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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)

**REVISED ANNUAL CAPS IN RESPECT OF
THE PORT SERVICES AGREEMENTS
FOR THE YEARS ENDING 31 DECEMBER 2019 AND 2020**

Reference is made to the announcement of the Company dated 9 January 2018 (“**Announcement**”) in relation to, among other things, the transactions contemplated under the Port Services Agreements and the respective Annual Caps for the three years ending 31 December 2020.

On 9 January 2018, members of the Group entered into the following Port Services Agreements with Mei Fu Port for a period of approximately 3 years. With the Port Services Agreements in place, the Group can utilise the Services provided by Mei Fu Port with terms and conditions that are no less favourable than the terms offered to other independent third parties with details as follows:

Parties	Term	Services (Loading/unloading/storage)
(1) Mei Fu Port, a connected person (as defined under the Listing Rules)	From 9 January 2018 to 31 December 2020	Unloading of ethylene, propylene, liquefied butene and MTBE
(2) Sanjiang Chemical, a wholly-owned subsidiary of the Company, engaging in the manufacturing and sale of ethylene oxide and surfactants		

Parties	Term	Services (Loading/unloading/storage)
(1) Mei Fu Port, a connected person (as defined under the Listing Rules)	From 9 January 2018 to 31 December 2020	Unloading of ethylene and propylene
(2) Sanjiang New Material, a wholly-owned subsidiary of the Company, engaging in the manufacture and sale of ethylene oxide		

Pricing

The consideration for the Services shall be calculated by multiplying the tonnage of goods to be loaded or unloaded at a range between RMB30 per ton and RMB49 per ton, depending on the level of usage, which is in turn determined taking into account the cost of the provision of such Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, port construction charges, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settlement the payment for the Services through its internal resources.

Currently, the Group has also used other port services provided by other third parties in the same region at a charge of RMB49 per ton for unloading the goods and in most of the time, the Group needs to queue up (after the arrival of the vessel) for more than 3 days to have its goods unloaded. Should the other independent port services providers are able to provide the Services at price lower than the rates offered by the Mei Fu Port on similar terms and conditions offered by Mei Fu Port, the Group will then appoint the other port service providers for the provision of the Services. The non-exclusive arrangement under the Port Services Agreements allows the Group to use other port services providers for the provision of the Services if the terms offered by the Mei Fu Port are not the most favourable to the Group.

In order to ensure that the unit rate per ton offered by Mei Fu Port is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Services in the relevant area, analyse such market information, and the unit rate for the Services is agreed after arm's length negotiation with Mei Fu Port. Accordingly, the Board considers that the methods and procedures can ensure that the engagement of the Services will be conducted on normal commercial terms and not prejudicial to the interests of the Group and its Shareholders as a whole.

REVISED ANNUAL CAPS IN RESPECT OF THE PORT SERVICES AGREEMENTS FOR THE YEARS ENDING 2019 AND 2020

As stated in the Announcement, the previously announced Annual Caps for the continuing connected transactions contemplated under the Port Services Agreements were determined based on the following:

- (a) the historical figures of the relevant transactions;
- (b) the expected continuous increase in prices for the receipt of similar services from third party port services providers during 2018–2020, in particular, the increase of services fees as result of higher labour costs; and
- (c) the expected market conditions and increase in demand for the Services from Mei Fu Port.

Due to the following reasons, the 2019 and 2020 Revised Annual Caps are revised:

- (a) As mentioned in the Group’s 2018 Annual Report, the Group completed the ramp-up of the 2nd phase polypropylene (“**PP**”) production facility, which provides a 300,000MT production capacity increment on a yearly basis, in July 2018. Thereafter, the total PP production capacity of the Group has been increased to 600,000MT from 300,000MT on a yearly basis and as a result, the demands for the Group to procure propylene for PP production purpose have increased and, in turn, unloading propylene during the procurement process are expected to increase substantially in 2019 and 2020 when comparing to 2018 as 2019 will be the first full-year operation of the 2nd phase PP production facility.
- (b) As mentioned in the Group’s 2018 Annual Report, during 2018, due to the significant fluctuation of Methanol pricing, the Group adjusted its production capacity of Methanol-to-Olefins (“**MTO**”) production facility from time to time. MTO production facility mainly provides outputs of 300,000MT ethylene and 300,000MT propylene on a yearly basis and all these outputs would be used for the production of the Group’s midstream products like ethylene oxide (“**EO**”), ethylene glycol (“**EG**”), polypropylene (“**PP**”). Any capacity adjustment of MTO production facility would increase the Group’s demands for procuring ethylene and propylene from external suppliers for EO, EG and PP production purpose and, in turn, the Group’s demands for unloading ethylene and propylene during the procurement process would be increased as well.

The 2019 and 2020 Revised Annual Caps are revised as follows:

Parties	Services (Loading/ Unloading/Storage)	Original Annual Caps for the years ending 31 December 2019 and 2020	Revised Annual Caps for the years ending 31 December 2019 and 2020
(1) Mei Fu Port (2) Sanjiang Chemical	Unloading of ethylene, propylane, liquefied butene and MTBE	RMB5,000,000 and RMB5,000,000	RMB13,000,000 and RMB13,000,000
(1) Mei Fu Port (2) Sanjiang New Material	Unloading of ethylene and propylene	RMB3,500,000 and RMB3,500,000	RMB6,000,000 and RMB6,000,000

The 2019 and 2020 Revised Annual Caps have been determined based on the estimated activity levels between the parties, taking into account the historical values of the relevant transactions for the year ended 31 December 2018 and during the period from 1 January 2019 to 31 March 2019.

A summary of each of the historical amounts regarding the continuing connected transactions contemplated under the Port Services Agreements, their existing Annual Caps as set out in the Announcement and the 2019 and 2020 Revised Annual Caps is set out in the table below.

Parties	Services (Loading/Unloading/Storage)	Actual transaction amount for the year ended 31 December 2018	Actual transaction amount for the period from 1 January 2019 to 31 March 2019	Existing Annual Caps for the year ending 31 December			Revised Annual Caps for the year ending 31 December	
				2018	2019	2020	2019	2020
				RMB (million)	RMB (million)	RMB (million)	RMB (million)	RMB (million)
(1) Mei Fu Port (2) Sanjiang Chemical	Unloading of ethylene, propylane, liquefied butene and MTBE	4.6	2.2	5.0	5.0	5.0	13.0	13.0
(1) Mei Fu Port (2) Sanjiang New Material	Unloading of ethylene and propylene	3.0	0.7	3.5	3.5	3.5	6.0	6.0
Aggregate fees paid or payable (as the case may be)		7.6	2.9	8.5	8.5	8.5	19.0	19.0

Such projection is assumed solely for determining the Annual Caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group.

The Independent non-executive Directors and the auditor of the Company will on a regular basis be provided with the (i) Port Services Agreements; (ii) agreements entered into between the Group and independent third parties for the provision of the Services;

and (iii) fee quotations provided by independent third parties for the provision of the Services for review and comparison purpose. The Independent non-executive Directors will also review and compare the relevant payment terms, payment method and price payable under these agreements to ensure that the transactions contemplated under the Port Services Agreements are conducted on normal commercial terms. The auditor of the Company will review and confirm the transactions contemplated under the Port Services Agreements are conducted in accordance with the terms of the Port Services Agreements.

REASONS FOR AND BENEFITS OF THE PORT SERVICES AGREEMENTS

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.

Mei Fu Port is a wholly-owned subsidiary of Jiahua Energy Chemical Co, which 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.

As mentioned above, the Port Services Agreements will enable the Group to have more options in terms of port services accesses and these are internal controls in place to ensure that the terms and rates offered by Mei Fu Port are no less favorable than those offered by other independent port services providers.

Each of Mr. Guan and Ms. Han was interested in the Port Services Agreements 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 Port Services Agreements and none of them were therefore required to abstain from voting on board resolutions of the Company in respect of such transactions.

LISTING RULES IMPLICATIONS

Mei Fu Port is a wholly-owned subsidiary of Jiahua Energy Chemical Co, which is owned by Jiahua as to approximately 42.04%, which is ultimately controlled by Mr. Guan and Ms. Han, being executive Director. Thus, Mei Fu Post is an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company. Accordingly, the transactions contemplated under the Port Services Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the relevant applicable percentage ratios in respect of the aggregate amount of the transactions contemplated under the Port Services Agreements are more than 0.1% and less than 5%, these transactions 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.

Opinion of the Directors

The Directors (including the Independent non-executive Directors but excluding the Directors who have abstained from voting) consider that the continuing connected transactions contemplated under the Port Services Agreements are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and Shareholders as a whole. The Board (including the independent non-executive Directors but excluding the Directors who have abstained from voting) are also of the opinion that the 2019 and 2020 Revised Annual Caps are fair and reasonable.

DEFINITIONS

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

“2019 and 2020 Revised Annual Caps”	the revised annual caps for the continuing connected transactions contemplated under the Port Services Agreements for the years ending 31 December 2019 and 2020, as set out under the section headed “Revised Annual Caps in respect of the Port Services Agreements for the years ending 31 December 2019 and 2020” in this announcement
“Annual Caps”	the annual caps for the continuing connected transactions contemplated under the Port Services Agreements for each of the three years ending 31 December 2020 in this announcement
“associate(s)”	has the meaning ascribed thereto 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 same meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	Party(ies) independent of the Group and its connected persons

“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
“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
“Mei Fu Port”	浙江乍浦美福碼頭倉儲有限公司 (Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd.*), a limited liability company incorporated in the PRC and a non-wholly-owned subsidiary of Jiahua Energy Co
“Mr. Guan”	Mr. Guan Jianzhong, an executive Director
“Ms. Han”	Ms. Han Jianzhong, an executive Director
“Port Services Agreement(s)”	collectively, the port services agreements dated 9 January 2018 entered into between Mei Fu Port with each of Sanjiang Chemical and Sanjiang New Material
“PRC”	the People’s Republic of China
“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 and an 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
“Services”	Unloading of ethylene, unloading of propylene and liquefied butene and MTBE as contemplated under the Port Services Agreements
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“%”

per cent.

By order of the Board
China Sanjiang Fine Chemicals Company Limited
GUAN Jianzhong

The PRC, 8 May 2019

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 discrepancy 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.*