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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) FATTY ALCOHOL SUPPLY AGREEMENT;

AND

(2) CONDENSATE WATER PURCHASE AGREEMENTS

CONTINUING CONNECTED TRANSACTIONS

Fatty Alcohol Supply Agreement

On 1 January 2018, Sanjiang Chemical, a wholly-owned subsidiary of the Company, entered into the Fatty Alcohol Supply Agreement with Jiahua Energy Chemical Co to regulate the supplier and customer relationships of the transactions under the Fatty Alcohol Supply Agreement.

Condensate Water Purchase Agreements

On 1 January 2018, Sanjiang Chemical entered into the Condensate Water Purchase Agreement with Jiahua Energy Chemical Co 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 Fatty Alcohol Supply Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the proposed cap for the three years ending 31 December 2020 of the transactions contemplated under the Fatty Alcohol Supply Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Fatty Alcohol 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 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.

CONTINUING CONNECTED TRANSACTIONS

(1) Fatty Alcohol Supply Agreement

Date: 1 January 2018

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

Subject matter

Jiahua Energy Chemical Co has agreed to supply fatty alcohol of no more than 8,000 tonnes for the three years ending 31 December 2020.

Other principal terms of the Fatty Alcohol Supply Agreement

The Fatty Alcohol 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).

Pursuant to the Fatty Alcohol Supply Agreement, the purchase price shall be the weighted average price of fatty alcohol purchased by all customers of Jiahua Energy Chemical Co from the 26th day of the previous calendar month to the 25th day of the month of purchase, plus the transportation cost of RMB10 per tonne of fatty alcohol purchased.

In order to ensure that the purchase price per tonne is no less favourable than the prevailing market price, the Group would compare quotations from the other independent fatty alcohol suppliers after taking into account the additional transportation costs that may incur, analyse such market information, and the unit purchase price for fatty alcohol 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 purchase of fatty alcohol will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

The Company will comply with the relevant Listing Rules requirements when the term of the Fatty Alcohol Supply Agreement is renewed.

Estimated cap and basis of the cap

Based on:

- (1) the expected amount of purchases to be made by Sanjiang Chemical from Jiahua Energy Chemical Co for fatty alcohol for the three years ending 31 December 2020; and
- (2) the estimated market price of fatty alcohol for three years ending 31 December 2020.

It is expected that the estimated Annual Caps for each of the three years ended 31 December 2020 will be as follows:

	For the year ending 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual caps	114,200	114,200	114,200

Historical transactions figures

For the two years ended 31 December 2015 and 2016 and the 10-month period ended 31 October 2017, the Group set out below the historical transaction figures.

	For the year ended 31 December		For the 10-month period ended
	2015	2016	31 October 2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of fatty alcohol from Jiahua Energy Chemical Co.	23,071	36,349	45,849

(2) Condensate Water Purchase Agreement

Date: 1 January 2018

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

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

Subject matter

The Condensate Water Purchase 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).

Sanjiang Chemical 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 the relevant product 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 Sanjiang Chemical for condensate water for the three years ending 31 December 2020; and
- (2) the estimated market price of condensate water for the three years ending 31 December 2020.

It is expected that the estimated Annual Caps for each of the three years ended 31 December 2020 will be as follows:

	For the year ending 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual caps	3,000	3,000	3,000

Historical transactions figures

For the two years ended 31 December 2015 and 2016 and the 10-month period ended 31 October 2017, the Group set out below the historical transaction figures.

	For the year ended 31 December		For the 10-month period ended
	2015	2016	31 October 2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of condensate water to Jiahua Energy Chemical Co.	1,692	1,842	2,351

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.

Sanjiang Chemical is a limited company established in the PRC principally engaged in the manufacture and sale of ethylene oxide, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and 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.

Fatty alcohol is a major raw material used by the Group in the production of AEO surfactants. Since the second half of 2013, Jiahua Energy Chemical Co has been producing fatty alcohol and offering fatty alcohol for sale. As the production base of our Group is situated close to that of Jiahua Energy Chemical Co, transportation cost of fatty alcohol from Jiahua Energy Chemical Co to the Group can be reduced. In view of the geographical proximity and to secure a constant and stable supply of fatty alcohol for its production purposes at fair commercial terms and reasonable price, the Group entered into the Fatty Alcohol 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 Jiading City, the PRC, which is the same economic development zone which Sanjiang Chemical locates, it is not economical for Sanjiang Chemical to sell condensate water to other steam suppliers outside the Zhapu area. As the production base of the Group is situated close to that of Jiahua Energy Chemical Co, transport cost of condensate water, to Jiahua Energy Chemical Co from the Group can be reduced. Further, as the Group has an existing transmission network for condensate water in place for transmission of condensate water to Jiahua Energy Chemical Co, the Group can supply condensate water to Jiahua Energy Chemical Co without incurring additional fixed cost. In view of these, the Group 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 Fatty Alcohol Supply Agreement and the Condensate Water Purchase Agreement are fair and reasonable and each of the Fatty Alcohol 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 Fatty Alcohol Supply Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the proposed cap for the years ending 31 December 2020 of the transactions contemplated under the Fatty Alcohol Supply Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Fatty Alcohol 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 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 Sanjiang Chemical and Jiahua Energy Chemical Co dated 1 January 2018 regarding the purchase of condensate water by Jiahua Energy Chemical Co from Sanjiang Chemical
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	director(s) of the Company

“Fatty Alcohol Supply Agreement”	the fatty alcohol supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co dated 1 January 2018 regarding the supply of fatty alcohol by Jiahua Energy Chemical Co to Sanjiang Chemical
“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, 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
“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
“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)
“%”	per cent.

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

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.*