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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 —
DESALINATED WATER AND MISCELLANEOUS MATERIALS
SUPPLY AGREEMENTS**

CONTINUING CONNECTED TRANSACTIONS

On 24 January 2018, Sanjiang Chemical and Sanjiang New Material, each being a wholly-owned subsidiary of the Company, entered into the Desalinated Water and Miscellaneous Materials Supply Agreements 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 Agreements.

Implications of the Listing Rules

Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Desalinated Water and Miscellaneous Materials Supply Agreements constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the aggregate amount 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 Agreements are more than 0.1% but less than 5%, the transactions contemplated under the Desalinated Water and Miscellaneous Materials Supply Agreements 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

Desalinated Water and Miscellaneous Materials Supply Agreements

On 24 January 2018, Sanjiang Chemical and Sanjiang New Material, each being a wholly-owned subsidiary of the Company, entered into the following Desalinated Water and Miscellaneous Materials Supply Agreements with Jiahua Energy Chemical Co for a period of approximately 3 years ending 31 December 2020.

Parties	Term	Annual Caps
(1) Jiahua Energy Chemical Co, a connected person (as defined under the Listing Rules) (2) Sanjiang Chemical, a wholly-owned subsidiary of the Group, engaging in the manufacture and sale of ethylene oxide and surfactants	From 24 January 2018 to 31 December 2020	RMB1,600,000, RMB1,700,000, RMB1,950,000
(1) Jiahua Energy Chemical Co, a connected person (as defined under the Listing Rules) (2) Sanjiang New Material, a wholly-owned subsidiary of the Group, engaging in the manufacture and sale of ethylene oxide	From 24 January 2018 to 31 December 2020	RMB5,300,000, RMB5,600,000, RMB5,800,000

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 Agreements

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 prices payable by Sanjiang Chemical and Sanjiang New Material in respect of purchases under the Desalinated Water and Miscellaneous Materials Supply Agreements shall be tallied on the 25th day of each calendar month and be due and payable by Sanjiang Chemical and Sanjiang New Material 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 Sanjiang Chemical and Sanjiang New Material 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 Sanjiang Chemical and Sanjiang New Material 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, Sanjiang Chemical and Sanjiang New Material 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 Sanjiang Chemical and Sanjiang New Material 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.

ANNUAL CAPS

The Company proposes the Annual Caps as follows:

	For the year ending 31 December		
	2018	2019	2020
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Purchases of desalinated water and miscellaneous materials from Jiahua Energy Chemical Co by Sanjiang Chemical and Sanjiang New Material	6,900,000	7,300,000	7,750,000

Based on:

- (1) the expected future growth of the production capacities of ethylene oxide (“EO”), ethylene glycol (“EG”) and polypropylene (“PP”) of the Group for the period of approximately three years ending 31 December 2020 as a result of a) the completion of production process improvement measures in Q2 of 2018 for the 5th Phases EO/EG production facilities which will increase the total output of the 5th Phase EO/EG production facilities by more than 20% on a yearly basis and b) the ramp up of the 2nd Phase PP production facility with 300,000MT production capacity on a yearly basis in Q1 of 2018, and in turn, the expected increase in the Group’s demand for desalinated water and miscellaneous materials for production purpose;
- (2) the expected amount of purchases to be made by Sanjiang Chemical and Sanjiang New Material from Jiahua Energy Chemical Co for desalinated water and miscellaneous materials for the period between 24 January 2018 and 31 December 2020; and
- (3) the estimated market price of desalinated water and miscellaneous materials for the period between 24 January 2018 and 31 December 2020.

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 by Sanjiang Chemical and Sanjiang New Material	3,618,000	4,178,000	5,569,000

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.

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 Jiading City, the PRC, which is the same economic development zone which Sanjiang Chemical and Sanjiang New Material locate, it is not economical for Sanjiang Chemical and Sanjiang New Material to source desalinated water and miscellaneous materials from other sources. As the production base of Sanjiang Chemical and Sanjiang New Material is situated close to that of Jiahua Energy Chemical Co, transport cost of desalinated water and miscellaneous materials, from Jiahua Energy Chemical Co to Sanjiang Chemical and Sanjiang New Material 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 Sanjiang Chemical and Sanjiang New Material 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, Sanjiang Chemical and Sanjiang New Material can procure supply of desalinated water and miscellaneous materials from Jiahua Energy Chemical Co without

incurring additional fixed cost. In view of these, Sanjiang Chemical and Sanjiang New Material entered into the Desalinated Water and Miscellaneous Materials Supply Agreements with Jiahua Energy Chemical Co.

The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of the Desalinated Water and Miscellaneous Materials Supply Agreements are fair and reasonable and 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 Agreements constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the aggregate amount 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 Agreements are more than 0.1% but less than 5%, the transactions contemplated under the Desalinated Water and Miscellaneous Materials Supply Agreements 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

“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Desalinated Water and Miscellaneous Materials Supply Agreements”	the desalinate water and miscellaneous materials supply agreements entered into between each of Sanjiang Chemical and Sanjiang New Material and Jiahua Energy Chemical Co dated 24 January 2018 regarding the supply of desalinate water by Jiahua Energy Chemical Co to Sanjiang Chemical and Sanjiang New Material
“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
“Sanjiang Chemical”	三江化工有限公司 (Sanjiang Chemical Co. Ltd.*), a company established in the PRC with limited liability on 9 December 2003, which is an indirect wholly-owned subsidiary of the Company

“Sanjiang New Material”	浙江三江化工新材料有限公司 (Zhejiang Sanjiang New Material Co., Ltd.*), a company established in the PRC with limited liability on 23 December 2011, which is an indirect wholly-owned subsidiary of the Company
“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)
“%”	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.*