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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)

CONNECTED TRANSACTION RELATING TO ACQUISITION OF 2.5% OF THE EQUITY INTEREST IN THE TARGET COMPANY

THE ACQUISITION

On 15 December 2017, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser agreed to purchase and the Vendor agreed to sell 2.5% of the equity interest in the Target Company at the Consideration of RMB20,000,000 (equivalent to approximately HK$22,276,000).

LISTING RULES IMPLICATION

As the applicable percentage ratios in respect of the Acquisition are more than 0.1% but less than 5%, the Acquisition is subject to the reporting and announcement requirements but is exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 1 June 2012 and the circular of the Company dated 11 June 2012 regarding the discloseable and connected transaction in relation to the acquisition of 75% of the equity interest in the Target Company.

On 15 December 2017, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser agreed to purchase and the Vendor agreed to sell 2.5% of the equity interest in the Target Company at the Consideration of RMB20,000,000 (equivalent to approximately HK$22,276,000). Details of the Acquisition Agreement are set out below.

THE ACQUISITION AGREEMENT

Date:

15 December 2017

Parties:

(1) The Purchaser: 三江化工有限公司 (Sanjiang Chemical Co., Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company

(2) The Vendor: 浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), a limited liability company established in the PRC and owned as to an aggregate of 30.93% by third parties independent of the Company and its connected person, and as to 69.07% by Haoming, which is owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han. Each of Mr. Guan, Ms. Han and Mr. Han is an executive Director and accordingly, the Vendor is a connected person by virtue of its being an associate of connected persons of the Company under the Listing Rules.

The Vendor is principally engaged in investment holding.

Assets to be acquired:

The Group has agreed to purchase, and the Vendor has agreed to sell, 2.5% of the equity interest in the Target Company.

Consideration and terms of payment:

The Consideration for the Acquisition is RMB20,000,000 (equivalent to approximately HK$22,276,000), 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 (including the independent non-executive Directors, but excluding Mr. Guan, Ms. Han and Mr. Han who are required to abstain from voting) confirm that the Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor with reference to the following factors:

1. the proportionate equity interest that the Purchaser will obtain in the Target Company;

2. the unaudited net profit of the Target Company for the year ended 31 December 2016 of approximately RMB185,182,000 prepared in accordance with HKFRSs;

3. the unaudited net assets value of the Target Company as at 31 December 2016 of approximately RMB645,500,000, prepared in accordance with HKFRSs, which was less than the amount of registered capital of the Target Company as at 31 December 2016 of approximately RMB800,000,000, primarily due to the fact that the Target Company incurred losses during the construction stage and the initial commercial operation of its only production facility — Methanol-to-Olefin technology-based production facility ("**MTO production facility**"). The Target Company commenced the construction of the MTO production facility since October 2012 and put the MTO production facility into commercial operation in Q2 of 2015; and

4. the Directors consider the Target Company is able to generate profits and contribute positively to the Group going forwards and thus, expect to pay a premium which represents the difference between the Consideration and the net assets values of the Target Company.

The registered capital of the Target Company is RMB800,000,000 and its paid up capital is RMB731,600,000.

Completion of the Acquisition Agreement

Completion of the Acquisition Agreement shall take place on or before 31 December 2017 (or such other date as may be agreed by the parties).

Upon Completion, the Target Company will be owned as to 77.5%, 9.5% and 13% by the Purchaser, the Vendor and four other independent third parties, respectively. Accordingly, none of the connected persons at the Company's level, individually or together, can exercise or control the exercise of 10% or more of the voting power at the Target Company's general meeting. Pursuant to Rule 14A.16 of the Listing Rules, the Target Company will no longer be taken as a connected subsidiary after Completion. Therefore, any transactions between the Target Company and any member of the Group will not constitute connected transactions or continuing connected transactions under the connected transaction rules after Completion.

The Company will continue to ensure straight compliance with the connected transaction rules for the Existing CCTs until expiry of their respective terms of the relevant agreements. Should any one of the caps under the Existing CCTs were to be exceeded, the Company will ensure straight compliance with the connected transaction rules immediately.

The Company will continue to adopt its well established policy and procedures to ensure straight compliance with the connected transactions rules under Chapter 14A of the Listing Rules. This policy and procedures include:

(i) due and prompt preparation of management report showing monthly actual transaction amount of the Existing CCTs;

(ii) monthly review of the Existing CCTs and compare the relevant caps to identify any possible situation where relevant caps may be exceeded;

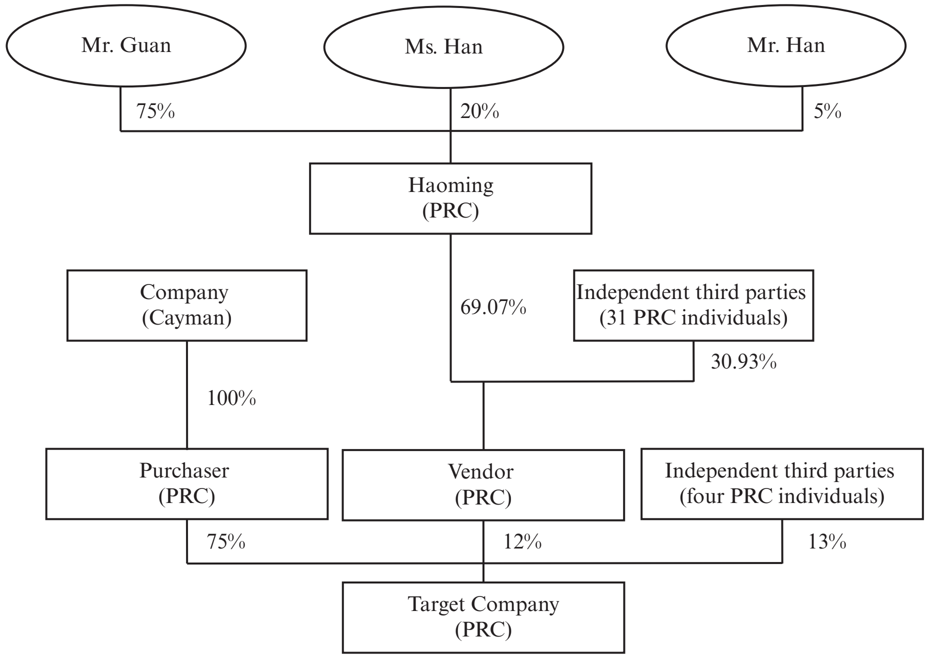
(iii) preparation of master control list showing all continuing connected transactions (including the Existing CCTs) which are being kept by the financial controller of the Company; and

(iv) perform regular forecast of relevant transaction amounts of the Existing CCTs to ensure that any possible insufficiency of annual cap will be brought to management's attention promptly.

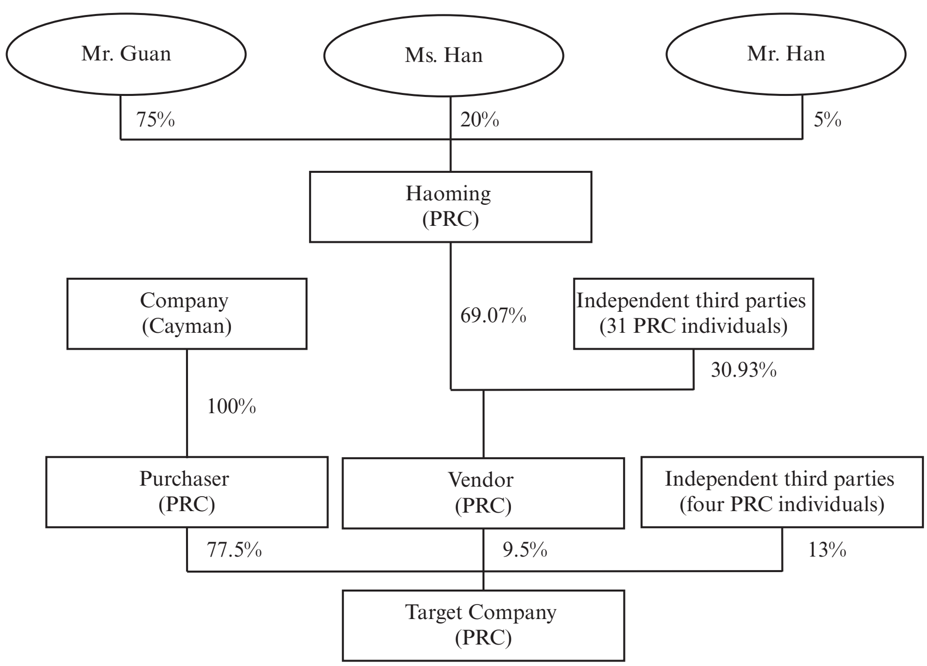
Information on the Target Company

The Target Company is a limited liability company established in the PRC on 19 January 2011 with a registered capital of RMB800,000,000 and a paid-up capital of RMB731,600,000 as at the date of this announcement. Its equity interest is, as at the date of this announcement, owned as to 75% by the Purchaser, as to 12% by the Vendor, and as to an aggregate of 13% by four individuals who are third parties independent of the Company and its connected person.

Set out below is the shareholding structure of the Target Company immediately before Completion:



Set out below is the shareholding structure of the Target Company immediately after Completion:



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 commenced the construction of the MTO production facility since October 2012 and the MTO production facility was put into commercial operation in Q2 of 2015.

Set out below is a summary of the financial information on the Target Company for the years ended 31 December 2015 and 2016 (prepared in accordance with HKFRS):

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	4,458,344	2,809,834
Profit/(loss) before taxation	187,326	(325,820)
Profit/(loss) for the year	185,182	(325,820)

The unaudited net assets value and total assets value of the Target Company as at 31 December 2016 (prepared in accordance with HKFRS) were approximately RMB645,500,000 and RMB4,139,462,000 respectively.

REASONS FOR AND BENEFIT OF THE ACQUISITION

The Company is an investment holding company. The principal activities of the Group are the manufacturing and supplying of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service.

The Target Company is principally engaged in manufacture and sale of ethylene and polyethylene.

As at the date of this announcement, the Target Company is a non wholly-owned subsidiary of the Company as to 75% by the Purchaser, 12% by the Vendor and 13% by third parties independent of the Company and its connected persons. As Mr. Guan, Ms. Han and Mr. Han, each a connected person of the Company by virtue of being an executive Director, controls the exercise of over 10% of the voting powers of the Target Company's general meeting through their interests in Haoming and the Vendor, the Target Company is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules.

Since the Vendor required financing for its other businesses, the Vendor took the initiative to propose to the Company to sell its 1.875% of the equity interest in the Target Company at the consideration of RMB15,000,000 to the Company. The Company took this opportunity by counter-offering an acquisition of 2.5% of the equity interest in the Target Company at the same pricing basis in order to (i) maximise the economic benefits and profit-sharing through the Group's control and operation of the Target Company;

and (ii) consolidate the Group's control over the Target Company given the fact that, MTO production facility is the ultimate upstream level from the Group's perspective and the success of all the strategic planning, decisions and movements that made by the Group depends heavily on the Group's control over the Target Company.

According to the memorandum and articles of the Target Company, being one of the shareholders of the Target Company, the Purchaser has the first right of refusal to acquire the share of the Target Company in the case where the Vendor or other third party shareholders are willing to sell their equity interest in the Target Company ("**First Right of Refusal**"). As such, the Vendor took the initiative to propose to the Company to sell its 1.875% of the equity interest in the Target Company at the consideration of RMB15,000,000 to the Company. After a number of rounds of discussions with the Vendor, the Vendor is only willing to offer a sale of up to 2.5% of the equity interest in the Target Company at the same pricing basis of its initial offer. The Vendor is only willing to sell all its equity interest in the Target Company at a much higher premium than that of its initial offer. Therefore, the Directors considered it should complete the Acquisition first, and then wait for future opportunity to purchase the remaining equity interest in the Target Company as the Company has the First Right of Refusal.

Since each of Mr. Guan, Ms. Han and Mr. Han has a material interest in the Acquisition, they therefore abstained from voting on board resolutions of the Company approving the Acquisition.

The Directors (including the independent non-executive Directors, but excluding Mr. Guan, Ms. Han and Mr. Han who are required to abstain from voting) are of the view that the terms of the Acquisition Agreement, which were arrived at after arm's length negotiations between the Purchaser and the Vendor, are fair and reasonable and are on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATION

As at the date of this announcement, the Vendor is a non-wholly owned subsidiary of Haoming, which is owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han. Each of Mr. Guan, Ms. Han and Mr. Han is an executive Director and accordingly, the Vendor is a connected person by virtue of its being an associate of connected persons of the Company under the Listing Rules. Hence, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Acquisition are more than 0.1% but less than 5%, the Acquisition is subject to the reporting and announcement requirements but is exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

"Acquisition"	the acquisition of 2.5% 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 15 December 2017 entered into between the Purchaser and the Vendor 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
"Existing CCTs"	the ongoing continuing connected transaction between the Target Company and the Company
"Group"	the Company and its subsidiaries from time to time
"Haoming"	杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*), a limited liability company established in the PRC, which is owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han

"HKFRSs"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accounts as in effect from time to time
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Guan"	Mr. Guan Jianzhong, an executive Director of the Company
"Mr. Han"	Mr. Han Jianping, an executive Director of the Company
"Ms. Han"	Ms. Han Jianhong, an executive Director of the Company
"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 limited liability company established in the PRC and a wholly-owned subsidiary of the Company
"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, which is owned as to 75% by the Purchaser, as to 12% by the Vendor, and as to 13% by third parties independent of the Company and its connected person
"Vendor"	浙江嘉化集團股份有限公司(Zhejiang Jiahua Group Co., Ltd.*), a limited liability company established in the PRC and owned as to 30.93% by third parties independent of the Company and its connected person, and as to 69.07% by Haoming

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

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

PRC, 15 December 2017

Unless the context requires otherwise, translation of RMB into HK$ are made, for illustration purpose only, at the rate of RMB1 = HK$1.1138. No representation is made that any amounts in RMB or HK$ 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 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.*