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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)**

**DISCLOSEABLE AND CONNECTED TRANSACTION  
RELATING TO ACQUISITION OF 75% OF THE EQUITY INTEREST  
IN THE TARGET COMPANY**

**THE ACQUISITION**

On 31 May 2012, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the 75% of the equity interest in the Target Company at the Consideration of RMB108,500,000 (equivalent to approximately HK\$132,370,000).

**LISTING RULES IMPLICATION**

The transactions contemplated under the Acquisition Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and a connected transaction under Chapter 14A of the Listing Rules which is subject to reporting, announcement and independent shareholders' approval requirements. The Acquisition will be subject to the approval of the Independent Shareholders taken on a poll at the EGM.

**GENERAL**

An Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary, who have no direct or indirect interest in the Acquisition, has been formed to advise the Independent Shareholders in respect of the Acquisition Agreement. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, information relating to the Acquisition, the Acquisition Agreement and the transactions contemplated thereunder, a letter of advice from the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders, the recommendation of the Independent Board Committee to the Independent Shareholders, a valuation report on the right to use the MTO Technology and related ancillary technologies/contracts acquired by the Target Company together with a notice convening the EGM will be despatched to the Shareholders not later than 11 June 2012.

## **INTRODUCTION**

On 31 May 2012, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the 75% of the equity interest in the Target Company at the Consideration of RMB108,500,000 (equivalent to approximately HK\$132,370,000). Details of the Acquisition Agreement are set out below.

## **THE ACQUISITION AGREEMENT**

**Date:** 31 May 2012

### **Parties:**

- (1) The Purchaser: 三江化工有限公司 (Sanjiang Chemical Co., Ltd.\*), a wholly-owned subsidiary of the Company and a member of the Group
- (2) The Vendor: 杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.\*), a limited liability company established in the PRC and owned as to 75% by Mr. Guan Jianzhong, 20% by Ms. Han Jianhong and 5% by Mr. Han Jianping respectively. Each of Mr. Guan Jianzhong, Ms. Han Jianhong and Mr. Han Jianping is an executive Director and accordingly, the Vendor is a connected person of the Company under the Listing Rules.

The Vendor is principally engaged in investment holding.

### **Assets to be acquired:**

The Group has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, 75% of the equity interest in the Target Company.

### **Consideration and terms of payment:**

The Consideration for the Acquisition is RMB108,500,000 (equivalent to approximately HK\$132,370,000), which will be payable by the Purchaser to the Vendor within 5 Business Days from the date of Completion by way of cheque or bank transfer or other methods to be agreed between the Vendor and the Purchaser. The Consideration will be funded by internal resources of the Group.

The Directors (excluding the independent non-executive Directors whose view will be formed after taking into account the advice of the independent financial adviser) confirm that the Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor with reference to the adjusted net asset value of the Target Company of approximately RMB145,000,000 (equivalent to approximately HK\$176,900,000), based on the unaudited net assets value of the Target Company as at 30 April 2012 of approximately RMB100,000,000 (equivalent to approximately HK\$122,000,000) prepared in accordance with accounting principles generally accepted in the PRC, and taking into account the fact that the Directors expect the aggregate appraised value of the right to use a Methanol-to-Olefin-based technology ("**MTO Technology**") and related ancillary technologies acquired by the Target Company during 2011 will increase by not less than RMB45,000,000 (equivalent to approximately HK\$54,900,000) compared with the original acquisition costs. The valuation of the right to use MTO Technology and related ancillary technologies will be conducted by an independent valuer. MTO Technology and related ancillary technologies are primarily used to convert methanol into ethylene and propylene.

The registered capital of the Target Company is RMB400,000,000 and its paid up capital is RMB100,000,000. The Group's future commitment of the unpaid registered capital will be RMB225,000,000, which will be contributed by the internal resources of the Group after Completion.

**Conditions precedent:**

Completion of the Acquisition Agreement is conditional on the satisfaction (or, where applicable, waiver by the Company) of the following conditions:

- (1) the Independent Shareholders have passed an ordinary resolution to approve the transactions contemplated by the Acquisition Agreement at the EGM;
- (2) the issue of legal opinions by a firm of PRC lawyers approved by the Company, confirming, among other matters, the due incorporation and valid existence of the Target Company, the legality of the businesses operated by the Target Company and other matters which the Purchaser considers necessary, contents of which must be accepted by the Purchaser;
- (3) the value as at 30 April 2012 of the Target Company, including but not limited to the Target Company's right to use the MTO Technology and the related ancillary technologies, is estimated to be not less than RMB144,700,000 (equivalent to approximately HK\$175,534,000) pursuant to valuation conducted by valuer approved by the Purchaser; and
- (4) both the Purchaser and the Vendor obtained all necessary consent, approval and exemptions from governmental or regulatory authorities for the implementation of the transactions contemplated under the Acquisition Agreement.

None of the above conditions (other than condition (2)) can be waived by the parties. The Purchaser may at its absolute discretion waive condition (2) above at any time on or before 31 December 2012 (or such other date as agreed by the parties).

If the conditions precedents set out above have not been satisfied (or, where applicable, waived by the Purchaser) on or before 31 December 2012 (or such other date as agreed by the parties), the Acquisition Agreement shall cease and determine and none of the parties shall have any obligations and liabilities under the Acquisition Agreement, save for any prior breaches of the terms of the Acquisition Agreement.

### **Completion of the Acquisition Agreement**

Completion of the Acquisition Agreement shall take place on the next Business Day after the fulfillment or waiver (as the case may be) of all conditions referred to above (or such other date as agreed by the parties).

After Completion, the Target Company will become a 75%-owned subsidiary of the Company.

### **Information on the Target Company**

The Target Company is a limited liability company established in the PRC on 19 January 2011 with a registered capital of RMB400,000,000 and a paid-up capital of RMB100,000,000 as at the date of this announcement. Its equity interest is, as at the date of this announcement, held as to 75% by the Vendor, and as to 25% by 浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.\*), which is in turn a non-wholly owned subsidiary of the Vendor.

The Target Company is principally engaged in the production of ethylene and propylene by processing methanol based on MTO Technology, i.e. Methanol-to-Olefin-based technology and related ancillary technologies. The Target Company acquired the right to use MTO Technology and related ancillary technologies during 2011. The Target Company has not yet commenced any business operation other than that it has been planning, including but not limited to liaising with various government authorities to obtain various approvals/licenses and assessing and selecting ancillary technologies, since its establishment, in order to construct a sizeable production facility with designed annual production capacity of 300,000 metric tonnes for ethylene and 390,000 metric tonnes for propylene. As at the date of this announcement, the Target Company has obtained majority of the required approvals/licenses from relevant government authorities and has also entered into a non-legally binding investment agreement with the management committee of the local development zone to acquire certain amount of land use right at favorable market prices and agree on certain tax incentive treatments. Pursuant to the aforesaid non-legally binding investment agreement, the Target Company will initially invest to construct a MTO Technology-based production facility with designed annual production capacity of 300,000 metric tonnes for ethylene and 300,000 metric tonnes for propylene on land use right acquired and to be acquired from the aforesaid management committee of the local development zone. If the Target Company adjusts its investment plan in the future, it is subject to a risk that it may not be able to enjoy the agreed incentives in terms of acquisition of land use right at favorable market prices and tax incentive treatments.

As at the date of this announcement, the Target Company has paid RMB8.6 million in respect of the acquisition of relevant land use right.

The future capital expenditure for the Target Company to construct the aforesaid production facility to produce ethylene and propylene will be funded initially by the Group's future commitment on the unpaid registered capital of RMB225,000,000 as well as the future commitment of RMB75,000,000 to be paid by the Target Company's another shareholder i.e. Zhejiang Jiahua Group Co., Ltd. As further funding will be required for the future business development of the Target Company, it is expected that the Target Company will obtain future financing under banking facility and for this purpose, the Company may be required to provide guarantee, charge and/or other forms of financial assistance for the benefit of the Target Company. Further announcement, if required under the Listing Rules, will be made by the Company in this regard in due course as and when appropriate.

As the Target Company has not commenced any business operation since its establishment in January 2011, no revenue has been generated and all cost incurred for the construction of the MTO Technology-based production facility has been capitalised.

The unaudited net assets value and total assets value of the Target Company as at 30 April 2012 (prepared in accordance with accounting principles generally accepted in the PRC) were approximately RMB100,000,000 and RMB102,000,000 respectively.

## **REASONS FOR AND BENEFIT OF THE ACQUISITION**

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

As mentioned in the Group's annual report for the financial year ended 31 December 2011, the Directors expect the Group's aggregate annual designed production capacity of ethylene oxide ("EO"), being the Group's dominant product, will substantially increase by approximately 80% from the aggregate annual designed production capacity of 180,000 metric tonnes as at 31 December 2011 (also as at the date of this announcement) to an aggregate designed production capacity of 330,000 metric tonnes by the end of 2012 as a result of the expected ramp-up of: 1) the first phase EO production facilities of 三江湖石化有限公司 (Sanjiang Honam Chemical Co., Ltd.\*), a sino-foreign joint venture company the Group established in 2010 with Honam Petrochemical Corp., an independent third party, which contributes additional EO production capacity of 50,000 metric tonnes and 2) the Group's fourth phase EO production facilities, which contributes additional EO production capacity of 100,000 metric tonnes. After the completion of the aforesaid expansion of EO production capacity, pursuant to the memorandum of understanding the Group entered into with the Management Committee of Haiyan Economic Development Zone of Zhejiang Province, another economic development zone located right next to the Group's existing production plant located at Zhapu Economic Development Zone, the Group will construct the fifth phase EO production facilities and expects the aggregate annual designed production capacity of EO will increase by another 200,000 metric tonnes to an aggregate designed production capacity of 530,000 metric tonnes by the first quarter of 2014.

It has been the Group's strategy to fulfill the production requirement of EO through nearly 100% overseas procurement of ethylene, the core feedstock of EO. In light of the aforesaid EO production capacity expansion, the Group's demand on ethylene is expected to increase at a similar level of the EO capacity expansion which represents the fact that the expected procurement volume of ethylene will substantially increase by approximately 194% in two years' time from approximately 145,000 metric tonnes in 2011 to 426,000 metric tonnes by 2014. In view of the expected enormous overseas procurement volume of ethylene in 2014, the Directors expect the Group will be subject to significant price volatility risk and the unstable supply of ethylene. The Directors are of the opinion that, through the acquisition of the Target Company, the Group will be able to obtain the MTO Technology and related ancillary technologies for the Group to achieve vertical integration which enables the Group to secure the supply of ethylene on a long term basis at a relatively reasonable and controllable material cost and, in turn, support the EO production capacity expansion plan of the Group.

Furthermore, the acquisition of the Target Company enables the Group to diversify its business and products through developing the downstream products of propylene and the Directors believe it will bring in additional revenue stream to the Group and will be the major performance booster of the Group for 2015 and onwards after the completion of the fifth phase EO production capacity in 2014.

Given the aforesaid, the Directors (excluding the independent non-executive Directors whose view will be formed after taking into account the advice of the independent financial adviser) believe that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATION**

The Vendor is owned as to 75% by Mr. Guan Jianzhong, 20% by Ms. Han Jianhong and 5% by Mr. Han Jianping respectively. Each of Mr. Guan Jianzhong, Ms. Han Jianhong and Mr. Han Jianping is an executive Director and accordingly, the Vendor is a connected person of the Company under the Listing Rules.

The transactions contemplated under the Acquisition Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and a connected transaction under Chapter 14A of the Listing Rules which is subject to reporting, announcement and independent shareholders' approval requirements. The Acquisition will be subject to the approval of the Independent Shareholders taken on a poll at the EGM.

As at the date of this announcement, Sure Capital Holdings Limited, a company beneficially controlled by Mr. Guan Jianzhong who is the executive Director of the Group, together with Mr. Guan Jianzhong as the beneficial owner own approximately 46.58% of the entire issued share capital of the Company. Sure Capital Holdings Limited, its associates and those who are involved or interested in the Acquisition are required to abstain from voting on the resolutions to approve the Acquisition Agreement at the EGM.



## GENERAL

An Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Wang Wanxu, Mr. Shen Kaijun and Mr. Mui Ho Cheung, Gary, who have no direct or indirect interest in the Acquisition, has been formed to advise the Independent Shareholders in respect of the Acquisition Agreement. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, information relating to the Acquisition, the Acquisition Agreement and the transactions contemplated thereunder, a letter of advice from the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders, the recommendation of the Independent Board Committee to the Independent Shareholders, a valuation report on the right to use the MTO Technology and related ancillary technologies/contracts acquired by the Target Company together with a notice convening the EGM will be despatched to the Shareholders not later than 11 June 2012.

## DEFINITIONS

In this announcement, unless the context requires otherwise, the following expressions have the meanings set out below:

“Acquisition”	the acquisition of the 75% equity interest in the Target Company by the Purchaser from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 31 May 2012 entered into between the Purchaser, the Vendor and the Target Company in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (excluding a Saturday, Sunday and public holiday) on which banks in the PRC are generally open for business throughout their normal business hours
“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
“Completion”	completion of the Acquisition Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration to be payable by the Purchaser pursuant to the Acquisition Agreement

“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be convened by the Company for the purposes of considering, if thought fit, approving the Acquisition
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the Board committee comprising the three independent non-executive Directors established by the Board for the purpose of advising the Independent Shareholders in relation to, among others, the Acquisition Agreement
“Independent Shareholders”	Shareholders who are not involved or interested in the Acquisition
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	三江化工有限公司 (Sanjiang Chemical Co., Ltd.*), a wholly-owned subsidiary of the Company and a member of the Group
“Share(s)”	the share(s) of par value of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) the Shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	浙江興興新能源科技有限公司 (Zhejiang Xingxing New Energy Technology Co., Ltd.*), a limited liability company established in the PRC, the equity interest of which is, as at the date of this announcement, held as to 75% by the Vendor, and as to 25% by 浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), which is in turn a non-wholly owned subsidiary of the Vendor
“Vendor”	杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*), a limited liability company established in the PRC and owned as to 75% by Mr. Guan Jianzhong, 20% by Ms. Han Jianhong and 5% by Mr. Han Jianping respectively



“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

*Unless the context requires otherwise, translation of RMB into HK\$ are made, for illustration purpose only, at the rate of RMB1 = HK\$1.22. No representation is made that any amounts in RMB or HK\$ could have been or could be converted at the above rate or at any rates or at all.*

*As at the date of this announcement, the board of the Directors comprises four executive Directors: Mr. GUAN Jianzhong, Ms. HAN Jianhong, Mr. NIU Yingshan, Mr. HAN Jianping and three independent non-executive Directors: Mr. WANG Wanxu, Mr. SHEN Kaijun and Mr. MUI Ho Cheung, Gary.*

*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.*

On Behalf of the Board of  
**China Sanjiang Fine Chemicals Company Limited**  
**Guan Jianzhong**  
*Chairman*

PRC, 1 June 2012