanjiang**" or the "**Instructing Party**"), we hereby provide a valuation on the market value basis of 51% equity interest (the "**Equity Interest**") of Zhejiang Meifu Petrochemical Company Limited (the "**Target**") as at 31 March 2016 (the "**Valuation Date**").

We comprising chartered surveyors and accredited business appraisers, are experienced in providing valuation advices to wide range of clients on real estate, business/equity interest, biological assets, plant & machineries, infrastructure, intangible assets, financial instruments, etc. We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Target. This valuation is complied with the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors ("**RICS**") and International Valuation Standards ("**IVS**") published by the International Valuation Standards Council.

The purpose of this report is to express an independent opinion on the market value of the Equity Interest of the Target for the Instructing Party's Public Circular reference purpose only.

1. BACKGROUND OF THE TARGET

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

2. INDUSTRY OVERVIEW

The Chemical Industry is vitally important to many rapidly growing industrial sectors, including consumer goods, automotive, and construction. Chemical Industry in China has grown dramatically in the past 30 years, in line with the country's overall growth and the fundamentals of key customer industries. Over the past ten years, the market value for Chemical Industry in China has kept increasing year by year. It is not surprising that in the future, China will account for around one-third of the global chemicals demand.

However, there are still a myriad of uncertainties in this industry that the fine chemical ratio in China is still very low. It is because of the immature technology in China and lack of financial support. There is no doubt that comparing to the chemical technology development in western countries, there is still room for improvement of Chinese chemical technology.

Apart from the development of chemical technology, for those medium-and-small sized private enterprises, they are lack of resources and funds. Nonetheless, those large sized state-owned enterprises (SOEs) are not willing to put a lot of effort on increasing the fine chemical ratio. Hence, it hinders the development of chemical industry in China.

As a result, in an attempt to produce more high-quality chemical products and strengthen the position as one of the global leading suppliers, China is learning many chemical technology from foreign producers, particularly advanced specialty chemicals. By so doing, technology transfer will be achieved. Due to great business opportunities in China, more first-class multinationals are willing to increase their exposure to the market by investing in local Chinese production facilities. Better still, some smaller players have invested so much in China that the market is now one of their core businesses. In tandem with foreign multinationals' increasing investment has been the rise of chemical SOEs, the leading SOEs have increased their investment budgets which have grown impressively since 2008.

By 2015, China's market share of the global chemical industry was expected to rise to 29%. Strong growth in chemicals mainly comes in large part from growth in customer industries. Chinese consumers are driving the demand in the automotive and construction sectors. Despite a recent economic slowdown, medium- and long-term growth projections are still sound and optimistic.

Yet, there are a host of obstacles that chemical multinationals are facing in China. It includes industrial policy goals, safety and environment regulation, access to feedstock, pricing, licensing, and permissions. The attitudes, beliefs, and pressures of the extra levels of government can also be difficult to assess. China can acquire more sophisticated chemical technology, resulting in a win-win situation.

In the future, Chinese government has the great ambition in achieving "Self-Sufficiency" in an attempt to fix a large trade deficit in chemicals and trade imbalance in China. In addition, chemical industry in China is expected to step up reform on supply side in 2016 on acute structural oversupply amid economic downturn.

3. VALUATION METHODOLOGY

There are three generally accepted valuation approaches in valuation of the Equity Interest.

3.1 Asset Approach (or Cost Approach)

Asset approach (or known as cost approach) is an asset-based rather than a market-oriented method. It requires valuing the business on an individual basis to add up to the total valuations of business.

Under this approach, the expenses or costs on replacing or re-acquiring individual items or parts are estimated by valuers on an itemised basis, thus arriving at the valuation of target business.

3.2 Market Approach

Market approach is the most straightforward valuation method in determining market value of assets. Under this approach, valuers seek to identify the transaction cases having been executed and qualified as a reference for value comparison. It is normally difficult to apply the approach to unique business, as there is a lack of sufficient comparable transactions for reference.

3.3 Income Approach

Income approach is an income-oriented valuation method assuming that the investors may invest in alternative business with similar characteristics but not necessarily identical with the subject business.

Under the income approach, business value equals to the present value of the future expected income or economic benefit brought by the business, which involves the principle of capitalisation. Generally, capitalisation is a process through which the expected benefit is discounted based on the required rate of return (risk factors).

3.4 Selection of Assessment Methodology

For Equity Interest, we considered that the income approach is not applicable for the valuation, as the Target is in a rapid changing economic environment and concrete financial projection is difficult to be made. We also considered that cost approach is not an adequate approach for the valuation, as this approach does not take future growth potential into consideration. Thus, we determined that the market approach is the most appropriate valuation approach to value the Equity Interest, as there are sufficient comparable transactions in the market. Guideline Merger and Acquisition method (the "**GMA method**") is used in this valuation.

3.5 Guideline Merger and Acquisition method (the "GMA method")

In GMA method, the market value is based on the comparable transaction prices at which assets similar to that of the Target being acquired and the financial figures of the Target. GMA method provides an indication of value by comparing the transaction prices at which similar assets have exchanged between willing buyers and sellers. Price multiples are derived from the transaction prices divided by financial figures. The average of price multiples is then multiplied by the financial figures of the Target as at Valuation Date.

4. FINANCIAL FIGURES OF THE TARGET

The market value of the Target is determined by multiplying the average of price multiples of comparable transactions with the financial figures of the Target as at Valuation Date. The following table shows the financial figures of the Target which are extracted from the audited financial statements prepared in accordance with the PRC Generally Accepted Accounting Principles *(Note)*.

Income Statement of the Target in 2015 and 2016:

Items	**Jan 2016– Mar 2016 (3 months)**	**Jan 2015– Dec 2015 (12 months)**
Revenue	**556,414,477**	**3,419,922,406**
Cost of goods sold	(470,852,506)	(3,092,817,558)
Business tax	(556,414)	(3,418,838)
Gross profit	**85,005,557**	**323,686,010**
Sales expense	(598,604)	(9,056,989)
General expense	(11,320,265)	(51,286,186)
Investment income	1,696,000	6,549,580
Impairment on assets	(3,605,138)	(43,896,126)
EBIT	**71,177,549**	**225,996,289**
Other income	—	1,823,499
Finance costs	(46,528,837)	(189,048,755)
Corporate tax	—	—
Net profit	**24,648,713**	**38,771,033**
Gross profit margin	15.3%	9.5%
EBIT margin	12.8%	6.6%
Net profit margin	4.4%	1.1%

Unit: RMB

In our valuation, the net income for the 12 months ended 31 March 2016 is adopted, which is calculated from 3 months profit in 2016 and proportional 9 months profit in 2015.

Note: As advised by the Directors of the Company, the Company prepares its financial statements in accordance with Hong Kong Financial Reporting Standards, and the Directors of the Company consider there are certain differences in terms of accounting treatments between financial statements prepared under Hong Kong Financial Reporting Standards and financial statements prepared under PRC Generally Accepted Accounting Principles.

Balance Sheet of the Target as at the Valuation Date:

Items	**31 March 2016**
Cash & cash equivalents	555,824,807
Notes receivable	5,869,559
Accounts receivable	44,339,867
Prepayments	316,316,489
Interest receivable	3,129,423
Other receivable	454,375,959
Inventory	183,446,615
Other current assets	3,067,409
Fixed assets	1,161,030,684
Construction in progress	16,745,448
Intangible assets	27,548,359
Long term amortisation expense	22,290,682
Total assets	**2,793,985,299**
Short term loan	808,982,671
Note payable	62,500,000
Accounts payable	321,436,133
Advanced receipts	39,215,734
Salary payable	3,625,855
Tax payable	(31,689,976)
Interest payable	6,674,857
Other payable	1,253,096,050
Total liabilities	**2,463,841,324**
Share capital	515,395,660
Reserves	5,784,486
Retained earning	(191,036,172)
Total equity	**330,143,975**
Total equity and liabilities	**2,793,985,299**

Unit: RMB

5. COMPARABLE TRANSACTIONS

We have sourced the comparable transactions from the announcements of companies listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange with the following selection criteria:

- The acquiree of the comparable transactions mainly operates in PRC;
- The acquiree of the comparable transactions principally engages in the manufacturing and sale of petroleum or related products; and
- The acquisition of the comparable transactions have completed in or after 2014.

The list of comparable transactions is exhaustive and selected comparable transactions are shown as below:

No.	Date of completion	Acquirer	Acquiree	Transaction Price*	% of Share Acquired
1.	23 Apr 2016	Undisclosed Individuals	A chemical processing/ production company in Shandong	132,310,000	20.2%
2.	22 Apr 2016	A biotech company in Beijing	A chemical processing/ advanced material production company in Shandong	1,194,800,000	100%
3.	21 Dec 2015	A industrial company in Guangxi	A chemical processing company in Guangxi	2,500,000,000	100%
4.	28 Jan 2015	A chemical processing company in Inner-Mongolia	A chemical processing/ advance material production company in Changshu	176,800,000	65%
5.	13 Sep 2014	A state-owned petroleum processing company	A chemical processing company in Hubei	30,287,500	51%
6.	12 Sep 2014	A state-owned petroleum processing company	A chemical processing and refining company in Taixing	60,207,600	65%
7.	22 Aug 2014	A chemical processing company in Inner-Mongolia	A chemical processing company in Inner-Mongolia	98,000,000	100%

Unit: RMB

6. PRICING MULTIPLE ANALYSIS

In this case, we have primarily prepared the valuation based on Price-Earnings Multiple (P/E Ratio) and Price-Book Multiple (P/B Ratio).

P/E Ratio

P/E Ratio is the most widely adopted pricing multiple in valuation. It is a ratio for valuing a company that measures its current share price relative to its per-share earnings. The P/E ratio can be calculated as:

Market Value per Share/Earnings per Share

P/B Ratio

P/B Ratio is a financial ratio used to compare a company's current market price to its book value. It is also sometimes known as a Market-to-Book ratio. The P/B ratio can be calculated as:

Market Value per Share/Book Value per Share

Both P/E and P/B ratios have limitations. For those transactions with negative earning, P/E ratio is not available. The Target commenced operation in 2013. The historical financial track record was not long and the historical earnings were cyclical that not every year was having earning. The earning of the Target is fluctuated and may not be recurring. And for P/B ratio, the limitation is that the value of intangibles may not be captured in assets, such as the brand value or the human capital. The reason of using two multiples are to complement the limitations of each price multiple and smooth out the effect of outliers if any.

It is assumed that both price multiples have equal weight of impact on valuation. This can avoid professional judgement on different weight of price multiples on valuation result. The equity interest of the Target is the average of market values derived from the average of peers' P/E and P/B ratios.

After researching on Bloomberg, all announcements from Hong Kong, Shenzhen and Shanghai Exchanges, financial reports of listed companies and all available sources of information, to our best knowledge, we are not able to identify any valuations using market approach with the use of two price multiples and the application of 50% weight on each price multiple. In August 2014, there was a circular published by a Hong Kong listed company in which the valuer used 5 prices multiples for valuation of equity interest under market approach. The valuer calculated simple arithmetic averages of the price multiples of the comparable companies, and used the average of price multiples of the comparable companies as the price multiples of the appraised entity.

We have studied the financial information of the comparable transactions and concluded the relevant pricing multiple. Please refer to the below table for details:

No.	Acquiree	Net income	Book value	PE ratio	PB ratio
1.	A chemical processing/ production company in Shandong	47,049,284	347,827,763	13.92	1.88
2.	A chemical processing/ advanced material production company in Shandong	90,978,279	708,685,836	13.13	1.69
3.	A chemical processing company in Guangxi	200,862,248	1,616,990,204	12.45	1.55
4.	A chemical processing/ advance material production company in Changshu	Not available	189,739,995	—	1.43
5.	A chemical processing company in Hubei	(1,720,000)	46,837,800	—	1.27
6.	A chemical processing and refining company in Taixing	(4,490,000)	60,618,600	—	1.53
7.	A chemical processing company in Inner-Mongolia	Not available	110,837,100	—	0.88
	Average			**13.17**	**1.46**

Unit: RMB

7. VALUATION OF THE TARGET

P/E Ratio

As for the Target, the 12 months net profit as at the Valuation Date are RMB53.7 million. The detailed calculation using P/E ratio is shown in below table:

Subject	Amount
Earning of Target	53,727,000
P/E Multiple	13.17
Valuation	**707,418,000**

Unit: RMB

P/B Ratio

As for the Target, the book value as at 31 March 2016 is RMB330.1 million. The detailed calculation using P/B ratio is shown in below table:

Subject	Amount
Book Value of Target	330,144,000
P/E Multiple	1.46
Valuation	**482,426,000**

Unit: RMB

Conclusion

The overall value conclusion is presented in the below table:

Selected Multiple	Weight	Amount
P/E ratio	50%	707,418,000
P/B ratio	50%	482,426,000
Concluded 100% Interest		**594,922,000**

Unit: RMB

8. PREMISE OF VALUATION AND BASIS OF VALUATION

Our valuation is based on market value basis and market value is defined as "the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's-length transaction".

8.1 Source of Information

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

We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Target was prepared in reasonably care.

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

8.2 Factors Considered

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

- The demand and supply of chemical products in the region;
- The prices of chemical products;
- Operation and financial risks of the Target;
- Environmental policies set by the government that pertains to the Target;
- Operation experience of the management of the Target;
- The economic condition of China; and
- Historical financial statements of the Target.

If there are substantial changes on the factors considered, the earning and book value of the Target may have to adjust for the non-recurring effects.

8.3 Site Inspection and Management Interview

We conducted a site visit to the plant of the Target in June 2016 and had conducted a management interview. The site visit was carried by Mr. Ross Wang. Through the interview, we obtained further understanding of the Target including the establishment background, operations, management systems and future prospects. We have reviewed the financial statements provided by the management of the Target based on the information obtained through the interview.

9. VALUATION ASSUMPTIONS

Due to the changing environment in which the Target is operating, a number of operating assumptions have been prepared by the management of the Target in order to sufficiently support our concluded opinion of the market value. The assumptions are listed as follows:

- The Target will continue to produce chemical products in China and fulfill all legal and regulatory requirements for the continuation of its business;
- There will be no material changes in politics, laws, rules or regulations where the Target currently operates which may materially and adversely affect the operations of the waste treatment business;
- There will be no major changes in the current taxation law in China where the Target currently operates which will materially affect the profits, that the rates of tax payable remain unchanged and that all applicable laws and regulations in relation to taxation in China will be complied with;
- There will not be any adverse events beyond the management's control, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and epidemics that may adversely affect the operation of the Target; and
- Any financial statements, service contracts, schedule of assets and their condition or other relevant information as provided by the Target and the Instructing Party in connection with the valuation is true, lawful, complete and credible.

10. DISCLAIMER AND LIMITATION

Our valuation is subject to our general services conditions. Our findings or conclusion of values of the subject(s) in this report are valid only for the stated purpose and at the Valuation Date(s), and for the sole use of the Instructing Party.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding ten (10) times of the amount of our agreed fee(s) for this engagement. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

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

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

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

11. CONCLUSION

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

While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target, the Instructing Party and/or Crowe Horwath.

Based on the valuation methodology adopted, we are of the opinion that as at 31 March 2016, the market value of the 51% Equity Interest of Zhejiang Meifu Petrochemical Company Limited, was in the sum of RMB303,400,000 (RENMINBI THREE HUNDRED THREE MILLION FOUR HUNDRED THOUSAND).

We hereby certify that we have neither present nor prospective interests in the China Sanjiang, the Target or the value reported.

Yours faithfully,
For and on behalf of
Crowe Horwath (HK) Consulting & Valuation Limited

Stella Law MRICS ASA
Director

Remarks: Ms. Stella Law, being the person signing off the Valuation Report, (i) is an Accredited Senior Appraiser (ASA) of the American Society of Appraisers, Member of Royal Institution Chartered Surveyors (MRICS) and Registered Business Valuers of the Hong Kong Business Valuation Forum (HKBVF); and (ii) specializes in valuation of business and intangible assets with over 10 years' experience in the industry.

1. DIRECTORS' INTERESTS

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

(i) The Company

Name of Directors	Capacity	Long/Short position	Number and class of Shares	Approximate percentage of shareholding in the same class of securities as at the Latest Practicable Date
Mr. Guan Jianzhong ("**Mr. Guan**")	Interests in controlled corporation	Long	498,451,000 ordinary *(Note)*	50.19%
	Beneficial owner	Long	990,000 ordinary *(Note)*	0.10%
Ms. Han Jianhong ("**Ms. Han**")	Interest of spouse	Long	499,441,000 ordinary *(Note)*	50.29%

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

(ii) Associated corporations of the Company

Name of company	Name of Director	Capacity	Long/Short position	Number of shares	Approximate percentage of issued share capital
Sure Capital	Mr. Guan	Beneficial owner	Long	8,473	84.71%
Sure Capital	Ms. Han	Beneficial owner	Long	1,529	15.29%

(b) Save as disclosed in this Circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

(d) As at the date of this Circular, save as the following agreements, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement was subsisting and which was significant in relation to the business of the Group:

(i) the steam supply agreement entered into between Jiahua Energy Chemical Co and Xing Xing dated 27 January 2015 as disclosed in the circular of the Company dated 4 March 2015, whereby Jiahua Energy Chemical Co is indirectly owned by Mr. Guan and Ms. Han as to approximately 45.63%, while Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and independent third parties as to approximately 75%, 12% and 13% respectively;

(ii) the ethylene supply agreement entered into between Xing Xing, Sanjiang Chemical and 浙江三江化工新材料有限公司 (Zhejiang Sanjiang New Material Co., Ltd.*) ("**Sanjiang New Material**") dated 1 September 2015 as disclosed in the circular of the Company dated 22 October 2015 (the "**2015**

October Circular"), whereby Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and independent third parties as to approximately 75%, 12% and 13% respectively;

(iii) the nitrogen supply agreement entered into between Sanjiang Chemical and Xing Xing dated 1 September 2015 as disclosed in the 2015 October Circular, whereby Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and independent third parties as to approximately 75%, 12% and 13% respectively;

(iv) the C-4 purchase agreement entered into between Xing Xing and 浙江美福石油化工有限責任公司 (Zhejiang Mei Fu Petrochemical Co., Ltd*) dated 1 September 2015 as disclosed in the 2015 October Circular, whereby Xing Xing is indirectly owned by the Company, Jiahua Energy Chemical and independent third parties as to approximately 75%, 12% and 13% respectively;

(v) the low pressure steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the circular of the Company dated 16 March 2016 (the "**2016 March Circular**"), whereby Jiahua Energy Chemical Co is indirectly owned by Mr. Guan and Ms. Han as to approximately 45.63%;

(vi) the low pressure steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is indirectly owned by Mr. Guan and Ms. Han as to approximately 45.63%;

(vii) the medium pressure steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is indirectly owned by Mr. Guan and Ms. Han as to approximately 45.63%;

(viii) the medium pressure steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is indirectly owned by Mr. Guan and Ms. Han as to approximately 45.63%;

(ix) the low pressure steam supply agreement entered into between Sanjiang Chemical, Sanjiang New Material and 嘉興興港熱網有限公司 (Jiaxing Xinggang Rewang Co., Ltd.*) dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiaxing Xinggang Rewang Co., Ltd is indirectly owned by Mr. Guan and Ms. Han as to approximately 40%;

(x) the water and miscellaneous materials supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is indirectly owned by Mr. Guan and Ms. Han as to approximately 45.63%; and

(xi) the water and miscellaneous materials supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co dated 28 January 2016 as disclosed in the 2016 March Circular, whereby Jiahua Energy Chemical Co is indirectly owned by Mr. Guan and Ms. Han as to approximately 45.63%.

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

2. DIRECTORS' SERVICE CONTRACTS

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

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published financial statements of the Group were made up.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

5. MATERIAL CONTRACTS

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

— the conditional sale and purchase agreement dated 19 March 2015 entered into between the Sanjiang Chemical and Capitol International, as vendors, and Jiahua Energy Chemical Co, as purchaser, in respect of, among other matters, the disposal of 51% equity interest in the registered capital of 浙江乍浦美福碼頭倉儲有限公司 (Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.*), as disclosed in the Company's announcement dated 19 March 2015 at a consideration of RMB357,000,000;

— the SP Agreement; and

— the LG Agreement.

6. LITIGATION

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

7. QUALIFICATION AND CONSENT OF EXPERTS

Gram Capital is a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO. Crowe Horwath (HK) Consulting & Valuation Limited is a business valuer which comprises chartered surveyors and accredited business appraisers and is experienced in providing valuation advices to wide range of clients on real estate, business/equity interest, biological assets, plant & machineries, infrastructure, intangible assets, financial instruments, etc. Each of Gram Capital and Crowe Horwath (HK) Consulting & Valuation Limited 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, each of Gram Capital and Crowe Horwath (HK) Consulting & Valuation Limited 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, each of Gram Capital and Crowe Horwath (HK) Consulting & Valuation Limited did not have any interest, direct or indirect, in any assets which since 31 December 2015, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

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

(b) The head office and principal place of business of the Company in Hong Kong is located at Room 601–602, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong.

(c) The company secretary of the Company is Mr. Yip Ngai Hang, who is also the financial controller of the Group. Mr. Yip is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of the Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999. He joined the Group in 2010.

(d) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The English text of this Circular prevails over its Chinese translation in the case of discrepancy.

9. DOCUMENTS AVAILABLE FOR INSPECTION

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

(a) the memorandum and articles of association of the Company;

(b) the annual report of the Company for each of the year ended 31 December 2014 and 2015;

(c) the SP Agreement;

(d) the LG Agreement;

(e) the Supplemental SP Agreement;

(f) the Supplemental LG Agreement;

(g) the 2016 March Circular;

(h) the material contracts referred to in the paragraph headed "5. Material contracts" in this appendix;

(i) the valuation report, the text of which is set out on pages 53 to 65 of this Circular;

(j) the letter of advice from Gram Capital, the text of which is set out on pages 31 to 49 of this Circular;

(k) the written consents referred in paragraph headed "7. Qualification and consent of experts" in this appendix; and

(l) this Circular.

三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED
中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Sanjiang Fine Chemicals Company Limited ("**Company**") will be held at 10:00 a.m. on 29 August 2016 at Compass Office, L20, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong for the purpose of considering and, if thought fit, with or without amendments, passing the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT,**

(a) the SP Agreement (as defined in the circular of the Company dated 12 August 2016) dated 17 June 2016 and entered into between 三江化工有限公司 (Sanjiang Chemical Co. Ltd.*) ("**Sanjiang Chemical**"), Capitol International Limited (佳都國際有限公司), 嘉興港區江浩投資發展有限公司 (Jiaxing Gangqu Jianghao Investment Development Company Limited*) and Sure Capital Holdings Limited, and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) 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 SP Agreement and the transactions contemplated thereunder;

(c) the LG Agreement (as defined in the circular of the Company dated 12 August 2016) dated 17 June 2016 and entered into between the Company and 浙江美福石油化工有限責任公司 (Zhejiang Mei Fu Petrochemical Co., Ltd*), and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(d) the cap for the Financial Assistance (as defined in the circular of the Company dated 12 August 2016) for the three years following the Completion Date (as defined in the circular of the Company dated 12 August 2016) for the transactions contemplated under the LG Agreement be and is hereby approved, confirmed and ratified; and

(e) 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 LG Agreement and the transactions contemplated thereunder."

2. "**THAT**, subject to Completion (as defined in the circular of the Company dated 12 August 2016), the declaration of a special dividend of HK$15.0 cents per share of HK$0.10 each in the capital of the Company be and is hereby approved."

For and on behalf of the Board of
China Sanjiang Fine Chemicals Company Limited
GUAN Jianzhong
Chairman and executive Director

Hong Kong, 12 August 2016

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

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

Notes:

1. In order to qualify for the attendance of the EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 26 August 2016.

2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the articles of the Company, vote in his stead. A proxy need not be a member of the Company.

3. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the Company's branch share registrar and transfer office in Hong Kong,

Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time of the above meeting or any adjourned meeting.

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

5. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

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

Executive Directors:
Mr. Guan Jianzhong *(Chairman)*
Ms. Han Jianhong
Mr. Niu Yingshan
Mr. Han Jianping

Independent non-executive Directors:
Mr. Shen Kaijun
Ms. Pei Yu
Mr. Kong Liang