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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
RENEWAL OF STEAM SUPPLY AGREEMENT**

RENEWAL OF CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 27 January 2015 in relation to the Steam Supply Transactions which constituted a continuing connected transaction of the Company.

The Board announces that Xing Xing, a non wholly-owned subsidiary of the Company, entered into the Renewed Steam Supply Agreement with Jiahua Energy Chemical Co on 1 January 2018 to renew the Steam Supply Agreement for another consecutive 3-year term which has expired on 31 December 2017.

LISTING RULES IMPLICATIONS

Pursuant to Chapter 14A of the Listing Rules, the Renewed Steam Supply Transactions constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the Annual Caps are more than 5%, the Renewed Steam Supply Transactions are subject to the reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) further information on Renewed Steam Supply Agreement and the Annual Caps; (ii) the recommendation from the independent board committee to the independent shareholders; (iii) the advice from the independent financial adviser to the independent board committee and the independent shareholders; and (iv) a notice of the EGM, will be dispatched to the Shareholders on or before 31 January 2018.

Reference is made to the announcement of the Company dated 27 January 2015 in relation to the Steam Supply Agreement, which has expired on 31 December 2017.

RENEWED STEAM SUPPLY AGREEMENT

Xing Xing and Jiahua Energy Chemical Co entered into the Renewed Steam Supply Agreement to renew the Steam Supply Agreement for another consecutive 3-year term which will expire on 31 December 2020. The principal terms of the Renewed Steam Supply Agreement are set out below:

Date: 1 January 2018

Parties: (1) Jiahua Energy Chemical Co; and
(2) Xing Xing, a non-wholly owned subsidiary of the Company.

Subject matter

Jiahua Energy Chemical Co has agreed to supply high pressure steam to Xing Xing on an ongoing basis.

Other principal terms of the Renewed Steam Supply Agreement

The Renewed Steam Supply Agreement shall become effective on 1 January 2018 and has a term ending on 31 December 2020 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

The purchase price is market price calculated and adjusted monthly with reference to the market price of coal (purchased by Jiahua Energy Chemical Co for production of steam in the previous month).

The purchase price payable by Xing Xing in respect of purchases under the Renewed Steam Supply Agreement shall be tallied on the 25th day of each calendar month and be payable by Xing Xing on or before the 5th calendar day of the following month.

Under the Renewed Steam Supply Agreement, Jiahua Energy Chemical Co is responsible for installation and maintenance of the steam meter. Where either party to the Renewed 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 Company will comply with the relevant Listing Rules requirements when the term of the Renewed Steam Supply Agreement is renewed.

Determination of the pricing policy of steam

As of the date of this announcement, Jiahua Energy Chemical Co has entered into a contract with one customer (“**Independent Customer**”), which is a third party independent of Jiahua Energy Chemical Co, in relation to the supply of high pressure steam to such customer for a term of five years commencing from May 2013 (please note that Jiahua Energy Chemical Co is yet to start the negotiation with the Independent Customer as to the renewal of the steam supply agreement after April 2018, which means the following price formula may change to match with the new steam supply agreement after the renewal in April 2018 to ensure that the terms offered by Jiahua Energy Chemical Co to Xing Xing are no less favourable than the terms by Jiahua Energy Chemical Co to that Independent Customers). The purchase price of high pressure steam under such supply contract is to be determined based on the following formula:

$$\text{Purchase price of high pressure steam} = \frac{A - B}{C} + D + E$$

where:

- (i) A represents the unit purchase price of coal for Jiahua Energy Chemical Co (including associated costs such as transportation costs) for the production of high pressure steam;
- (ii) B represents the benchmark unit price of coal as agreed between Jiahua Energy Chemical Co and the Independent Customer with reference to the median of unit prices of coal that Jiahua Energy Chemical Co purchased for the production of high pressure steam during the previous five years;
- (iii) C represents a pre-determined ratio for the production of high pressure steam from coal, that is, the estimated amount of high pressure steam to be produced by Jiahua Energy Chemical Co per unit of coal (the ratio is fixed at 6.5, assuming that the coal is of certain quality for steam production);
- (iv) D represents the benchmark unit price of high pressure steam determined based on a mark-up of approximately 10–15% above the total unit cost of producing high pressure steam by Jiahua Energy Chemical Co for the Independent Customer

(ranging from approximately RMB200 to RMB250 per MT depending on the monthly volume of high pressure steam purchased by the Independent Customer, with the benchmark unit price decreasing with the amount of purchase); and

- (v) E represents an adjustment amount (generally assumed to be nil) to be agreed between Jiahua Energy Chemical Co and the Independent Customer annually for material changes in government policies towards the industry and relevant tax policies.

Based on the terms of such supply contract and the Renewed Steam Supply Agreement (assuming Jiahua Energy Chemical Co does not enter into contracts for the supply of high pressure steam to other customer(s) and the amount of high pressure steam to be supplied to the Independent Customer will remain constant), for the three years ending 31 December 2020, (i) the annual sales of high pressure steam to Xing Xing is estimated to constitute approximately 70% of Jiahua Energy Chemical Co's annual sales of high pressure steam; and (ii) the annual sales of high pressure steam to the Independent Customer is estimated to constitute approximately 30% of Jiahua Energy Chemical Co's annual sales of high pressure steam.

HISTORICAL FIGURES UNDER THE STEAM SUPPLY AGREEMENT

Set out below is the aggregate sale of steam to Xing Xing for each of the year ended 31 December 2015 and 2016 and 10-month period ended 31 October 2017, respective under the Steam Supply Agreement:

	For the year ended		For the
	31 December		10-month
	2015	2016	period ended
	<i>RMB</i>	<i>RMB</i>	31 October
	<i>(million)</i>	<i>(million)</i>	2017
			<i>RMB</i>
			<i>(million)</i>
Sale of steam pursuant to the Steam Supply Agreement	155.18	150.99	177.62

ESTIMATED ANNUAL CAPS AND BASIS OF THE ANNUAL CAPS

Based on:

- (1) historical figures under the Steam Supply Agreement as set out above;
- (2) the expected amount of purchases to be made by Xing Xing from Jiahua Energy Chemical Co for steam for the three years ending 31 December 2020;

- (3) the expected future growth of the manufacturing business of the Group and the production capacities of ethylene and polyethylene of Xing Xing for the three years ending 31 December 2020 and, in turn, the expected increase in its demand for steam for production purposes (with the estimated annual quantity of steam demanded by Xing Xing for each of the three years ending 31 December 2020 being estimated to be approximately 1,150,000 MT for each year respectively; and
- (4) the estimated market prices of coal (which in turn affects the market price of steam) for each of the three years ending 31 December 2020,

it is expected that the aggregate consideration payable by Xing Xing under the Renewed Steam Supply Agreement for the three years ending 31 December 2020 will not exceed RMB246,300,000 for each year respectively.

REASONS FOR THE TRANSACTIONS

The Group is principally engaged in the manufacturing and supplying of ethylene oxide 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 polyethylene.

Jiahua Energy Chemical Co is the only company that provides high pressure steam in the Zhapu area of Jiaxing City, the PRC. As the production base of the Group is situated close to that of Jiahua Energy Chemical Co, transport cost of high pressure steam from Jiahua Energy Chemical Co to the Group can be reduced. Moreover, Jiahua Energy Chemical Co has been supplying steam to the Group since the year ended 31 December 2007 and the quality of goods and services provided by it has been considered by the Group to be satisfactory. In view of the geographical proximity and to secure a constant and stable supply of high pressure steam for production purposes in the future, the Group entered into the Renewed Steam Supply Agreement with Jiahua Energy Chemical Co.

In view of past operational convenience and benefits brought to the Group and extended business relationships established between the Group and Jiahua Energy Chemical Co, such continuing relationships are expected to bring synergies to the parties.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice to be obtained from an independent financial adviser) are of the view that the terms and conditions of the Renewed Steam Supply Agreement are fair and reasonable and the Renewed Steam Supply Transactions 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 as to approximately 61.047% by Jiahua, 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.

LISTING RULES IMPLICATION

Pursuant to Chapter 14A of the Listing Rules, the Renewed Steam Supply Transactions constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the Annual Caps are more than 5%, the Renewed Steam Supply Transactions are subject to the reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company is of the view that before the convening of the EGM, the Renewed Steam Supply Transactions will not (and the Company will through its internal control system to ensure that the Renewed Steam Supply Transactions will not) exceed the relevant thresholds that require independent shareholders' approval under the Listing Rules.

GENERAL

The EGM will be convened by the Company for the independent shareholders to consider and, if thought fit, approve the Renewed Steam Supply Agreement, the Renewed Steam Supply Transactions and the Annual Caps.

Each of Mr. Guan and Ms. Han was interested in the Renewed Steam Supply Agreement and they therefore abstained from voting on board resolutions of the Company approving such transactions. Save as disclosed, none of the Directors had a material interest in the Renewed Steam Supply Agreement and none of them were therefore required to abstain from voting on board resolutions of the Company in respect of such transactions.

A circular containing, among other things, (i) further information on the Renewed Steam Supply Agreement and the Annual Caps; (ii) the recommendation from the independent board committee to the independent shareholders; (iii) the advice from the independent financial adviser to the independent board committee and the independent shareholders; and (iv) a notice of the EGM, will be dispatched to the Shareholders on or before 31 January 2018.

As at the date of this announcement, Sure Capital Holdings Limited, a company beneficially controlled by Mr. Guan who is an executive Director, together with Mr. Guan as the beneficial owner own as to 41.97% of the entire issued share capital of the Company. Sure Capital Holdings Limited, its associates and those who are involved or

interested in the Renewed Steam Supply Agreement are required to abstain from voting on the resolutions to approve the Renewed Steam Supply Agreement, the Renewed Steam Supply Transactions and the Annual Caps.

DEFINITIONS

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

“Annual Caps”	the annual caps for the Renewed Steam Supply Transactions for each of the three years ending 31 December 2020 proposed to be approved at the EGM
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Sanjiang Fine Chemicals Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Renewed Steam Supply Agreement, the Renewed Steam Supply Transactions and the Annual Caps by the independent shareholders
“Group”	the Company and its subsidiaries
“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 on 15 March 2000 and a company which is ultimately controlled by Mr. Guan and Ms. Han

“Jiahua Energy Chemical Co”	浙江嘉化能源化工股份有限公司 (Zhejiang Jiahua Energy Chemical Co., Ltd.*) (formerly known as 浙江嘉化工業園投資發展有限公司 (Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.*)), a company established in the PRC with limited liability on 20 January 2001 and a non-wholly owned subsidiary of Jiahua
“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
“MT”	metric tonnes
“PRC”	the People’s Republic of China
“Renewed Steam Supply Agreement”	the renewed steam supply agreement dated 1 January 2018 entered into between Xing Xing and Jiahua Energy Chemical Co regarding the renewal of the Steam Supply Agreement
“Renewed Steam Supply Transactions”	the transactions contemplated under the Renewed Steam Supply Agreement
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Steam Supply Agreement”	the steam supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co dated 27 January 2015 regarding the supply of high pressure steam by Jiahua Energy Chemical Co to Xing Xing
“Steam Supply Transactions”	the transactions contemplated under the Steam Supply Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“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 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

The PRC, 1 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.*