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三江化工

SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2198)

CONTINUING CONNECTED TRANSACTIONS

**(1) DESALINATED WATER AND MISCELLANEOUS MATERIALS
SUPPLY AGREEMENT;**

AND

(2) CONDENSATE WATER PURCHASE AGREEMENTS

CONTINUING CONNECTED TRANSACTIONS

Desalinated Water and Miscellaneous Materials Supply Agreement

On 24 January 2018, Xing Xing, a non-wholly owned subsidiary of the Company, entered into the Desalinated Water and Miscellaneous Materials Supply Agreement with Jiahua Energy Chemical Co for a period of approximately three years from 24 January 2018 to 31 December 2020 to regulate the supplier and customer relationships of the transactions under the Desalinated Water and Miscellaneous Materials Supply Agreement.

Condensate Water Purchase Agreement

On 24 January 2018, Xing Xing entered into the Condensate Water Purchase Agreement with Jiahua Energy Chemical Co for a period of approximately three years from 24 January 2018 to 31 December 2020 to regulate the supplier and customer relationships of the transactions under the Condensate Water Purchase Agreement.

Implications of the Listing Rules

Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Desalinated Water and Miscellaneous Materials Supply Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the proposed cap for a period of approximately three years from 24 January 2018 to 31 December 2020 of the transactions contemplated under the Desalinated Water and Miscellaneous Materials Supply Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Desalinated Water and Miscellaneous Materials Supply Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Condensate Water Purchase Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the proposed cap for a period of approximately three years from 24 January 2018 to 31 December 2020 of the transactions contemplated under the Condensate Water Purchase Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Condensate Water Purchase Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

(1) Desalinated Water and Miscellaneous Materials Supply Agreement

Date: 24 January 2018

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

Subject matter

Jiahua Energy Chemical Co has agreed to supply desalinated water and miscellaneous materials at a price at the weighted average of those offered by Jiahua Energy Chemical Co to its independent purchasers for desalinated water and miscellaneous materials of comparable quality during the same month of supply.

Other principal terms of the Desalinated Water and Miscellaneous Materials Supply Agreement

The Desalinated Water and Miscellaneous Materials Supply Agreement shall become effective on 24 January 2018 and has a term of approximately three years from 24 January 2018 to 31 December 2020 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

The purchase price payable by Xing Xing in respect of purchases under the Desalinated Water and Miscellaneous Materials Supply Agreement shall be tallied on the 25th day of each calendar month and be due and payable by Xing Xing by the end of that calendar month.

The Group would employ several measures to ensure the price of desalinated water and miscellaneous materials offered by Jiahua Energy Chemical Co to Xing Xing is no less favourable than the price of supplying desalinated water and miscellaneous materials of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co. The following measures, which would be employed by the Group and Jiahua Energy Chemical Co, are determined after arm's length negotiation between the Group and Jiahua Energy Chemical Co:

- (a) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co to its independent purchaser(s) that require desalinated water and miscellaneous materials of comparable quality; and (ii) all supply contracts for desalinated water and miscellaneous materials of comparable quality entered into between Jiahua Energy Chemical Co and its independent purchaser(s) on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co) for the weighted average purchase price of desalinated water and miscellaneous materials since the purchase price of desalinated water and miscellaneous materials payable by the Group is agreed to be the weighted average price of the relevant product of comparable quality offered by Jiahua Energy Chemical Co to its independent purchaser(s) during the same month of supply; and
- (b) in the event that the prices of desalinated water and miscellaneous materials prices that Jiahua Energy Chemical Co charges Xing Xing are higher than the weighted average purchase prices offered by Jiahua Energy Chemical Co to its independent purchaser(s) for the relevant product of comparable quality during the same month of supply, Xing Xing will negotiate with Jiahua Energy Chemical Co to adjust the proposed purchase prices to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchaser(s). If the prices of desalinated water and miscellaneous materials which Jiahua Energy Chemical Co offers to Xing Xing are no less favourable than the weighted average purchase prices Jiahua Energy Chemical Co offers to independent purchaser(s), the finance department of the Group will

arrange for the approval of the prices offered by Jiahua Energy Chemical Co by each of the head of the finance department of the Group and the general manager of the Group.

Estimated cap and basis of the cap

Based on:

- (1) the expected amount of purchases to be made by Xing Xing from Jiahua Energy Chemical Co for desalinated water and miscellaneous materials for the period between 24 January 2018 and 31 December 2020; and
- (2) the estimated market price of desalinated water and miscellaneous materials for the period between 24 January 2018 and 31 December 2020.

It is expected that the aggregate consideration payable by Xing Xing under the Desalinated Water and Miscellaneous Materials Supply Agreement for the approximately three years ending 31 December 2020 will not exceed RMB19,100,000, RMB19,100,000 and RMB19,100,000 respectively.

(2) Condensate Water Purchase Agreement

Date: 24 January 2018

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

Xing Xing entered into the Condensate Water Purchase Agreement with Jiahua Energy Chemical Co.

Subject matter

The Condensate Water Purchase Agreement shall become effective on 24 January 2018 and has a term between 24 January 2018 and 31 December 2020 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Xing Xing has agreed to supply condensate water to Jiahua Energy Chemical Co at a price at the weighted average of those obtained by Jiahua Energy Chemical Co from its independent suppliers for condensate water of comparable quality during the same month of supply.

The purchase price payable by Jiahua Energy Chemical Co in respect of purchases under the Condensate Water Purchase Agreement shall be tallied on the 25th day of each calendar month and be due and payable by Jiahua Energy Chemical Co by the end of that calendar month.

In order to ensure that the purchase price per tonne is no less favourable than the prevailing market price, the Group would compare quotations given to other independent condensate water purchasers after taking into account the additional transportation costs that may incur, analyse such market information, and the unit purchase price for condensate water is agreed after arm's length negotiation with Jiahua Energy Chemical Co. Accordingly, the Board considers that the methods and procedures can ensure that the supply of condensate water will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

Estimated cap and basis of the cap

Based on:

- (1) the expected amount of purchases to be made by Jiahua Energy Chemical Co from Xing Xing for condensate water for the period between 24 January 2018 and 31 December 2020; and
- (2) the estimated market price of condensate water for the period between 24 January 2018 and 31 December 2020.

It is expected that the aggregate consideration payable by Jiahua Energy Chemical Co under the Condensate Water Purchase Agreement for the approximately three years ending 31 December 2020 will not exceed RMB4,200,000, RMB4,200,000 and RMB4,200,000 respectively.

HISTORICAL FIGURES

Set out below are the historical figures for each of the year ended 31 December 2015 and 2016 and 10-month period ended 31 October 2017.

	For the year ended 31 December		For the 10-month period ended 31 October
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Purchases of desalinated water and miscellaneous materials from Jiahua Energy Chemical Co	14,491,000	14,736,000	11,862,000
Sales of condensate water to Jiahua Energy Chemical Co	2,141,000	2,200,000	1,796,000

REASONS FOR THE TRANSACTIONS

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

Xing Xing is a limited company established in the PRC principally engaged in the manufacture and sale of ethylene and propylene.

Jiahua Energy Chemical Co is a limited company established in the PRC principally engaged in the businesses of supply and trading of desalinated water and steam and the production and trading of chlorine gas and sulfuric acid.

Desalinated water and miscellaneous materials are used during the process of the absorption of ethylene and propylene in the production process. Given Jiahua Energy Chemical Co is the only company that provides desalinated water and miscellaneous materials in the Zhapu area of Jiaying City, the PRC, which is the same economic development zone which Xing Xing locates, it is not economical for Xing Xing to source desalinated water and miscellaneous materials from other sources. As the production base of Xing Xing is situated close to that of Jiahua Energy Chemical Co, transport cost of desalinated water and miscellaneous materials, from Jiahua Energy Chemical Co to Xing Xing can be reduced. Moreover, Jiahua Energy Chemical Co has been supplying desalinated water and miscellaneous materials to the Group since the year ended 31 December 2007 and the quality of goods and services provided by them have been considered by the Group to be satisfactory. Further, as Xing Xing has an existing transmission network for desalinated water and miscellaneous materials in place for transmission of desalinated water and miscellaneous materials from Jiahua Energy Chemical Co, Xing Xing can procure supply of desalinated water and miscellaneous materials from Jiahua Energy Chemical Co without incurring additional fixed cost. In view of these, Xing Xing entered into the Desalinated Water and Miscellaneous Materials Supply Agreement with Jiahua Energy Chemical Co.

Condensate water is a by-product and is generated during the process of using steam adding heat to the reactors. Given Jiahua Energy Chemical Co is the only company that provides steam in the Zhapu area of Jiaying City, the PRC, which is the same economic development zone which Xing Xing locates, it is not economical for Xing Xing to sell condensate water to other steam suppliers outside the Zhapu area. As the production base of Xing Xing is situated close to that of Jiahua Energy Chemical Co, transport cost of condensate water, to Jiahua Energy Chemical Co from Xing Xing can be reduced. Further, as Xing Xing has an existing transmission network for condensate water in place for transmission of condensate water to Jiahua Energy Chemical Co, Xing Xing can supply condensate water to Jiahua Energy Chemical Co without incurring additional fixed cost. In view of these, Xing Xing entered into the Condensate Water Purchase Agreement with Jiahua Energy Chemical Co.

The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of each of the Desalinated Water and Miscellaneous Materials Supply Agreement and the Condensate Water Purchase Agreement are fair and reasonable and each of the Desalinated Water and Miscellaneous Materials Supply

Agreement and the Condensate Water Purchase Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

CONNECTED PERSON

Jiahua Energy Chemical Co is a limited company established in the PRC and is principally engaged in the business of production and trading of desalinated water, steam, chlorine gas and sulphuric acid. It is owned by Jiahua as to approximately 61.047%, which is ultimately controlled by Mr. Guan and Ms. Han, being executive Directors. Jiahua Energy Chemical Co is an associate of Mr. Guan and Ms. Han and is thus a Connected Person of the Company.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Desalinated Water and Miscellaneous Materials Supply Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the proposed cap for the period of approximately three year ending 31 December 2020 of the transactions contemplated under the Desalinated Water and Miscellaneous Materials Supply Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Desalinated Water and Miscellaneous Materials Supply Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Condensate Water Purchase Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the proposed cap for the period of approximately three years ending 31 December 2020 of the transactions contemplated under the Condensate Water Purchase Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Condensate Water Purchase Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors

“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
“Condensate Water Purchase Agreement”	The condensate water purchase agreement entered into between Xing Xing and Jiahua Energy Chemical Co dated 24 January 2018 regarding the purchase of condensate water by Jiahua Energy Chemical Co from Xing Xing
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Desalinated Water and Miscellaneous Materials Supply Agreement”	the desalinate water and miscellaneous materials supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co dated 24 January 2018 regarding the supply of desalinate water by Jiahua Energy Chemical Co to Xing Xing
“Director(s)”	director(s) of the Company
“Group”	collectively, the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 ultimately controlled by Mr. Guan and Ms. Han
“Jiahua Energy Chemical Co”	浙江嘉化能源化工股份有限公司 (Zhejiang Jiahua Energy Chemical Co., Ltd.*) (formerly known as 浙江嘉化工業園投資發展有限公司 (Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.*)), a company established in the PRC with limited liability, a non-wholly owned subsidiary of Jiahua and a connected person of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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 announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“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)
“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 77.5% indirectly-owned subsidiary of the Group
“%”	per cent.

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

The PRC, 24 January 2018

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

In this announcement, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with “” is for identification purpose only.*