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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)

- (1) MAJOR AND CONNECTED TRANSACTION - DISPOSAL OF
51% EQUITY INTEREST IN THE TARGET COMPANY
AND
(2) MAJOR TRANSACTION AND CONTINUING CONNECTED
TRANSACTION - FINANCIAL ASSISTANCE TO THE TARGET COMPANY
UPON COMPLETION OF THE DISPOSAL OF 51% EQUITY INTEREST
IN THE TARGET COMPANY
AND
(3) DATE OF BOARD MEETING AND PROPOSED CONDITIONAL
SPECIAL DIVIDEND**

**(1) MAJOR AND CONNECTED TRANSACTION - DISPOSAL OF 51%
EQUITY INTEREST IN THE TARGET COMPANY**

On 17 June 2016 (after trading hours), the Vendors (each a wholly-owned subsidiary of the Company) as vendors entered into the SP Agreement with the Purchasers, pursuant to which the Vendors have conditionally agreed to sell and the Purchasers have conditionally agreed to purchase the Sale Interest for a consideration of RMB306,000,000 (equivalent to approximately HK\$360,000,000). Upon Completion, the Company will cease to have any interest in the Target Company, and the Target Company would cease to be a joint venture of the Company.

IMPLICATIONS OF THE LISTING RULES

As certain of the applicable percentage ratios for the Disposal under the Listing Rules are more than 25% but is less than 100%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Sure Capital was owned by Mr. Guan and Ms. Han, each being an executive Director, as to approximately 84.71% and 15.29% respectively, while Jianghao Investment was owned by Mr. Guan and Ms. Han, also being an executive Director, as to 80.00% and 20.00% respectively. Each of the

Purchasers is an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules which is subject to, among other things, the Independent Shareholders' approval at the EGM.

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 SP Agreement and the transactions contemplated thereunder at the EGM.

(2) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION - FINANCIAL ASSISTANCE TO THE TARGET COMPANY UPON COMPLETION OF THE DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY

On 17 June 2016 (after trading hours), the Company entered into the LG Agreement with the Target, pursuant to which the Company has agreed to provide (i) loans to the Target Company up to an amount of not more than the total loan amount that the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e RMB1,050,000,000); and (ii) guarantees (on a revolving basis) in respect of repayment obligations of the Target Company of an amount up to the gross amount of such guarantee which the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e RMB1,000,000,000).

The LG Agreement will become effective upon, among others, completion of the Disposal and as the Target Company will become a connected person of the Company upon Completion of the Disposal, the Financial Assistance will become a connected transaction of the Company under Chapter 14A of the Listing Rules.

IMPLICATIONS OF THE LISTING RULES

As certain of the applicable percentage ratios for the Financial Assistance under the Listing Rules are more than 100%, the Financial Assistance constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Financial Assistance is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Upon Completion of the Disposal, as the Target Company will be owned by Jianghao Investment and Sure Capital as to approximately 18.00% and 33.00% respectively, the Target Company will become an associate of Mr. Guan Ms. Han and is thus a connected person of the Company. Upon Completion of the Disposal, the Financial Assistance will become 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 LG Agreement and the Financial Assistance contemplated thereunder at the EGM.

(3) DATE OF BOARD MEETING AND PROPOSED CONDITIONAL SPECIAL DIVIDEND

The Board announces that a meeting of the Board will be held on 29 June 2016 for the purpose of considering the declaration of the Special Dividend in the total amount of approximately HK\$148,966,000 (equivalent to an amount of approximately HK15.0 cents per Share based on 993,104,000 shares in issue as at the date of this announcement and approximately RMB126,621,000 payout in total)

after the Completion of the Disposal. The distribution of the Special Dividend to be proposed will be subject to the Completion of the Disposal and obtaining the Shareholders' approval at the EGM.

GENERAL

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether the terms of SP Agreement and LG Agreement and the respective transactions contemplated thereunder (i.e. the Disposal and the Financial Assistance respectively) 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 SP Agreement and LG Agreement and the respective transactions contemplated thereunder.

A circular containing, among others, (i) further information of SP Agreement, the Disposal, LG Agreement, the Financial Assistance, the respective transactions contemplated thereunder and the Special Dividend; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from IFA to the Independent Board Committee and the Independent Shareholders in relation to SP Agreement, LG Agreement, the respective transactions contemplated thereunder and the Special Dividend; and (iv) the notice of EGM, will be despatched to the Shareholders on or about 11 July 2016.

(1) MAJOR AND CONNECTED TRANSACTIONS - DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY

On 17 June 2016 (after trading hours), the Vendors (each a wholly-owned subsidiary of the Company) as vendors entered into the SP Agreement with the Purchasers, pursuant to which the Vendors have conditionally agreed to sell and the Purchasers have conditionally agreed to purchase the Sale Interest for a consideration of RMB306,000,000 (equivalent to approximately HK\$360,000,000).

Details of the SP Agreement and the transactions contemplated thereunder are set out below:

Date: 17 June 2016 (after trading hour)

Parties:

Vendors:

1. Sanjiang Chemical (an indirect wholly-owned subsidiary of the Company) as vendor for 18.00% equity interest in the Target Company; and
2. Capitol International (a direct wholly-owned subsidiary of the Company) as vendor for 33.00% equity interest in the Target Company

Purchasers:

1. Jianghao Investment; and
2. Sure Capital.

As at the date of this announcement, Sure Capital was owned by Mr. Guan and Ms. Han as to approximately 84.71% and 15.29% respectively, while Jianghao Investment was owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% respectively.

Subject matter

Pursuant to the SP Agreement, the Vendors have conditionally agreed to sell and the Purchasers have conditionally agreed to purchase the Sale Interest, being an aggregate of 51.00% equity interest in the entire registered capital of the Target Company, subject to the terms contained therein.

Consideration and payment method

The Consideration shall be RMB306,000,000, as to RMB108,000,000 to Sanjiang Chemical and RMB198,000,000 to Capitol International. The Consideration shall be payable by the respective Purchasers to the respective Vendors in the following manner:

- (1) RMB30,600,000, being 10% of the Consideration, shall be payable within five Business Days from the signing of the SP Agreement as a deposit and part payment (the “**Deposit**”) of the Consideration, as to RMB10,800,000 shall be payable by Jianghao Investment to Sanjiang Chemical and RMB19,800,000 shall be payable by Sure Capital to Capitol Investment;
- (2) RMB91,800,000, being 30% of the Consideration, shall be payable within five Business Days after the Completion Date, as to RMB32,400,000 shall be payable by Jianghao Investment to Sanjiang Chemical and RMB59,400,000 shall be payable by Sure Capital to Capitol Investment;
- (3) RMB91,800,000, being 30% of the Consideration, shall be payable within two months after the Completion Date, as to RMB32,400,000 shall be payable by Jianghao Investment to Sanjiang Chemical and RMB59,400,000 shall be payable by Sure Capital to Capitol Investment; and
- (4) the remaining balance of RMB91,800,000, being 30% of the Consideration, shall be payable on or before 31 December 2016 or within four months after the Completion Date (whichever is later or such later date as may be agreed between the Purchasers and the Vendors in writing), as to RMB32,400,000 shall be payable by Jianghao Investment to Sanjiang Chemical and RMB59,400,000 shall be payable by Sure Capital to Capitol Investment.

The Consideration shall be paid by the respective Purchasers by cheque or transferring the amount payable to a bank account designated by the respective Vendors.

The Consideration was determined after arm’s length negotiation between the Vendors and the Purchasers with reference to the market value in respect of the 51% equity interest in the Target Company of approximately RMB303,400,000 as at 31 March 2016, as appraised by an independent valuer.

Conditions precedent

Completion of the SP Agreement is conditional on the satisfaction (or, where applicable, waived by the Purchasers) of the following conditions:

- (a) the Independent Shareholders having passed the ordinary resolutions to approve the SP Agreement and the Disposal contemplated thereunder at the EGM;
- (b) the Independent Shareholders having passed the ordinary resolutions to approve the LG Agreement and the Financial Assistance contemplated thereunder at the EGM;
- (c) each the board and shareholders of the respective Purchasers having passed the

resolutions to approve the SP Agreement and the Disposal contemplated thereunder;

(d) the Purchasers having satisfied with the result of due diligence exercise on the Target Company;

(e) all necessary approvals, consents and authorisation in respect of the Disposal being obtained from the relevant PRC regulatory authorities (if applicable).

If any of the conditions precedent set out above cannot be fulfilled or (only for items (c), (d) and (e) above) waived on or before 31 December 2016 (or such later date as may be agreed between the Purchasers and the Vendors in writing), the obligations of the parties to proceed with Completion shall cease and terminate and no party shall have any claim against or liability to the other party with respect to any matter referred to in the SP Agreement save for any antecedent breaches of the SP Agreement. The respective Vendors shall, within 10 Business Days from 31 December 2016 (or such later date as may be agreed between the Purchasers and the Vendors in writing), refund the Deposit to the respective Purchasers.

Completion

Completion shall take place on the Completion Date, being fifth Business Day following the fulfilling (or waiver, where applicable) of the conditions precedent set out in the SP Agreement or any other date as mutually agreed between the Purchasers and the Vendors in writing.

(2) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION - FINANCIAL ASSISTANCE TO THE TARGET COMPANY UPON COMPLETION OF THE DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY

On 17 June 2016 (after trading hours), the Company entered into the LG Agreement with the Target, pursuant to which the Company has conditionally agreed to continue to (i) provide the Loan to the Target Company; and (ii) guarantee certain repayment obligations of the Target Company for a term of three years after the Completion of the Disposal.

Details of the LG Agreement and the Financial Assistance contemplated thereunder are set out below:

Date: 17 June 2016 (after trading hour)

Parties:

Lender and guarantor: 1. The Group

Borrower: 2. The Target Company

As at the date of this announcement, Sure Capital was owned by Mr. Guan and Ms. Han as to approximately 84.71% and 15.29% respectively, while Jianghao Investment was owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% respectively. Upon Completion of the Disposal, as the Target Company will be owned by Jianghao Investment and Sure Capital as to approximately 18.00% and 33.00% respectively, the Target Company will become an associate of Mr. Guan Ms. Han and is thus a connected person of the Company.

Subject matter

Pursuant to the LG Agreement, the Company has conditionally agreed to continue to (i) provide the Loan to the Target Company; and (ii) guarantee certain repayment obligations of the Target Company for a term of three years after the Completion of the Disposal. The LG Agreement will become effective upon completion of the Disposal under Chapter 14A of the Listing Rules.

Loans and Guarantees

Being the controlling shareholders (in terms of Listing Rule) of the Target Company, the Company and its subsidiaries has been providing necessary funding and financial assistance to the Target Company as its working capital by way of loans and guarantees since the Company's acquisition of the 51% equity interest in the Target Company in 2013. Right before the Company entered into the LG Agreement with the Target Company, the Company has provided (i) loans in a total amount of approximately RMB1,050,000,000 to the Target Company, which bear interest at 10% per annum; and (ii) guarantees (on a revolving basis) in respect of repayment obligations in the aggregate amount of up to approximately RMB1,000,000,000 (i.e. gross amount of such guarantees) in favour of certain lending banks, enabling the Target Company to secure certain banking facilities, at a guarantee fee of 1% of the gross amount of the guarantees calculated on a yearly basis payable to the Group. As at the date of this announcement, banking facilities, which were guaranteed by the Group, of approximately RMB400,000,000 in total has been utilised by the Target Company.

Pursuant to the LG Agreement, subject to the following terms that require the Target Company to repay and/or reduce the Financial Assistance gradually in certain amounts within certain timeframe, the Group will continue to provide (i) loans to the Target Company up to an amount of the total loan amount that the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e. RMB1,050,000,000); and (ii) guarantees (on a revolving basis) in respect of repayment obligations of the Target Company of an amount up to the gross amount of such guarantee which the Company has provided to the Target Company right before the Company entered into the LG Agreement with the Target Company (i.e. RMB1,000,000,000):-

- (a) the Target Company is required to repay and/or reduce at least 18% of the total amount of the Financial Assistance, being RMB369,000,000 (representing 18% of the summation of the aforesaid total loan amount (i.e. RMB1,050,000,000) and the aforesaid gross amount of the guarantees (i.e. RMB1,000,000,000) within the first year from the Completion Date;
- (b) the Target Company is required to repay and/or reduce at least 48% of the total amount of the Financial Assistance on an accumulated basis, being RMB984,000,000 (representing 48% of the summation of the aforesaid total loan amount (i.e. RMB1,050,000,000) and the aforesaid gross amount of the guarantees (i.e. RMB1,000,000,000) within the second year from the Completion Date; and
- (c) the Target Company is required to repay and/or reduce 100% of the total amount of the Financial Assistance within the third year from the Completion Date.

Pursuant to the LG Agreement, the Financial Assistance will continue to be subject to (i) the same interest rate, that the Company has been charging the Target Company right before the Company entered into the LG Agreement with the Target Company, calculated based on the outstanding amount of loan balance as at each month end; and (ii) the same guarantee fee, that the Company has been charging the Target Company

right before the Company entered into the LG Agreement with the Target Company, fee charged based on the committed gross amount of the Guarantee at each financial year end date.

Conditions precedent

The LG Agreement shall be effective upon the satisfaction of the following conditions:

- (a) the Independent Shareholders having passed the ordinary resolutions to approve the SP Agreement and the Disposal contemplated thereunder at the EGM;
- (b) the Independent Shareholders having passed the ordinary resolutions to approve the LG Agreement and the Financial Assistance contemplated thereunder at the EGM; and
- (c) the Completion of the Disposal.

Historical maximum transaction amounts and annual caps

The historical maximum amounts for the Financial Assistance for the three financial years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016 are as follows:

	Maximum amounts for the financial year ended 31 December			Five months ended 31 May
	2013	2014	2015	2016
Historical maximum amount of Financial Assistance (inclusive of the related interest and guarantee fee)	RMB1,845,682,000	RMB3,036,727,000	RMB2,881,934,000	RMB1,897,083,000

The Directors propose the annual caps for the Financial Assistance for the three years following the Completion Date to be as follows:

	Annual cap amounts for the period		
	First year following the Completion Date	Second year following the Completion Date	Third year following the Completion Date
Annual cap amount for Financial Assistance (inclusive of the related interest and guarantee fee)	RMB2,165,000,000	RMB1,792,310,000	RMB1,171,160,000

The annual caps are determined based on the following factors:

- (i) the maximum historical Loan and Guarantee amounts for the three financial years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016 and as at the date of this announcement;
- (ii) the expected maximum Loan and Guarantee amounts for each of the three years following the Completion Date of the Disposal pursuant to the LG Agreement, taking into account the requirement for the Target Company to repay and/or reduce the Financial Assistance gradually in certain amounts

- within certain timeframe as set out under the LG Agreement; and
- (iii) the maximum amount of interest income under the Loan and guarantee fee under the Guarantee to be received by the Group under the LG Agreement, assuming the Financial Assistance is utilised by the Target Company to the maximum extent as provided under the 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 LG Agreement are fair and reasonable and in the interest of the Group and the Shareholders as a whole.

Mr Guan's undertaking

In relation to the Loans and the Guarantee, the Group has obtained an irrevocable undertaking from Mr. Guan to the Company that if the Company claims against the Target Company for failing to repay and/or reduce the Financial Assistance and/or to pay the related interest and/or guarantee fee, as the case may be, within the agreed timeframe, he will himself repay such amount to the Company directly for any loss that may be incurred by the Group.

(3) DATE OF BOARD MEETING AND PROPOSED DECLARATION OF CONDITIONAL SPECIAL DIVIDEND

The Board announces that a meeting of the Board will be held on 29 June 2016 for the purpose of considering the declaration of the Special Dividend in the total amount of approximately HK\$148,966,000 (equivalent to an amount of approximately HK15.0 cents per Share based on 993,104,000 shares in issue as at the date of this announcement and approximately RMB126,621,000 payout in total) conditionally, subject to:-

- (i) the Shareholders having passed the ordinary resolution to approve the distribution of the Special Dividend at the EGM; and
- (ii) the Independent Shareholders having passed the ordinary resolutions to approve the SP Agreement and the Disposal contemplated thereunder at the EGM;
- (iii) the Independent Shareholders having passed the ordinary resolutions to approve the LG Agreement and the Financial Assistance contemplated thereunder at the EGM; and
- (iv) the Completion of the Disposal.

If all the above conditions are fulfilled, the Special Dividend will be paid to Shareholders whose names appear on the register of members of the Company at the close of business on the EGM date.

INFORMATION ON THE COMPANY, THE TARGET COMPANY AND THE PURCHASERS

The Company

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service.

The Target Company

The Target Company is principally engaged in the manufacture and sale of various aromatics and heat transfer fluids. According to the unaudited financial statements of the Target Company, the net asset value of the Target Company was approximately RMB249,104,000 as at 31 December 2015 and the results (after tax) of the Target Company for the year ended 31 December 2013, 2014 and 2015 were approximately RMB103,738,000 (net profit), RMB135,646,000 (*net loss*) and RMB75,214,000 (net profit) respectively.

The following table sets out the agreements which the Target Company entered into with the respective connected persons of the Company as at the date of this announcement:

Transactions which will continue to be continuing connected transactions for the Company upon Completion of the Disposal

	Date of agreement	Connected person	Nature of the transaction
1.	1 September 2015	Xing Xing	Xing Xing agreed to procure methanol as an agent on behalf of the Target Company at market service fee for a term commencing from 1 September 2015 to 31 August 2018, details of which are set out in the announcement of the Company dated 2 September 2015
2.	1 September 2015	Xing Xing	The Target Company agreed to supply miscellaneous materials, including liquefied petroleum gas, to Xing Xing at market price for a term commencing from 1 September 2015 to 31 August 2018, details of which are set out in the announcement of the Company dated 2 September 2015
3.	1 September 2015	Xing Xing	Xing Xing agreed to supply C-4 to the Target Company at market price for a term commencing from 1 October 2015 to 30 September 2018, details of which are set out in the announcement of the Company dated 2 September 2015
4.	1 September 2015	Xing Xing	Xing Xing agreed to supply propylene to the Target Company at a market price for a term commencing from 1 October 2015 to 30 September 2018, details of which are set out in the announcement of the Company dated 2 September 2015

Given Xing Xing is a non-wholly-owned subsidiary of the Company indirectly owned as to approximately 75% by the Company, 12% by Jiahua Energy Chemical Co and 13% by third parties independent from the Group, transactions contemplated under the agreements no. 1 to 4 as set out above) will continue to constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Transactions which will cease to be continuing connected transactions for the Company upon Completion of the Disposal

	Date of agreement	Connected person	Nature of the transaction
1.	15 December 2014	Jiahua Energy Chemical Co	The Target Company agreed to supply sulphur to Jiahua Energy Co at market price for a term commencing from 15 December 2014 to 14 December 2017, details of which are set out in the announcement of the Company dated 16 December 2014
2.	15 December 2014	Jiahua Energy Chemical Co	Jiahua Energy Chemical Co agreed to supply steam to the Target Company at market price for a term commencing from 15 December 2014 to 14 December 2017, details of which are set out in the announcement of the Company dated 16 December 2014
3.	15 December 2014	Jiahua Energy Chemical Co	Jiahua Energy Chemical Co agreed to supply miscellaneous materials such as sodium hydroxide and hydrochloric acid to the Target Company at market price for a term commencing from 15 December 2014 to 14 December 2017, details of which are set out in the announcement of the Company dated 16 December 2014
4.	10 April 2015	Mei Fu Port	Mei Fu Port agreed to provide port loading, unloading and storage service to the Target Company at market price for a term commencing from 10 April 2015 to 31 December 2017, details of which are set out in the announcements of the Company dated 27 April 2015 and 11 November 2015

Prior to Completion, the above transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules by virtue of the Target Company being considered as a connected non wholly-owned subsidiary of the Company under Listing Rules perspective. Upon Completion, the Target Company will cease to be considered as a connected non wholly-owned subsidiary of the Company under Listing Rules perspective, and accordingly the above transactions (i.e. agreements no. 1 to 4 as set out above) will cease to constitute continuing connected transactions for the Company under Chapter 14A of the Company.

The Purchasers

Each of Sure Capital and Jianghao Investment is an investment holding company.

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

Based on the unaudited net asset value of the Target Company as at 31 December 2015, it is estimated that the Group will record a gain of approximately RMB109,394,000 (equivalent to approximately HK\$128,699,000) (before tax) from the Disposal after deducting the estimated expenses attributable to the Disposal of

approximately RMB1,500,000. Shareholders should note that the actual amount of gain on the Disposal to be recognised in the consolidated financial statements of the Company depends on the audited net asset value of the Target Company as at the date of Completion and therefore may be different from the amount mentioned above.

Upon Completion, the Company will cease to hold any equity interest of the Target Company and the Target Company will cease to be a joint venture of the Company.

Upon Completion, the gross and net proceeds that arise from the Consideration from the Disposal will be approximately RMB306,000,000 and RMB304,500,000 respectively. Apart from the aforesaid proceeds from the Disposal, the Group's liquidity and gearing will also be benefited by having the opportunity to unlock financial resources (i.e. Financial Assistance) of approximately RMB2.0 billion in total pursuant to the provisions of the LG Agreement. As being the controlling shareholders of the Target Company, the Group has been providing enormous financial resource by way of either direct loan advancement to the Target Company or provision of guarantees to certain banks securing the Target Company's banking facility arrangements for the purpose of supporting the Target Company's working capital requirements. Upon Completion, pursuant to the provisions of the LG Agreement, the Purchasers will take up the Target Company's working capital requirements gradually in 3 years' time after Completion with at least 18% reduction of the Financial Assistance in the first year after Completion; at least 48% reduction of the Financial Assistance in the second year after Completion; and 100% reduction of the Financial Assistance in the third year after Completion.

The Board intends to apply the proceeds from the Disposal (i) as to approximately RMB126,621,000 for distribution of Special Dividend; and (ii) as to the remaining balance for the Group's general working capital purpose.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND THE FINANCIAL ASSISTANCE

The Group (including the Target Company) is principally engaged in the manufacture and sale of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service.

The Directors have been continuously evaluating the current business strategies of the Group with an aim to streamline its business, increase its overall performance and prospect and its attractiveness with the investors in the market. The Directors are of the view that:-

- (i) The business of the Target Company (i.e. the manufacture and sale of various aromatics and heat transfer fluids in the PRC) is not a core business to the Group and is highly sensitive to the pricing of feedstock (i.e. low sulphur fuel oil) and has not been able to provide a stable and reasonable return to the Group since the Group's acquisition of the 51% equity interest in the Target Company in 2013 while the Group has being required to provide enormous financial support to enable the Target Company to continue its operations which exposes the Group to unnecessary risks.

In terms of investment return, the Target Company operates in fuel oil refinery industry which typically requires enormous capital expenditures and working capital requirements with relatively minimal net profit margin and any volatility of feedstock pricing might result in the Target Company suffering a loss. The results (after tax) of the Target Company for the year ended 31 December 2013, 2014 and 2015 were approximately RMB103,738,000 (net profit), RMB135,646,000 (*net loss*) and RMB75,214,000 (net profit), representing net

profit margin of approximately 4.2%, *net loss margin* of 4.2% and net profit margin of 2.8% respectively.

In terms of the provision of financial support, the Target Company's 49% equity interest is owned by independent third parties, which could not be able to provide any financial support to the Target Company and the burden as to the provision of financial support solely relies on the Group while the Group only has 51% equity interests in the Target Company and it exposes the Group to additional risks.

- (ii) The fundamental business environment and the investment assumptions have changed when comparing to 2013 when the Group acquired 51% equity interests in the Target Company – The Group acquired the 51% equity interest in the Target Company because the investment offer which was available to the Company at that time was good in terms of valuation and the crude oil pricing hovered at USD100 per barrel level at a relatively stable manner in 2013, which was expected to enable the Target Company to operate at a relatively promising return. With significant volatility of crude oil pricing since last year, the Company considered its initial investment assumptions have changed and it is a high time for the Company to exit the investment and lock up capital gain. It is estimated that the Group will record a gain of approximately RMB109,394,000 (before tax) from the Disposal after deducting the estimated expenses attributable to the Disposal of approximately RMB1,500,000.
- (iii) Furthermore, the Directors consider that the Disposal represents a good opportunity for the Group to restructure its strategic business position and focus its resources in pursuing development opportunities on, including but not limited to, the existing businesses such as the manufacturing and sale of ethylene oxide, ethylene glycol, ethylene, propylene and surfactants and the provision of surfactants processing service. The Disposal enables the Company to free up its financial resources (i.e. Financial Assistance) of approximately RMB2.0 billion in total in three years' time. As being the controlling shareholders of the Target Company, the Company has been providing enormous financial resource by way of either direct loan advancement to the Target Company or provision of guarantees to certain banks securing the Target Company's banking facility arrangements for the purpose of supporting the Target Company's working capital requirements. Upon Completion, the Purchasers will take up the Target Company's working capital requirements gradually in 3 years' time after Completion with at least 18% reduction of the Financial Assistance in the first year after Completion; at least 48% reduction of the Financial Assistance in the second year after Completion; and 100% reduction of the Financial Assistance in the third year after Completion.
- (iv) In respect of the LG Agreement, the terms of which regarding the repayment of the Loan and the release of the Guarantee were determined after arm's length negotiation between the Company and the Target Company, having considered that (i) the Loan and the Guarantee have existed prior to the entering of the SP Agreement; (ii) the considerable amount of each of the Loan and Guarantee as at the date of the announcement, whereby neither the Target Company nor the Purchasers will be able to repay such amount all at once; and (iii) Mr. Guan has provided an irrevocable undertaking to the Company that he shall irrevocably undertake that if the Company claims against the Target Company for failing to repay and/or reduce the Financial Assistance and/or to pay the related interest and/or guarantee fee, as the case may be, within the agreed timeframe, he will himself repay such amount to the Company directly for any loss that may be incurred by the Group, the Directors (excluding the independent non-executive Directors) considers such arrangements are considered to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

- (v) In respect of the fact that the Loan carries an interest rate of 10.0% per annum and the Guarantee carries a guarantee fee at 1.0% per annum, having considered that, by providing the aforesaid irrevocable undertaking to the Company, Mr. Guan has in substance borne all the credit risk in the case of default, the Directors (excluding the independent non-executive Directors) consider such arrangements are considered to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In light of the above, the Directors (excluding the independent non-executive Directors) consider that (i) the terms of the SP Agreement and the Disposal contemplated thereunder and (ii) the terms of the LG Agreement and the Financial Assistance (including the related rate of interest and the guarantee fee) contemplated thereunder are in the interest of the Company and the Shareholders as a whole.

Mr. Guan and Ms. Han are considered to have material interests in the Disposal and the Financial Assistance by virtue of their respective interests in the Purchasers, and therefore they have abstained from voting on the Board resolutions approving the Disposal and the Financial Assistance. Save as disclosed above, no other Directors have abstained from voting on the said Board resolutions.

IMPLICATIONS OF THE LISTING RULES

Major and connected transaction - Disposal of 51% equity interest in the Target Company

As certain of the applicable percentage ratios for the Disposal under the Listing Rules are more than 25% but is less than 100%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Sure Capital was owned by Mr. Guan and Ms. Han, each being an executive Director, as to approximately 84.71% and 15.29% respectively, while Jianghao Investment was owned by Mr. Guan and Ms. Han, also being an executive Director, as to 80.00% and 20.00% respectively. Each of the Purchasers is an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules which is subject to, among other things, the Independent Shareholders' approval at the EGM.

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 SP Agreement and the transactions contemplated thereunder at the EGM.

Major and continuing connected transaction - Financial Assistance to the Target Company upon Completion of the Disposal of 51% equity interest in the Target Company

As certain of the applicable percentage ratios for the Financial Assistance under the Listing Rules are more than 100%, the Financial Assistance constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Financial Assistance is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Upon Completion of the Disposal, as the Target Company will be owned by Jianghao Investment and Sure Capital as to approximately 18.00% and 33.00% respectively, the Target Company will become an associate of Mr. Guan Ms. Han and is thus a

connected person of the Company. Upon Completion of the Disposal, the Financial Assistance will become 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 LG Agreement and the Financial Assistance contemplated thereunder at the EGM.

GENERAL

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether (i) the terms of the SP Agreement and the Disposal contemplated thereunder and (ii) the terms of the 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 SP Agreement and the transactions contemplated thereunder.

A circular containing, among others, (i) further information of SP Agreement and the Disposal contemplated thereunder; (ii) further information of LG Agreement and the Financial Assistance contemplated thereunder; (iii) further information of the Special Dividend; (iv) a letter from the Independent Board Committee to the Independent Shareholders; (v) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the SP Agreement and the Disposal contemplated thereunder, the LG Agreement and the Financial Assistance contemplated thereunder and the Special Dividend; and (vi) the notice of EGM, will be despatched to the Shareholders on or about 11 July 2016.

As at the date of this announcement, Sure Capital, a company beneficially controlled by Mr. Guan who is an executive Director, together with Mr. Guan as the beneficial owner own approximately 50.26% of the entire issued share capital of the Company. Sure Capital, its associates and those who are involved or interested in the SP Agreement are required to abstain from voting on the resolutions to approve the SP Agreement and the Disposal contemplated thereunder proposed to be passed at the EGM.

No Shareholders are required to abstain from voting on the resolution to approve the Special Dividend proposed to be passed at the EGM.

DEFINITIONS

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

“associate(s)”	has meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day(s) (excluding Saturday(s), Sunday(s) and statutory holiday(s) in Hong Kong
“Capitol International”	Capitol International Limited (佳都國際有限公司), a

	company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary 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”	completion of the SP Agreement, which shall take place on the Completion Date
“Completion Date”	the date which Completion takes place
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	RMB306,000,000, being the consideration for the Disposal
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Interest pursuant to the terms and conditions of the SP Agreement
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Disposal, the SP Agreement, the LG Agreement, the Financial Assistance and the transactions contemplated thereunder by the Independent Shareholders and approving the Special Dividend by the Shareholders
“Financial Assistance”	collectively, the Loan and the Guarantee
“Gram Capital”	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 SP Agreement, the Disposal, the LG Agreement, the Financial Assistance and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Guarantee”	the provision of guarantee by the Group to certain banks in favour of the Target Company in respect of the repayment obligations of the Target Company
“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 SP Agreement, the Disposal, the LG Agreement, the Financial Assistance and the transactions contemplated

thereunder

“Independent Shareholders”	Shareholders who are not involved or interested in the the SP Agreement, the Disposal, the LG Agreement, the Financial Assistance and the transactions 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 and a company which was owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% as at the date of this announcement, a connected person of the Company
“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 as at the date of this announcement
“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, a non wholly-owned subsidiary of Jiahua and a connected person of the Company as at the date of this announcement
“LG Agreement”	the loan and guarantee agreement dated 17 June 2016 and entered into between the Company and the Target which will become effective upon completion of the Disposal
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the loan of approximately RMB1,050,000,000 owed by the Target Company to the Group as at the date of this announcement
“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 was owned as to 51% by Jiahua Energy Chemical Co and a connected person of the Company as at the date of this announcement
“Mr. Guan”	Mr. Guan Jianzhong, an executive Director
“Ms. Han”	Ms. Han Jianhong, an executive Director
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“Purchasers”	collectively, Sure Capital and Haoming Investment
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Sale Interest”	an aggregate of 51.00% equity interest in the registered capital of the Target Company
“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 indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Shareholder(s)”	Shareholder(s) of the Company
“SP Agreement”	the sale and purchase agreement dated 17 June 2016 and entered into between the Vendors and the Purchasers in respect of, among other things, the Disposal
“Special Dividend”	the distribution of a special cash dividend in the total amount of approximately HK\$148,966,000 after Completion of the Disposal
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sure Capital”	Sure Capital Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a company owned as to approximately 84.71% and 15.29% by Mr. Guan and Ms. Han respectively as at the date of this announcement, a connected person of the Company
“Target Company”	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 joint venture of the Company as at the date of this announcement
“Vendors”	collectively, Sanjiang Chemical and Capitol Investment
“Xing Xing”	浙江興興新能源科技有限公司 (Zhejiang Xing Xing New Energy Technology Co., Ltd.*), a company established in the PRC with limited liability on 19 January 2011 and a non-wholly owned subsidiary of the Company, which was indirectly owned as to 75% by the Company, 12% by Jiahua and 13% by independent third parties as at the date of this announcement
“%”	per cent.

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors:

GUAN Jianzhong
HAN Jianhong
NIU Yingshan
HAN Jianping

Independent non-executive Directors:

SHEN Kaijun
PEI Yu

By order of the Board
**China Sanjiang Fine Chemicals Company
Limited**

GUAN Jianzhong
Chairman and executive Director

The PRC, 17 June 2016

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.*

For ease of reference, sums in RMB in this announcement are translated at the rate HK\$1.00 = RMB0.85. This does not mean that HK\$ could be converted into RMB, or vice versa, based on such exchange rate.