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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)

(1) MAJOR AND CONNECTED TRANSACTION

AND

(2) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 17 June 2016 (the “**Announcement**”) in respect of, among other matters, the proposed Disposal, proposed Financial Assistance and the proposed declaration of the Special Dividend. Unless the context otherwise requires, terms defined in this announcement shall have the same meanings given to them in the Announcement.

SUPPLEMENTAL AGREEMENT IN RELATION TO THE DISPOSAL

The Board announces that in order to safeguard the Group’s interests, after arm’s length negotiation between the parties, the Vendors and the Purchasers entered into the supplemental SP Agreement (the “**Supplemental SP Agreement**”) on 11 August 2016, whereby the Purchasers undertakes, upon Completion, to pledge (the “**Pledge**”) the Sale Interest held by them upon Completion in favour of the Vendors as guarantee for the Target Company’s obligation under the LG Agreement. Pursuant to the Supplemental SP Agreement, within one month from Completion, all necessary approvals, consents and authorisation in respect of the Pledge shall be obtained from the relevant PRC regulatory authorities (if any). If the Target Company fails to either repay or reduce the Financial Assistance in accordance with the schedule set out in the LG Agreement and Mr. Guan fails to honour his undertaking as to his repayment of any shortfall to the Company for the Target Company to ensure the repayment and/or reduction of the Financial Assistance in accordance with the schedule set out in the LG Agreement, the Vendors, being the members of the Group, shall enforce such security. In such case, the Disposal will be undone, which means that the Target Company will be again owned by the Group as to 51% and the Vendors will forfeit the whole amount of the Consideration and there is no obligation for the Vendors to refund any amount to the Purchasers in the case where the Disposal is undone.

Should the Disposal be undone, the Target Company will be owned by the Group as to 51%, whereby it will cease to be a connected person of the Company and will become a joint venture of the Company again. In such circumstance, the Financial Assistance will no longer constitute continuing connected transaction for the Company under Chapter 14A of the Listing Rules upon enforcement of such security. Further announcement regarding the Pledge will be made by the Company upon Completion.

The Group has also obtained another irrecoverable undertaking dated 11 August 2016 from Mr. Guan to the Company that if the Disposal is undone and the net asset value of the Target Company as of the time when the Disposal is undone is less than the net asset value of the Target Company upon Completion, Mr. Guan, being the controlling shareholder of the Purchasers, will himself repay such shortfall (i.e. the shortfall = (i) the net asset value of the Target Company as of the time when the Disposal is undone minus (ii) the net asset value of the Target Company upon Completion times (iii) 51% i.e. his effective equity holding in the Target Company), by cash to the Company directly. The net asset value of the Target Company is an audited figure to be verified by an independent auditor under PRC Generally Accepted Accounting Principles.

The management of the Company would like to emphasize that it is legally impracticable to enter into a pledge agreement between the Vendors and Purchasers before Completion as the Purchasers will be only in a position to sign a pledge agreement and arrange a pledge after Completion.

SUPPLEMENTAL AGREEMENT IN RELATION TO THE FINANCIAL ASSISTANCE

The Board further announces that, after arm's length negotiation between the parties, the Company and the Target Company entered into a supplemental LG Agreement on 11 August 2016, whereby whole amount of the Loan will only be used for general working capital purpose by the Target Company and for no other use.

GENERAL

The Board considers that the amendments to each of the SP Agreement and the LG Agreement will safeguard more interests of the Group in respect of the Financial Assistance and is therefore in the interests of the Company and the Shareholders as a whole.

Save as disclosed above, all other terms and conditions of each of the SP Agreement and the LG Agreement shall remain unchanged and continue in full force and effect.

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
KONG Liang

By order of the Board
China Sanjiang Fine Chemicals Company Limited
GUAN Jianzhong
Chairman and executive Director

The PRC, 12 August 2016