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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)

CONTINUING CONNECTED TRANSACTIONS OF SANJIANG SIYI

CONTINUING CONNECTED TRANSACTION

The Board is pleased to announce that on 16 September 2022, after trading hours, Sanjiang Siyi, a wholly-owned subsidiary of the Company, entered into each of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement with Jiahua Energy Chemical Co. for a period of approximately three months and one year from the date of this announcement to 31 December 2023 to regulate the supplier and customer relationships of the transactions under each of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement.

LISTING RULES IMPLICATION

Jiahua Energy Chemical Co. is owned as to approximately 35.98% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. As Ms. Han is an executive Director and Mr. Guan is the controlling Shareholder of the Company, Jiahua Energy Chemical Co. is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company and the transactions contemplated under each of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable ratios in respect of the considerations under each of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement are less than 5%, each of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement and the transactions contemplated thereunder are therefore subject to reporting and announcement requirements but are exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board is pleased to announce that on 16 September 2022, after trading hours, Sanjiang Siyi, a wholly-owned subsidiary of the Company, entered into each of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement with Jiahua Energy Chemical Co. for a period of approximately three months and one year from the date of this announcement to 31 December 2023 to regulate the supplier and customer relationships of the transactions under each of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement. The details of each of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement are set out below.

STEAM SUPPLY AGREEMENT

Date

16 September 2022

Parties

- (1) Jiahua Energy Chemical Co., a connected person (as defined under the Listing Rules); and
- (2) Sanjiang Siyi, a wholly-owned subsidiary of the Company.

Subject matter

Pursuant to the Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 1.3MPa) to Sanjiang Siyi for a term from the date of this announcement to 31 December 2023.

Term

The term of the Steam Supply Agreement shall become effective from the date of this announcement and has a term ending on 31 December 2023. The parties may commence negotiations at least three months prior to the expiry of the Steam Supply Agreement for renewal. The Company will comply with the relevant Listing Rules requirements if the Steam Supply Agreement is renewed.

Consideration

Pursuant to the Steam Supply Agreement, the purchase price for low pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Sanjiang Siyi in respect of purchases under the Steam Supply Agreement shall be tallied on the end of each calendar month and, together with an extra 5% of the tallied usage amount of 1.3MPa low pressure steam by Sanjiang Siyi to cover the loss in transmission (which is a market practice), shall be payable by Sanjiang Siyi on or before the end of the following month.

Determination of the pricing policy of steam

The Group will seek to employ the following measures to ensure that the price of low pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Siyi pursuant to the Steam Supply Agreement will be no less favourable than the price of supplying low pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low pressure steam of comparable quality; and (ii) all supply contracts regarding low pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of low pressure steam since the purchase prices of low pressure steam payable by Sanjiang Siyi are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
- (2) in the event that the prices of low pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Siyi higher than the weighted average purchase prices of such low pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Siyi are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang Siyi will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of low pressure steam Jiahua Energy Chemical Co. offers to Sanjiang Siyi are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of low pressure steam as described above can ensure that the transactions contemplated under Steam Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders, taking into account that the above procedures will make reference to prices Jiahua Energy Chemical Co. offers to independent third party(ies) and thus serve as a safeguarding measure to prevent any possibility that the final pricing offered to the connected person will turn out to be less favourable to the Group than the market price.

The Company will comply with the relevant Listing Rules requirements when the term of the Steam Supply Agreement is renewed.

The considerations payable shall not exceed RMB3,000,000 and RMB7,000,000 during the approximately 3 months period ending 31 December 2022 and the year ending 31 December 2023 respectively. The considerations for the Steam Supply Agreement are based on:

- (1) the expected future usage and growth of the production capacities of Sanjiang Siyi for the period of approximately three months and one year from the date of this announcement to 31 December 2023;
- (2) the expected unit costs to be paid by Sanjiang Siyi to Jiahua Energy Chemical Co. for the period of approximately three months and one year from the date of this announcement to 31 December 2023;
- (3) the expected unit of low pressure steam (i.e. 1.3MPa) to be required by Sanjiang Siyi from Jiahua Energy Chemical Co. for the period of approximately three months and one year from the date of this announcement to 31 December 2023; and
- (4) the expected market conditions and increase in demand for low pressure steam from Jiahua Energy Chemical Co..

DESALINATED WATER AND MISCELLANEOUS MATERIALS SUPPLY AGREEMENT

Date

16 September 2022

Parties

- (1) Jiahua Energy Chemical Co., a connected person (as defined under the Listing Rules); and
- (2) Sanjiang Siyi, a wholly-owned subsidiary of the Company.

Subject matter

Jiahua Energy Chemical Co. has agreed to supply desalinated water and miscellaneous materials at a price at the weighted average of those offered by Jiahua Energy Chemical Co to its independent purchasers for desalinated water and miscellaneous materials of comparable quality during the same month of supply.

Other principal terms of the Desalinated Water and Miscellaneous Materials Supply Agreements

The Desalinated Water and Miscellaneous Materials Supply Agreement shall become effective from the date of this announcement and has a term of approximately three months and one year from the date of this announcement to 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

The purchase prices payable by Sanjiang Siyi in respect of purchases under the Desalinated Water and Miscellaneous Materials Supply Agreements shall be tallied on the 25th day of each calendar month and be due and payable by Sanjiang Siyi by the end of that calendar month.

The Group would employ several measures to ensure the price of desalinated water and miscellaneous materials offered by Jiahua Energy Chemical Co to Sanjiang Siyi is no less favourable than the price of supplying desalinated water and miscellaneous materials of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co. The following measures, which would be employed by the Group and Jiahua Energy Chemical Co, are determined after arm's length negotiation between the Group and Jiahua Energy Chemical Co:

- (a) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co to its independent purchaser(s) that require desalinated water and miscellaneous materials of comparable quality; and (ii) all supply contracts for desalinated water and miscellaneous materials of comparable quality entered into between Jiahua Energy Chemical Co and its independent purchaser(s) on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co) for the weighted average purchase price of desalinated water and miscellaneous materials since the purchase price of desalinated water and miscellaneous materials payable by the Group is agreed to be the weighted average price of the relevant product of comparable quality offered by Jiahua Energy Chemical Co to its independent purchaser(s) during the same month of supply; and

- (b) in the event that the prices of desalinated water and miscellaneous materials prices that Jiahua Energy Chemical Co charges Sanjiang Siyi are higher than the weighted average purchase prices offered by Jiahua Energy Chemical Co to its independent purchaser(s) for the relevant product of comparable quality during the same month of supply, Sanjiang Siyi will negotiate with Jiahua Energy Chemical Co to adjust the proposed purchase prices to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchaser(s). If the prices of desalinated water and miscellaneous materials which Jiahua Energy Chemical Co offers to Sanjiang Siyi are no less favourable than the weighted average purchase prices Jiahua Energy Chemical Co offers to independent purchaser(s), the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co by each of the head of the finance department of the Group and the general manager of the Group.

The Company will comply with the relevant Listing Rules requirements when the term of the Desalinated Water and Miscellaneous Materials Supply Agreement is renewed.

The considerations payable shall not exceed RMB1,200,000 and RMB3,000,000 during the approximately 3 months period ending 31 December 2022 and the year ending 31 December 2023 respectively. The considerations for the Desalinated Water and Miscellaneous Materials Supply Agreement are based on:

- (1) the expected future usage and growth of the production capacities of Sanjiang Siyi for the period of approximately three months and one year from the date of this announcement to 31 December 2023;
- (2) the expected unit costs to be paid by Sanjiang Siyi to Jiahua Energy Chemical Co. for the period of approximately three months and one year from the date of this announcement to 31 December 2023;
- (3) the expected amount of purchases to be made by Sanjiang Siyi from Jiahua Energy Chemical Co. for the period of approximately three months and one year from the date of this announcement to 31 December 2023; and
- (4) the estimated market price of desalinated water and miscellaneous materials for the period of approximately three months and one year from the date of this announcement to 31 December 2023.

REASONS FOR THE TRANSACTION

The principal activities of the Group are the manufacture and supply of ethylene oxide, ethylene glycol, polypropylene, methyl tert-butyl ether and surfactants in the PRC. The Group was also engaged in the provision of processing services for polypropylene, methyl tert-butyl ether and surfactants to its customers and the production and supply of other chemical products such as C4, pentene and industrial gases, namely oxygen, nitrogen and argon in the PRC.

Jiahua Energy Chemical Co. is a limited company established in the PRC and is principally engaged in the business of production and trading of desalinated water, steam, chlor-alkali, ortho-para, fatty alcohol and sulfuric acid. Jiahua Energy Chemical Co. is currently listed on the Shanghai Stock Exchange (stock code: 600273). Other than Jiahua, there are no other shareholders who individually hold more than 10% or above interests in Jiahua Energy Chemical Co..

Given that Jiahua Energy Chemical Co. is the only company that provides low, medium and high pressure steam in the Zhapu area of Jiaying City, the PRC, which is the same economic development zone where the Group is located, it is impractical for the Group to source steam from another area as both steam pressure and steam heat would be lost substantially during the transmission of steam through long-distance pipelines. In particular, as the production base of the Group is situated close to that of Jiahua Energy Chemical Co., the transportation cost of steam from Jiahua Energy Chemical Co. to the Group is reduced. Moreover, Jiahua Energy Chemical Co. has been supplying steam to the Group since the year ended 31 December 2007 and the quality of goods and services provided by it has been considered by the Group to be satisfactory. Based on past operational convenience and benefits brought to the Group and extended business relationships established between the Group and Jiahua Energy Chemical Co., such continuing relationships are expected to bring synergies to the parties. Further, as the Group has an existing transmission network for steam in place for transmission of steam from Jiahua Energy Chemical Co., the Group can procure supply of steam from Jiahua Energy Chemical Co without incurring additional fixed costs. The Steam Supply Agreement is on normal commercial terms given that the pricing and terms are no more favourable for Jiahua Energy Chemical Co. than those given to other independent purchasers. In view of the geographical proximity and to secure a constant and stable supply of low pressure steam for production purposes in the future, the Group entered into the Steam Supply Agreements.

Desalinated water and miscellaneous materials are used during the process of the absorption of ethylene and propylene in the production process. Given Jiahua Energy Chemical Co is the only company that provides desalinated water and miscellaneous materials in the Zhapu area of Jiaying City, the PRC, which is the same economic development zone which the Group is located, it is not economical for Sanjiang Siyi to source desalinated water and miscellaneous materials from other sources. As the production base of Sanjiang Siyi is situated close to that of Jiahua Energy Chemical Co, transport cost of desalinated water and miscellaneous materials, from Jiahua Energy Chemical Co to Sanjiang Siyi can be reduced. Moreover, Jiahua Energy Chemical Co has been supplying desalinated water and miscellaneous materials to the Group since the year ended 31 December 2007 and the quality of goods and services provided by them have been considered by the Group to be satisfactory. Further, as the Sanjiang Siyi has an existing transmission network for desalinated water and miscellaneous materials in place for transmission of desalinated water and miscellaneous materials from Jiahua Energy Chemical Co, Sanjiang Siyi can procure supply of desalinated water and miscellaneous

materials from Jiahua Energy Chemical Co without incurring additional fixed cost. In view of these, Sanjiang Siyi entered into the Desalinated Water and Miscellaneous Materials Supply Agreements with Jiahua Energy Chemical Co.

The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement are fair and reasonable and on normal commercial terms and that the entering into of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATION

Jiahua Energy Chemical Co. is owned as to approximately 35.98% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. As Ms. Han is an executive Director and Mr. Guan is the controlling Shareholder of the Company, Jiahua Energy Chemical Co. is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company and the transactions contemplated under each of the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable ratios in respect of the considerations under the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement are less than 5%, the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement and the transactions contemplated thereunder are therefore subject to reporting and announcement requirements but are exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ms. Guan is an executive Director and the daughter of Mr. Guan and Ms. Han.

Ms. Han and Ms. Guan were interested in the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement and they therefore abstained from voting on the board resolutions of the Company approving the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in the Steam Supply Agreement and the Desalinated Water and Miscellaneous Materials Supply Agreement and none of them were required to abstain from voting on the board resolutions of the Company in respect thereof.

DEFINITIONS

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

“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;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Desalinated Water and Miscellaneous Materials Supply Agreements”	the desalinate water and miscellaneous materials supply agreements entered into between Sanjiang Siyi and Jiahua Energy Chemical Co dated 16 September 2022 regarding the supply of desalinate water by Jiahua Energy Chemical Co to Sanjiang Siyi;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries, from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“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 and a company which is ultimately controlled by Mr. Guan and Ms. Han;
“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;
“Macau”	the Macau Special Administrative Region of the PRC;
“MPa”	a metric unit of pressure;

“Mr. Guan”	Mr. Guan Jianzhong, a controlling Shareholder of the Company, and the spouse of Ms. Han;
“Ms. Guan”	Ms. Guan Siyi, an executive Director and the daughter of Mr. Guan and Ms. Han;
“Ms. Han”	Ms. Han Jianhong, an executive Director;
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan;
“RMB”	Renminbi yuan, the lawful currency of the PRC;
“Sanjiang Siyi”	浙江三江思怡新材料有限公司 (Zhejiang Sanjiang Siyi New Material Co., Ltd.*), a company established in the PRC with limited liability on 11 November 2020, which is an indirect wholly-owned subsidiary of the Company;
“Shareholder(s)”	shareholders of the Company;
“Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang Siyi and Jiahua Energy Chemical Co dated 16 September 2022;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

By order of the Board
China Sanjiang Fine Chemicals Company Limited
HAN Jianhong
Chairlady and Executive Director

The PRC, 16 September 2022

As at the date of this announcement, the Board comprises four executive Directors: Ms. HAN Jianhong, Mr. RAO Huotao, Ms. CHEN Xian and Ms. GUAN Siyi 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.*