

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Upon Listing, the transactions set forth below will constitute continuing connected transactions (as defined in the Listing Rules) of our Company.

(A) Relationship between our Group and our connected persons

The relevant connected persons, with whom certain members of our Group have entered into continuing connected transactions, are as follows:

- (1) **Jiahua Industrial Park Co:** Jiahua Industrial Park Co is owned as to approximately 87.86% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han, being executive Directors of our Company. Jiahua Industrial Park Co is an associate of Mr. Guan and Ms. Han and is thus a connected person of our Company under Rule 14A.11(4) of the Listing Rules.
- (2) **Hangzhou Haoming:** Hangzhou Haoming is owned as to 60% by Mr. Guan and 20% by each of Ms. Han and Mr. Han Jianping, all being executive Directors of our Company. Hangzhou Haoming is an associate of Mr. Guan and is thus a connected person of our Company under Rule 14A.11(4) of the Listing Rules.
- (3) **Jiaxing Rewang:** Jiaxing Rewang is owned as to 40% by Jiahua Industrial Park Co, 40% by Zhapu Construction and 20% by an Independent Third Party. As Jiaxing Rewang is an associate of Jiahua Industrial Park Co, and Jiahua Industrial Park Co is an associate of Mr. Guan and Ms. Han, being executive Directors of our Company, Jiaxing Rewang is therefore deemed to be a connected person of our Company by virtue of Rule 14A.06 of the Listing Rules.

Under the Listing Rules, for so long as Jiahua Industrial Park Co, Hangzhou Haoming and/or Jiaxing Rewang remain as connected persons of our Company, the following transactions between our Group on one part and Jiahua Industrial Park Co, Hangzhou Haoming or Jiaxing Rewang on the other part would constitute continuing connected transactions of our Company upon Listing.

(B) Continuing connected transactions exempt from reporting, annual review, announcement and independent shareholders' approval requirements

(1) Leasing of industrial building from Hangzhou Haoming

(a) Tenancy Agreement

Pursuant to an agreement (the “**Tenancy Agreement**”) dated 1 April 2010 and entered into between Hangzhou Sanjiang as tenant and Hangzhou Haoming as landlord, Hangzhou Haoming has agreed to lease and Hangzhou Sanjiang has agreed to take the lease of (i) an industrial building with gross floor area of about 5,980.96 square metres situated at Shanmozhi Village, Xinjie Town, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC (the “**Property One**”); and (ii) an industrial building with gross floor area of about 2,331 square metres situated at Shanmozhi Village, Xinjie Town, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC (the “**Property Two**”, collectively with the Property One are referred to as the “**Properties**”). The Properties are used by our Group for production of surfactants in Xiaoshan District.

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Rental

For the initial three years from 1 April 2010 to 31 March 2013 during the terms of the lease of the Properties, the annual rent payable by our Group is RMB800,000 for the Property One and RMB400,000 for the Property Two. For every three-year period thereafter, the rent payable by our Group for each of the Properties will be the lower of (i) the average of the rents in the last three-year period in the property rental market of the place at which the Properties are situated (which shall be determined by reference to the valuation report to be issued by an independent qualified property valuer jointly appointed by the parties) and (ii) the then prevailing market rent.

The annual rents above were arrived at after arm's length negotiation between the parties and determined by reference to the market rent of the Properties.

DTZ Debenham Tie Leung Limited, the property valuer of our Company, considers the annual rents above are fair and reasonable and consistent with the prevailing market rents for similar properties in similar locations.

Term

The term of the lease of the Property One under the Tenancy Agreement commenced on 1 April 2010 and will expire on 31 December 2016 with a right of our Group to enter into a renewal agreement with Hangzhou Haoming in respect of the lease of the Property One.

The term of the lease of the Property Two commenced on 1 April 2010 and will expire on 31 December 2020 with a right of our Group to enter into a renewal agreement with Hangzhou Haoming in respect of the lease of the Property Two.

If our Group requests to renew the leases of the Properties upon its expiry, it will have a prior right to renew provided it gives a 60-day advance notice to renew to Hangzhou Haoming, and Hangzhou Haoming shall lease the Properties to our Group on the terms same as those of the Tenancy Agreement.

Our Directors and the Joint Sponsors consider that a term of 6 years for the lease of the Property One and 20 years for the lease of Property Two is consistent with normal business practice for contracts of this type and is to the benefit of our Group because relocation of our Group's production facilities at the Xiaoshan Site (i.e. the location of the Properties) would have impact on our Group's operations.

Other terms

Pursuant to the Tenancy Agreement, during the term of the lease of the Properties, Hangzhou Haoming has granted a right to our Group to acquire from Hangzhou Haoming the Properties and the land on which the Properties are located at a market price which shall be determined by reference to the market price of such land and buildings as valued by an independent qualified property valuer jointly appointed by the parties. In addition, during the term of the lease of the Properties under the

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Tenancy Agreement, if Hangzhou Haoming intends to dispose of the Properties to any third party, it shall serve a written notice to our Group 90 days in advance, and our Group shall have the right of first refusal to purchase the Properties on the same terms or terms not less favourable than the terms as proposed to be offered by Hangzhou Haoming to the third party. If our Group does not exercise the right of first refusal during such 90 days, Hangzhou Haoming may proceed with such disposal to the third party on terms not more favourable than those offered to our Group.

(b) Reason for the transaction

As mentioned above, the Properties have been used by Hangzhou Haoming for its surfactant manufacturing business. Following completion of the acquisition of Hangzhou Haoming's surfactant manufacturing and sale business and ethylene oxide trading business by Hangzhou Sanjiang, the Properties would continue to be used by Hangzhou Sanjiang for the production of surfactants in Xiaoshan District. Our Directors consider that the long term leases of the Properties under the Tenancy Agreement are sufficient to ensure our Group a secured production base for operating the surfactant manufacturing business of our Group without the need for our Group to acquire the relevant land; and therefore it is in the best interest of our Group not to acquire the Properties to avoid unnecessary capital expenditure, but to lease the Properties for production of our Group in Xiaoshan District, which will be carried on by Hangzhou Sanjiang.

(c) Historical Figures

No rent has been paid by our Group during the Track Record Period.

(d) Estimated annual cap amounts payable for the three years ending 31 December 2012

The annual rent payable by our Group under the Tenancy Agreement for the lease of the Properties for each of the three years ending 31 December 2012 will be RMB900,000, RMB1,200,000 and RMB1,200,000. The annual caps represent that actual total annual rent payable by our Group to Hangzhou Haoming pursuant to the Tenancy Agreement.

(e) Listing Rules requirements

Based on the annual caps for the lease of the Properties under the Tenancy Agreement for the three years ending 31 December 2012, it is expected that each of the percentage ratios (other than profits ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, will not exceed 0.1%, and therefore the lease of the Properties under the Tenancy Agreement for the three years ending 31 December 2012 is exempt from the reporting, announcement and independent shareholders' approval requirements as set out under Rule 14A.33(3) of the Listing Rules.

(2) Purchasing Low Pressure Steam from Jiaxing Rewang

(a) Low Pressure Steam Supply Agreement with Jiaxing Rewang

Low pressure steam is used for vapourisation of liquid ethylene.

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Pursuant to a low pressure steam supply agreement (the “**Rewang Low Pressure Steam Supply Agreement**”) entered into between Sanjiang Chemical and Jiaying Rewang on 16 August 2010, Jiaying Rewang has agreed to supply low pressure steam to Sanjiang Chemical at a price which equals to the price of low pressure steam stipulated by Jiaying Commodities Price Bureau (嘉興市物價局), provided that (i) such terms and conditions under the Rewang Low Pressure Steam Supply Agreement shall be on terms which are no less favourable to Sanjiang Chemical than those offered by Jiaying Rewang to its Independent Third Party purchasers for such low pressure steam of comparable quality; and (ii) the purchase price payable by Sanjiang Chemical in respect of purchases under the Rewang Low Pressure Steam Supply Agreement shall be tallied on the 25th day of each calendar month together with an extra 6% of the tallied usage amount of such low pressure steam by Sanjiang Chemical billed to Sanjiang Chemical to cover the loss in transmission and be payable by Sanjiang Chemical on or before the 10th calendar day of the following month.

As the pipelines for the supply of low pressure steam from Jiaying Rewang to our Group are already in place, our Group does not expect that new steam pipelines will need to be constructed for such purpose during the term of the Rewang Low Pressure Steam Supply Agreement. It is expected that our Group will not incur any design and construction costs of new steam pipelines for the term of the Low Pressure Steam Supply Agreement. Our Company will comply with all applicable requirements under Chapter 14A of the Listing Rules if it intends to construct any new pipelines in the future.

During the transmission of steam through pipelines there is inevitably a certain amount of steam loss over distance which happens as a result of heat loss from the pipelines, which causes steam to condense thereby reducing the steam volume. As a result, the volume of steam supplied to our Group as shown by the steam meter, not having taken into account the volume of steam loss through transmission, would be smaller than the volume of steam actually supplied from the source. To cover such loss in transmission and in accordance with general market practice, an extra 6% of the tallied usage amount as shown by the steam meter will be charged, the percentage of which was determined with reference to the fees for loss in transmission charged by Jiaying Rewang to Independent Third Parties and the distance between the steam meter and Sanjiang Chemical.

Under the Rewang Low Pressure Steam Supply Agreement, where either party is in doubt as to the accuracy of the reading of the steam meter, either party may appoint a competent and independent party to check and verify the meter reading.

The Rewang Low Pressure Steam Supply Agreement is for a term commencing on 16 August 2010 and expiring on 31 December 2012.

(b) Reason for the transactions

As the production base of our Group is situated close to that of Jiaying Rewang, transport cost of low pressure steam from Jiaying Rewang to our Group can be reduced. Moreover, Jiaying Rewang has been supplying steam to our Group during the Track Record Period and the quality of goods and service provided by them has been considered by our Group to be satisfactory. Further, as our Group has an existing steam transmission network

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previously provided by Jiaxing Rewang, our Group can procure supply of low pressure steam from Jiaxing Rewang without incurring additional fixed cost. In view of the geographical proximity and to secure a constant and stable supply of low pressure steam for its production purposes at fair commercial terms and reasonable price, our Group entered into the the Rewang Low Pressure Steam Supply Agreement.

(c) *Historical Figures*

During the Track Record Period, Sanjiang Chemical had purchased low pressure steam from Jiaxing Rewang for the aggregate annual consideration of approximately RMB1,542,100, RMB2,512,800, RMB3,285,500 and RMB934,270, respectively.

(d) *Estimated annual cap amounts payable for the three years ending 31 December 2012*

Based on (1) the historical amount of purchases made by our Group from Jiaxing Rewang for low pressure steam during the Track Record Period; (2) the expected future growth of the manufacturing business of our Group for the three years ending 31 December 2012 and the expected increase in its demand for low pressure steam for production purposes (with the estimated annual quantity of low pressure steam demanded by our Group for each of the three years ending 31 December 2012 being estimated to be 25,160 MT, 37,280 MT and 37,280 MT); (3) the assumption of market price of coal (which in turn affects the market price of low pressure steam) at RMB812 (calculated based on the average coal price during the Track Record Period with 8% increment) for the year ending 31 December 2010, with an estimated coal price increase at about 8% per annum for the two years ending 31 December 2012; and (4) the assumption that the purchase prices per MT of steam for the three years ending 31 December 2012 is RMB163.34, RMB173.02 and RMB182.70 respectively, it is expected that the aggregate consideration payable by our Group under the Rewang Low Pressure Steam Supply Agreement for the three years ending 31 December 2012 not exceed RMB4,110,000, RMB6,451,000 and RMB6,812,000 respectively.

(e) *Listing Rules implications*

As the transactions under the Rewang Low Pressure Steam Supply Agreement involves purchasing of low pressure steam, being consumer goods of a type ordinarily supplied for private use or consumption, in the ordinary and usual course of business of our Group on normal commercial terms which are no less favourable than those available from Independent Third Parties, and the steam is supplied at the price which equals to the price of low pressure steam stipulated by Jiaxing Commodities Price Bureau (嘉興市物價局), a publicly quoted price which is applied by Jiaxing Rewang to its independent consumers, and the estimated transaction amount under the Rewang Low Pressure Steam Supply Agreement for each of the three years ending 31 December 2012 represents less than 1% of the total purchases of the Group for the year ended 31 December 2009, the transactions under the Rewang Low Pressure Steam Supply Agreement are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.33(1) of the Listing Rules.

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(C) Continuing Connected Transactions subject to reporting, announcement and independent shareholders' approval requirements

(1) Supply Agreements

(a) *Water and Miscellaneous Materials Supply Agreement*

Desalinated water is used for absorption of ethylene oxide in the production of ethylene oxide. Miscellaneous materials, including sodium hydroxide and sodium hypochlorite, are used in the production of ethylene oxide.

During the Track Record Period, Sanjiang Chemical had purchased desalinated water and miscellaneous materials from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB289,600, RMB598,500, RMB471,900 and RMB134,521, respectively.

Pursuant to a desalinated water and miscellaneous materials supply agreement (the “**Water and Miscellaneous Materials Supply Agreement**”) entered into between Sanjiang Chemical and Jiahua Industrial Park Co on 16 August 2010, Jiahua Industrial Park Co has agreed to supply desalinated water to Sanjiang Chemical at market price (which will be determined by reference to the price of coal and water for industrial use acquired by Jiahua Industrial Park Co) and miscellaneous materials such as sodium hydroxide and sodium hypochlorite at market price, provided that (i) such terms and conditions under the Water and Miscellaneous Materials Supply Agreement shall be on terms which are no less favourable to Sanjiang Chemical than those offered by Jiahua Industrial Park Co to its Independent Third Party purchasers for such desalinated water and miscellaneous materials of comparable quality; (ii) the purchase price payable by Sanjiang Chemical in respect of purchases under the Water and Miscellaneous Materials Supply Agreement shall be tallied on the 25th day of each calendar month and be due and payable by Sanjiang Chemical by the end of that calendar month; and (iii) Sanjiang Chemical shall within 3 months of the new pipelines (which are constructed for the purposes of the Water and Miscellaneous Materials Supply Agreement) becoming operational reimburse all the pipeline construction fees (including the design, materials and construction fees) incurred by Jiahua Industrial Park Co, if any.

As the pipelines for the supply of desalinated water from Jiahua Industrial Park Co to our Group are already in place, it is not expected that construction of new pipelines for such purpose will be required during the term of the Water and Miscellaneous Materials Supply Agreement. It is, therefore, expected that our Group will not incur any design and construction costs of new pipelines for the term of the Water and Miscellaneous Materials Supply Agreement. Our Company will comply with all applicable requirements under Chapter 14A of the Listing Rules if it intends to construct any new pipelines in the future.

Under the Water and Miscellaneous Materials Supply Agreement, Jiahua Industrial Park Co is responsible for installation and maintenance of the desalinated water meter. Where either party to the Water and Miscellaneous Materials Supply Agreement is in doubt

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as to the accuracy of the reading of the meter, either party may appoint a competent and independent party to check and verify the meter reading.

The Water and Miscellaneous Materials Supply Agreement is for a term commencing on 16 August 2010 and expiring on 31 December 2012.

(b) Low Pressure Steam Supply Agreement

Low pressure steam is used for heating reactants in the production of surfactants.

During the Track Record Period, Sanjiang Chemical had purchased low pressure steam from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB0, RMB0, RMB153,600 and RMB646,665, respectively.

Pursuant to a low pressure steam supply agreement (the “**Low Pressure Steam Supply Agreement**”) entered into between Sanjiang Chemical and Jiahua Industrial Park Co on 16 August 2010, Jiahua Industrial Park Co agreed to supply low pressure steam to Sanjiang Chemical at a price arrived at by deducting RMB23.4 per ton (being bulk purchase discount) from the price of low pressure steam stipulated by Jiaying Commodities Price Bureau (嘉興市物價局), provided that (i) such terms and conditions under the Low Pressure Steam Supply Agreement shall be on terms which are no less favourable to Sanjiang Chemical than those offered by Jiahua Industrial Park Co to its Independent Third Party purchasers for such low pressure steam of comparable quality; (ii) the purchase price payable by Sanjiang Chemical in respect of purchases under the Low Pressure Steam Supply Agreement shall be tallied on the 25th day of each calendar month together with an extra 2% of the tallied usage amount of such low pressure steam by Sanjiang Chemical billed to Sanjiang Chemical to cover the loss in transmission and be payable by Sanjiang Chemical on or before the 10th calendar day of the following month; and (iii) Sanjiang Chemical shall bear the entire design and construction cost of new steam pipeline incurred by Jiahua Industrial Park Co for the purposes of the Low Pressure Steam Supply Agreement, if any.

As the pipelines for the supply of low pressure steam from Jiahua Industrial Park Co to our Group are already in place, our Group does not expect that new steam pipelines will need to be constructed for such purpose during the term of the Low Pressure Steam Supply Agreement. It is, therefore, expected that our Group will not incur any design and construction costs of new steam pipelines for the term of the Low Pressure Steam Supply Agreement. Our Company will comply with all applicable requirements under Chapter 14A of the Listing Rules if it intends to construct any new pipelines in the future.

During the transmission of steam through pipelines there is inevitably a certain amount of steam loss over distance which happens as a result of heat loss from the pipelines, which causes steam to condense thereby reducing the steam volume. As a result, the volume of steam supplied to our Group as shown by the steam meter, not having taken into account the amount of steam loss through transmission, would be smaller than the volume of steam actually supplied from the source. To cover such loss in transmission and in accordance with general market practice, an extra 2% of the tallied usage amount as shown by the steam meter will be charged, the percentage of which was determined with reference to the fees for loss in transmission charged by Jiahua Industrial Park Co to Independent Third Parties and the distance between the steam meter and Sanjiang Chemical.

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Sanjiang Chemical is responsible for purchasing the steam meter and the management and maintenance of such meter. Under the Low Pressure Steam Supply Agreement, where either party is in doubt as to the accuracy of the reading of the steam meter, either party may appoint a competent party to check and verify the meter reading.

The Low Pressure Steam Supply Agreement is for a term commencing on 16 August 2010 and expiring on 31 December 2012.

(c) *High Pressure Steam Supply Agreement*

High pressure steam is used by our Group for heating reactants in the production of ethylene oxide.

During the Track Record Period, Sanjiang Chemical had purchased high pressure steam from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB249,600, RMB6,652,000, RMB49,848,600 and RMB15,579,769, respectively.

Pursuant to a high pressure steam supply agreement (the “**High Pressure Steam Supply Agreement**”) entered into between Sanjiang Chemical and Jiahua Industrial Park Co on 16 August 2010, Jiahua Industrial Park Co agreed to supply high pressure steam to Sanjiang Chemical at market price calculated and adjusted monthly with reference to the market price of coal (purchased by Jiahua Industrial Park Co for production of high pressure steam in the previous month), provided that (i) such terms and conditions under the High Pressure Steam Supply Agreement shall be on terms which are no less favourable to Sanjiang Chemical than those offered by Jiahua Industrial Park Co to its Independent Third Party purchasers for such high pressure steam of comparable quality; (ii) the purchase price payable by Sanjiang Chemical in respect of purchases under the High Pressure Steam Supply Agreement shall be tallied on the 25th day of each calendar month and be payable by Sanjiang Chemical on or before the 10th calendar day of the following month; and (iii) Sanjiang Chemical shall bear the entire design and construction cost of the new steam pipeline incurred by Jiahua Industrial Park Co for the purposes of the High Pressure Steam Supply Agreement, if any.

As the pipelines for the supply of high pressure steam from Jiahua Industrial Park Co to our Group are already in place, it is not expected that construction of new steam pipelines for such purpose will be required during the term of the High Pressure Steam Supply Agreement. It is, therefore, expected that our Group will not incur any design and construction costs of new steam pipelines for the term of the High Pressure Steam Supply Agreement. Our Company will comply with all applicable requirements under Chapter 14A of the Listing Rules if it intends to construct any new pipelines in the future.

Under the High Pressure Steam Supply Agreement, our Company is responsible for installation of the steam meter whereas Jiahua Industrial Park Co is responsible for maintenance of the steam meter. Where either party to the High Pressure Steam Supply Agreement is in doubt as to the accuracy of the reading of the meter, either party may appoint a competent and independent party to check and verify the meter reading.

The High Pressure Steam Supply Agreement is for a term commencing on 16 August 2010 and expiring on 31 December 2012.

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(2) Reasons for the transactions

As the production base of our Group is situated close to that of Jiahua Industrial Park Co, transport cost of water, miscellaneous materials and steam from Jiahua Industrial Park Co to our Group can be reduced. Moreover, Jiahua Industrial Park Co has been supplying water, miscellaneous materials and steam to our Group during the Track Record Period and the quality of goods and service provided by them has been considered by our Group to be satisfactory. Further, as our Group has an existing transmission network for water and steam respectively in place for transmission of water and steam from Jiahua Industrial Park Co, our Group can procure supply of water and steam from Jiahua Industrial Park Co without incurring additional fixed cost. In view of the geographical proximity and to secure a constant and stable supply of water and steam for its production purposes at fair commercial terms and reasonable price, our Group entered into the Water and Miscellaneous Materials Supply Agreement, the Low Pressure Steam Supply Agreement and the High Pressure Steam Supply Agreement (collectively, the “**Supply Agreements**”).

(3) Historical figures

Since the Supply Agreements were entered into with Jiahua Industrial Park Co, the continuing connected transactions contemplated thereunder are aggregated in accordance with Chapter 14A of the Listing Rules.

For each of the three years ended 31 December 2009 and the four months ended 30 April 2010, Sanjiang Chemical had purchased desalinated water and miscellaneous materials from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB289,600, RMB598,500, RMB471,900 and RMB134,521, respectively, with the quantity of purchase of desalinated water being approximately 22,610 MT, 45,900 MT, 34,970 MT and 10,940 MT and the unit purchase price of desalinated water being approximately RMB12.30, RMB12.53, RMB12.30 and RMB12.30 respectively.

Our Group started to purchase low pressure steam from Jiahua Industrial Park Co in October 2009. Before that, our Group purchased low pressure steam from Jiaxing Rewang, a company owned as to 40% by Jiahua Industrial Park Co. For each of the three years ended 31 December 2009 and the four months ended 30 April 2010, Sanjiang Chemical had purchased low pressure steam from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB0, RMB0, RMB153,600 and RMB646,665, respectively, with the quantity of purchase being approximately 0 MT, 0 MT, 1,200 MT and 4,530 MT, and the unit purchase price being approximately RMB0, RMB0, RMB127.96 and RMB142.63 respectively.

For each of the three years ended 31 December 2009 and the four months ended 30 April 2010, Sanjiang Chemical had purchased high pressure steam from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB249,600, RMB6,652,000, RMB49,848,600 and RMB15,579,769, respectively, with the quantity of purchase being approximately 1,200 MT, 28,360 MT, 290,600 MT and 78,810 MT, and the unit purchase price being approximately RMB207.96, RMB234.52, RMB171.54 and RMB197.70 respectively.

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For each of the three years ended 31 December 2009 and the four months ended 30 April 2010, the aggregate consideration paid by Sanjiang Chemical to Jiahua Industrial Park Co for the purchases of water, miscellaneous materials and steam from Jiahua Industrial Park Co were approximately RMB539,200, RMB7,250,500, RMB50,474,100 and RMB16,360,955, respectively.

(4) Estimated maximum annual consideration payable for purchases of water and steam for the three years ending 31 December 2012

Ethylene oxide is produced by direct oxidation of ethylene with the use of oxidation catalyst. As a result of a change to using more effective oxidation catalyst for one of the two ethylene oxide production lines of our Group in July 2010 (which requires approximately 4.8% less ethylene and approximately 26.6% more high pressure steam than the previous oxidation catalyst in producing each MT of ethylene oxide), more high pressure steam is required in the production process. Hence, it is expected that the transaction amount of high pressure steam for the second half of the year ending 31 December 2010 will be higher compared with that for the first half of the year ending 31 December 2010, and that the annual transaction amount of high pressure steam for the year ending 31 December 2010 is expected to be relatively higher compared with that for the year ended 31 December 2009. Moreover, at the time of change of oxidation catalyst in July 2010, inspection and maintenance of the production facilities as well as cleansing of containers and pipelines were carried out which increases the consumption of desalinated water. Thus, it is estimated that the demand for desalinated water for the second half of the year ending 31 December 2010 will be higher compared with that of the first half of the year ending 31 December 2010.

As (1) our Group only started to purchase low pressure steam from Jiahua Industrial Park Co in October 2009; (2) the average purchase price of low pressure steam is expected to increase as a result of the expected increase in average coal price from approximately RMB600 in 2009 to approximately RMB812 in 2010; and (3) our Company's plans to increase the annual production of surfactants for the year ending 31 December 2010 which will in turn increase our Group's expected use of low pressure steam accordingly, the expected amount of purchase of low pressure steam from Jiahua Industrial Park Co for the year ending 31 December 2010 is estimated to be over approximately 16 times higher than that of the year ended 31 December 2009.

Our Company is setting up a new ethylene oxide production line with expected production commencing in 2011. It is estimated that the new production line will increase the ethylene oxide production capacity of our Group by about 50%, which will in turn increase our Group's expected use of high pressure steam as well as desalinated water for the production of ethylene oxide accordingly for the two years ending 31 December 2012.

Ethylene oxide is one of the raw materials for the production of surfactants. Following the increase in production capacity and thus the production volume of ethylene oxide from 2011, the surfactant production volume of our Group for the two years ending 31 December 2012 is estimated to increase and thereby increasing our Group's estimated use of low pressure steam for the two years ending 31 December 2012 by approximately 40% and 50% respectively compared with that of the year ending 31 December 2010.

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Based on (1) the historical amount of purchases made by our Group from Jiahua Industrial Park Co for water, miscellaneous materials and steam during the Track Record Period; (2) the expected future growth of the manufacturing business of our Group for the three years ending 31 December 2012 and the expected increase in its demand for desalinated water, miscellaneous materials and steam for production purposes (with the estimated annual quantity demanded by our Group for each of the three years ending 31 December 2012 being estimated to be, as for desalinated water, 39,490 MT, 53,350 MT and 53,350 MT; as for high pressure steam, 363,000 MT, 537,680 MT and 537,680 MT; and as for low pressure steam, 17,600 MT, 24,750 MT and 26,400 MT); (3) the assumption of market price of coal (which in turn affects the market price of high pressure steam and low pressure steam) at approximately RMB812 (calculated based on the average coal price during the Track Record Period with 8% increment) for the year ending 31 December 2010, with an estimated coal price increase at about 8% per annum for the two years ending 31 December 2012; and (4) the assumption that the purchase prices per MT of desalinated water, high pressure steam and low pressure steam respectively from Jiahua Industrial Park Co for the three years ending 31 December 2012 is RMB12.3, RMB12.3 and RMB12.3, RMB210.12, RMB220.76 and RMB231.41, and RMB142.63, RMB152.31 and RMB161.99 respectively, it is expected that the aggregate consideration payable by our Group under the Supply Agreements for the three years ending 31 December 2012 would not exceed RMB79,470,000, RMB123,328,000 and RMB129,560,000 respectively.

Set out below is a summary of the historical figures during the Track Record Period and the proposed annual cap amounts for each of the Supply Agreements:

Nature of transaction	Historical amount				Annual cap amount		
	For the year ended		2009	For the	For the year ending		2012
	31 December	30 April		ended	31 December		
2007	2008	2010	2010	2011			
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
1 Water and Miscellaneous Materials Supply Agreement	289,600	598,500	471,900	134,521	686,000	857,000	857,000
2 Low Pressure Steam Supply Agreement	0	0	153,600	646,665	2,511,000	3,770,000	4,277,000
3 High Pressure Steam Supply Agreement	249,600	6,652,000	49,848,600	15,579,769	76,273,000	118,701,000	124,426,000
Total:	<u>539,200</u>	<u>7,250,500</u>	<u>50,474,100</u>	<u>16,360,955</u>	<u>79,470,000</u>	<u>123,328,000</u>	<u>129,560,000</u>

(5) Listing Rules requirements

As each of the percentage ratios (other than the profits ratio) of the continuing connected transactions contemplated under the Supply Agreements is, on an annual basis, more than 5%, the above continuing connected transactions are therefore subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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(6) Application for waiver from strict compliance of the Listing Rules

Pursuant to Rule 14A.42(3) of the Listing Rules, our Group has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a specific waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in connection with the transactions contemplated under each of the Supply Agreements as described above. Our Company confirmed that it will comply with the applicable requirements under the Listing Rules as amended from time to time, and will immediately inform the Stock Exchange if there are any changes to the transactions contemplated under the Supply Agreements.

(D) Views of our Directors and the Joint Sponsors

Our Directors (including all the independent non-executive Directors) have confirmed that all the continuing connected transactions contemplated under the Tenancy Agreement, the Rewang Low Pressure Steam Supply Agreement and the Supply Agreements have been entered into in the ordinary and usual course of business of our Group, and have been and will continue to be (i) carried out on normal commercial terms, (ii) in the ordinary and usual course of business of our Group, and (iii) fair and reasonable and in the interests of our Shareholders as a whole. Our Directors (including all the independent non-executive Directors) are of the view that the proposed annual caps for the continuing connected transactions contemplated under the Tenancy Agreement, the Rewang Low Pressure Steam Supply Agreement and the Supply Agreements are fair and reasonable and in the interests of our Shareholders as a whole.

The Joint Sponsors are of the view that the continuing connected transactions contemplated under each of the Tenancy Agreement, the Rewang Low Pressure Steam Supply Agreement and the Supply Agreements described above have been entered into in the ordinary course of business of our Group, on normal commercial terms that are fair and reasonable and in the interests of our Shareholders as a whole and that the proposed annual caps of each of these continuing connected transactions are fair and reasonable and in the interests of our Shareholders as a whole.