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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)

**MAJOR TRANSACTION AND CONTINUING CONNECTED
TRANSACTION
FINANCIAL ASSISTANCE TO MEI FU PETROCHEMICAL**

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 17 June 2016 and the circular of the Company dated 12 August 2016 in relation to the financial assistance to Mei Fu Petrochemical.

The Board is pleased to announce that on 12 September 2019, after trading hours, the Company entered into the 2nd Supplemental LG Agreement with Mei Fu Petrochemical, pursuant to which, the Company has conditionally agreed to continue to provide the Renewed Loan to Mei Fu Petrochemical for a further term of three years from 30 November 2019 (being the date immediately following the Original End Date), subject to the 2nd Supplemental LG Agreement taking effect upon Independent Shareholders' approval.

The maximum amount of the Renewed Loan (being the Financial Assistance) to be provided by the Company to Mei Fu Petrochemical under the 2nd Supplemental LG Agreement is RMB700,000,000 and the maximum amount of annual interest payable by Mei Fu Petrochemical to the Company is RMB70,000,000. The Company has a right to call for repayment of the Renewed Loan in full by giving 10 business days' notice to Mei Fu Petrochemical.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the entering into of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder is more than 25% but less than 75%, the entering into of the 2nd Supplemental LG Agreement and the provision of Financial Assistance thereunder constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval under Chapter 14 of the Listing Rules.

As Mei Fu Petrochemical is owned as to 82.85% by entities controlled by Mr. Guan, Mei Fu Petrochemical is an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company. The entering into of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder is therefore a continuing connected transaction of the Company under Chapter 14A of the Listing Rules which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Guan and Ms. Han and their respective associate(s) are required to abstain from voting on the resolutions to be proposed for approving the entering into of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder at the EGM.

GENERAL

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether the terms of 2nd Supplemental LG Agreement and the Financial Assistance contemplated thereunder are fair and reasonable and in the interests of the Company and Shareholders as a whole. The Independent Board Committee has approved the appointment of Gram Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the 2nd Supplemental LG Agreement and the Financial Assistance contemplated thereunder.

A circular containing, among others, (i) further information of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder; and (iv) the notice of EGM, will be despatched to the Shareholders on or about 11 October 2019.

The Board is pleased to announce that on 12 September 2019, after trading hours, the Company entered into the 2nd Supplemental LG Agreement with Mei Fu Petrochemical, pursuant to which, the Company has conditionally agreed to continue to provide the Renewed Loan to Mei Fu Petrochemical for a further term of three years from 30 November 2019 (being the date immediately following the Original End Date), subject to the 2nd Supplemental LG Agreement taking effect upon Independent Shareholders' approval. The maximum amount of the Renewed Loan (being the Financial Assistance) to be provided by the Company to Mei Fu Petrochemical under the 2nd Supplemental LG Agreement is RMB700,000,000 and the maximum amount of annual interest payable by Mei Fu Petrochemical to the Company is RMB70,000,000. The Company has a right to call for repayment of the Renewed Loan in full by giving 10 business days' notice to Mei Fu Petrochemical. The details of the 2nd Supplemental LG Agreement are set out below.

2ND SUPPLEMENTAL LG AGREEMENT

Date

12 September 2019 (after trading hours)

Parties

- (1) The Company, as lender; and
- (2) Mei Fu Petrochemical, as borrower.

As Mei Fu Petrochemical is owned as to 82.85% by entities controlled by Mr. Guan, Mei Fu Petrochemical is an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company.

Subject matter

Pursuant to the 2nd Supplemental LG Agreement, the Company has conditionally agreed to continue to provide the Renewed Loan to Mei Fu Petrochemical for a further term of three years from 30 November 2019 (being the date immediately following the Original End Date), subject to 2nd Supplemental LG Agreement taking effect upon Independent Shareholders' approval. Pursuant to the 2nd Supplemental LG Agreement, the guarantee payments under the LG Agreement will cease while the other terms and conditions of the LG Agreement and the Supplemental LG Agreement shall remain the same, including the undertakings by Mr. Guan and the pledge created pursuant to the Supplemental LG Agreement.

Financial Assistance

The Company and its subsidiaries has been providing necessary funding and financial assistance to Mei Fu Petrochemical as its working capital by way of loans and guarantees since 2013. The loans have been used as general working capital of Mei Fu Petrochemical. As at 31 August 2019, the loan under the Original Financial Assistance remaining outstanding was approximately RMB130,000,000. In addition, it is expected that Mei Fu Petrochemical will also be able to discharge the guarantee payments under the LG Agreement on or before 30 October 2019.

Pursuant to the 2nd Supplemental LG Agreement, the Group will provide the Renewed Loan (being an amount of not more than RMB700,000,000) to Mei Fu Petrochemical for a further term of three years from 30 November 2019 (being the date immediately following the Original End Date), subject to the 2nd Supplemental LG Agreement taking effect upon Independent Shareholders' approval. Mei Fu Petrochemical shall repay the Renewed Loan on or before 29 November 2022. In addition, the whole amount of the Financial Assistance will only be used for general working capital purpose by Mei Fu Petrochemical and for no other use. Furthermore, the interest rate applicable to the Renewed Loan shall be 10% per annum and the Company has a right to call for repayment of the Renewed Loan in full by giving 10 business days' notice to Mei Fu Petrochemical. The Group will finance the Renewed Loan through its internal resources.

Conditions precedent

The 2nd Supplemental LG Agreement shall be effective upon the Independent Shareholders having passed the ordinary resolutions to approve the 2nd Supplemental LG Agreement and the Financial Assistance contemplated thereunder at the EGM.

Historical maximum transaction amounts and annual caps

The historical maximum amounts for the Financial Assistance for the three years following the Completion Date are as follows:

	Annual cap amounts for the period		
	First year following Completion Date	Second year following Completion Date	Third year following Completion Date
Historical maximum amount of the financial assistance (inclusive of the related interest and guarantee fee)	RMB2,165,000,000	RMB1,792,310,000	RMB1,171,160,000
Actual amount of the financial assistance (inclusive of the related interest and guarantee)	RMB1,453,509,000	RMB713,078,000	Cap period not finished yet

The Directors propose the annual caps for the Financial Assistance for the three years from 30 November 2019 (being the date immediately following the Original End Date), subject to the 2nd Supplemental LG Agreement taking effect upon Independent Shareholders' approval, separating into four periods, to be as follows (the following annual caps are illustrated based on the assumption that the 2nd Supplemental Agreement would have been approved by the Independent Shareholders on or before 29 November 2019):

	Annual cap amounts for the period/year			
	From 30 November 2019 up to 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021	From 1 January 2022 up to 29 November 2022
Annual cap amount for the Financial Assistance (inclusive of the related interest)	RMB706,136,986 (i.e. RMB700,000,000 plus RMB70,000,000*32/365)	RMB770,000,000	RMB770,000,000	RMB763,863,014 (i.e. RMB700,000,000 plus RMB70,000,000*333/365)

The annual caps are determined based on the following factors:

- (i) the maximum historical loan for the three financial years ended 31 December 2016, 2017 and 2018;
- (ii) the amount of the Renewed Loan; and
- (iii) the maximum amount of interest income under the Financial Assistance to be received by the Group under the 2nd Supplemental LG Agreement.

The Directors (excluding the independent non-executive Directors, who will opine after taking into account the advice of the independent financial adviser) consider that the annual caps for the Financial Assistance under the 2nd Supplemental LG Agreement are fair and reasonable and in the interest of the Group and the Shareholders as a whole.

REASONS FOR THE TRANSACTION

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.

The terms of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder were determined after arm's length negotiation between the Company and Mei Fu Petrochemical, having considered that (i) as disclosed in the interim report of the Company for the six months ended 30 June 2019, the Company has cash and cash equivalents at end of period of the six months ended 30 June 2019 of approximately RMB732,034,000; (ii) the Company has since then been exploring different ways to utilize such cash and cash equivalents balance for investment opportunities with an aim to bring more valuable return to its Shareholders; and (iii) as the Board is not able to identify risk-reward justifiable investment opportunities, the Board is therefore of the view that extending the Financial Assistance to Mei Fu Petrochemical for a 10% interest rate per annum will be able to generate interest income for the Group.

The Directors (excluding the independent non-executive Directors) consider that terms of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders.

Mr. Guan and Ms. Han are considered to have material interests in the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder by virtue of their respective interests in Mei Fu Petrochemical, and therefore they have abstained from voting on the board resolutions approving the entering into of the 2nd Supplemental LG Agreement and the provision of Financial Assistance thereunder. Save as disclosed above, no other Directors have abstained from voting on the board resolutions.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the entering into of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder is more than 25% but less than 75%, the entering into of the 2nd Supplemental LG Agreement and the provision of Financial Assistance thereunder constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval under Chapter 14 of the Listing Rules.

As at the date of this announcement, Mei Fu Petrochemical is owed as to 10% by Jiaying Guanhao, 21.85% by Hangzhou Haoming, 18% by Jianghao Investment and 33% by Sure Capital, As such, Mei Fu Petrochemical is an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company. The entering into of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder is therefore a continuing connected transaction of the Company under Chapter 14A of the Listing Rules which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Guan and Ms. Han and their respective associate(s) are required to abstain from voting on the resolutions to be proposed for approving the entering into of the 2nd Supplemental LG Agreement and the provision of Financial Assistance thereunder at the EGM.

GENERAL

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether the terms of 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder are fair and reasonable and in the interests of the Company and Shareholders as a whole. The Independent Board Committee has approved the appointment of Gram Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder.

A circular containing, among others, (i) further information of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder; and (iv) the notice of EGM, will be despatched to the Shareholders on or about 11 October 2019.

INFORMATION OF MEI FU PETROCHEMICAL

Mei Fu Petrochemical is principally engaged in the manufacture and sale of various aromatics and heat transfer fluids. According to the unaudited financial statements of Mei Fu Petrochemical, the net asset value of the Mei Fu Petrochemical was approximately RMB682,433,001 as at 31 December 2018 and the results (after tax) of Mei Fu Petrochemical for the year ended 31 December 2016, 2017 and 2018 were approximately RMB172,116,500, RMB235,821,674 and RMB116,331,836 respectively.

DEFINITIONS

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

“2nd Supplemental LG Agreement”	a second supplemental agreement dated 12 September 2019 entered into between the Company and Mei Fu Petrochemical in relation to the provision of Financial Assistance;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	board of Directors of the Company;

“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 Date”	the date on which the completion under the LG Agreement and Supplemental LG Agreement occurred, being 29 November 2016;
“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 2nd Supplemental LG Agreement and the Financial Assistance contemplated thereunder by the Independent Shareholders;
“Financial Assistance”	the provision of the Renewed Loan by the Group to Mei Fu Petrochemical in accordance with the terms of the 2nd Supplemental Agreement;
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder;
“Group”	the Company and its subsidiaries, from time to time;
“Hangzhou Haoming”	杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*) (formerly known as 杭州蕭山三江精細化工有限公司 (Hangzhou Xiaoshan Sanjiang Fine Chemicals Co., Ltd.*)), and 蕭山市三江精細化工有限公司 (Xiaoshan City Sanjiang Fine Chemicals Co., Ltd.*), a company established in the PRC with limited liability on 26 March 1998, and owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

“Independent Board Committee”	the independent board committee, comprising all independent non-executive Directors, formed to advise the Independent Shareholders in respect of the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder;
“Independent Shareholders”	Shareholders who are not involved or interested in the 2nd Supplemental LG Agreement and the provision of Financial Assistance contemplated thereunder (i.e. Shareholders other than Mr. Guan and Ms. Han and their respective associates);
“Jianghao Investment”	嘉興港區江浩投資發展有限公司 (Jiaxing Gangqu Jianghao Investment Development Company Limited*), a company established in PRC with limited liability owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% and a connected person of the Company;
“Jiaxing Guan hao”	嘉興管浩怡投資合夥企業(有限合夥) (Jiaxing Guanhaoyi Investment Partnership Limited (Limited Partnership)*), a limited partnership established in the PRC in which both Mr. Guan and Ms. Han are the partners;
“LG Agreement”	the loan and guarantee agreement dated 17 June 2016 (as amended by the Supplemental LG Agreement) and entered into between the Company and Mei Fu Petrochemical in relation to the provision of the Original Financial Assistance;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macau Special Administrative Region of the PRC;
“Mei Fu Petrochemical”	浙江美福石油化工有限責任公司 (Zhejiang Mei Fu Petrochemical Co., Ltd*), a company established in the PRC with limited liability and a connected person of the Company;
“Mr. Guan”	Mr. Guan Jianzhong, an executive Director;
“Mr. Han”	Mr. Han Jianping, an executive Director;
“Ms. Han”	Ms. Han Jianhong, an executive Director;
“Original End Date”	the original end date of the term under the LG Agreement and Supplemental LG Agreement, being 29 November 2019;

“Original Financial Assistance”	the loan and guarantee as provided by the Company to Mei Fu Petrochemical under the LG Agreement;
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan;
“Renewed Loan”	a maximum loan amount of RMB700,000,000 to be provided by the Group to Mei Fu Petrochemical and a maximum amount of annual interest of RMB70,000,000 payable by Mei Fu Petrochemical to the Company under the 2nd Supplemental LG Agreement;
“RMB”	Renminbi yuan, the lawful currency of the PRC;
“Shareholder(s)”	shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supplemental LG Agreement”	the supplemental agreement to the LG Agreement dated 11 August 2016 and entered into between the Company and Mei Fu Petrochemical;
“Sure Capital”	Sure Capital Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a company wholly-owned by Yihao Development Limited which is held under the Yihao Trust, the trustee of which is Vistra Trust (Singapore) Pte. Ltd whereas the Yihao Trust was established by Mr. Guan and Ms. Han as settlors, therefore a connected person of the Company; and
“%”	per cent.

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

The PRC, 12 September 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.*