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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) REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS**

(I) SANJIANG NEW MATERIAL STEAM SUPPLY AGREEMENT

(II) XING XING STEAM SUPPLY AGREEMENT

AND

(III) SANJIANG CHEMICAL STEAM SUPPLY AGREEMENT

**(2) DISCLOSEABLE TRANSACTION AND
CONNECTED TRANSACTION**

ACQUISITION OF ASSETS

Independent Financial Adviser



**REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS**

Reference is made to the circular of the Company dated 3 December 2020 in relation to, among other things, the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement.

Pursuant to the Sanjiang New Material Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023. On 23 September 2022, Jiahua Energy Chemical Co. and Sanjiang New Material entered into the Supplemental Sanjiang New Material Steam Supply Agreement to amend the existing annual caps for the Sanjiang New Material Steam Supply Agreement. Except for this revision, the principal terms of the Sanjiang New Material Steam Supply Agreement remain the same.

Pursuant to the Xing Xing Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023. On 23 September 2022, Jiahua Energy Chemical Co. and Xing Xing entered into the Supplemental Xing Xing Steam Supply Agreement to amend the existing annual caps for the Xing Xing Steam Supply Agreement. Except for this revision, the principal terms of the Xing Xing Steam Supply Agreement remain the same.

Pursuant to the Sanjiang Chemical Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023. On 23 September 2022, Jiahua Energy Chemical Co. and Sanjiang Chemical entered into the Supplemental Sanjiang Chemical Steam Supply Agreement to amend the existing annual caps for the Sanjiang Chemical Steam Supply Agreement. Except for this revision, the principal terms of the Sanjiang Chemical Steam Supply Agreement remain the same.

CONNECTED TRANSACTION

On 23 September 2022, Sanjiang Chemical (as purchaser) entered into the Sale and Purchase Agreement with Mei Fu Petrochemical (as vendor) pursuant to which Mei Fu Petrochemical has conditionally agreed to sell and Sanjiang Chemical has conditionally agreed to purchase the Assets at a consideration of RMB117,840,000 (equivalent to approximately HK\$132,866,608).

LISTING RULES IMPLICATION

Jiahua Energy Chemical Co. is owned as to approximately 36.77% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. Mei Fu Petrochemical is owned as to approximately 82.85% by Mr. Guan indirectly through a number of investment holding companies controlled by Mr. Guan. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company and Jiahua Energy Chemical Co. and Mr. Guan is an executive Director and a controlling shareholder of Mei Fu Petrochemical, Jiahua Energy Chemical Co. and Mei Fu Petrochemical are therefore each an associate of Mr. Guan and Ms. Han and are thus each a connected person of the Company. Accordingly, the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules whereas the transactions contemplated under the Sale and Purchase Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable ratios in respect of (i) the proposed revised annual caps of each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement for the two years ending 31 December 2023 is more than 5% but less than 25% and the proposed revised annual cap of the Supplemental Sanjiang Chemical Steam Supply Agreement for the year ending 31 December 2023 is more than 25% but less than 75%; and (ii) the Sale and Purchase Agreement is more than 5% but less than 25%, the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement and the Supplemental Xing Xing Steam Supply Agreement constitute discloseable and continuing connected transactions of the Company under Chapters 14 and 14A of the Listing Rules and the transactions contemplated under the Supplemental Sanjiang Chemical Steam Supply Agreement constitute a major transaction and continuing connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and the transactions contemplated under the Sale and Purchase Agreement constitute a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules. Accordingly, (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement and the Supplemental Xing Xing Steam Supply Agreement are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules and the Supplemental Sanjiang Chemical Steam Supply Agreement is subject to the reporting, announcement and shareholders' approval under Chapter 14 of the Listing Rules; and (ii) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement are therefore subject to reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules whereas the Sale and Purchase Agreement is subject to reporting, announcement, annual review and the independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The Company will seek independent shareholders' approval for (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement; and (ii) the proposed revised annual caps for the two years ending 31 December 2023 for the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement and the Supplemental Xing Xing Steam Supply Agreement and the proposed revised annual cap for the year ending 31 December 2023 for the transactions contemplated under the Supplemental Sanjiang Chemical Steam Supply Agreement at the EGM. The Company has established an independent board committee (comprising only and all the independent non-executive Directors) to advise the independent shareholders as to whether the terms of (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and Shareholders as whole.

A circular containing, among other things, (i) further information on each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the proposed revised annual caps thereunder and the Sale and Purchase Agreement; (ii) the recommendation from the independent board committee to the independent Shareholders; (iii) the advice from Lego Corporate Finance Limited, which has been appointed as the independent financial adviser to the independent board committee and the independent Shareholders; and (iv) a notice of the EGM, will be despatched to the Shareholders on or before 31 October 2022.

(1) REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

Reference is made to the circular of the Company dated 3 December 2020 in relation to, among other things, the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement.

Pursuant to the Sanjiang New Material Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (1.3MPa) and medium pressure steam (3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023. On 23 September 2022, Jiahua Energy Chemical Co. and Sanjiang New Material entered into the Supplemental Sanjiang New Material Steam Supply Agreement to amend the existing annual caps for the Sanjiang New Material Steam Supply Agreement. Except for this revision, all other principal terms of the Sanjiang New Material Steam Supply Agreement remain the same.

Pursuant to the Xing Xing Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023. On 23 September 2022, Jiahua Energy Chemical Co. and Xing Xing entered into the Supplemental Xing Xing Steam Supply Agreement to amend the existing annual caps for the Xing Xing Steam Supply Agreement. Except for this revision, all other principal terms of the Xing Xing Steam Supply Agreement remain the same.

Pursuant to the Sanjiang Chemical Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023. On 23 September 2022, Jiahua Energy Chemical Co. and Sanjiang Chemical entered into the Supplemental Sanjiang Chemical Steam Supply Agreement to amend the existing annual cap for the Sanjiang Chemical Steam Supply Agreement. Except for this revision, all other principal terms of the Sanjiang Chemical Steam Supply Agreement remain the same.

Set out below is the revision of the annual caps of each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement.

(I) Supplemental Sanjiang New Material Steam Supply Agreement

Under the Supplemental Sanjiang New Material Steam Supply Agreement, the existing annual caps are proposed to be revised as follows:

	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Existing annual caps	120,000	120,000
Revised annual caps	216,000	231,000

Except for the revision of the existing annual caps to the revised annual caps under the Supplemental Sanjiang New Material Steam Supply Agreement, all other principal terms (including the payment terms) under the Sanjiang New Material Steam Supply Agreement remain the same.

As disclosed in the circular of the Company dated 3 December 2020, the purchase price for low and medium 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 New Material in respect of purchases under the Sanjiang New Material Steam Supply Agreement shall be tallied on the end of each calendar month and, shall be payable by Sanjiang New Material on or before the end of the following month.

The Group will seek to employ the following measures to ensure that the price of low and medium pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang New Material pursuant to the Sanjiang New Material Steam Supply Agreement will be no less favourable than the price of supplying low and medium 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 and medium pressure steam of comparable quality; and (ii) all supply contracts regarding low and medium 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 and medium pressure steam since the purchase prices of low and medium pressure steam payable by Sanjiang Chemical 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 and medium pressure steam that Jiahua Energy Chemical Co. charges Sanjiang New Material are higher than the weighted average purchase prices of such low and medium pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low and medium pressure steam that Jiahua Energy Chemical Co. charges Sanjiang New Material are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang New Material will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low and medium 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 and medium pressure steam Jiahua Energy Chemical Co. offers to Sanjiang New Material 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.

(II) Supplemental Xing Xing Steam Supply Agreement

Under the Supplemental Xing Xing Steam Supply Agreement, the existing annual caps are proposed to be revised as follows:

	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Existing annual caps	223,400	223,400
Revised annual caps	350,000	373,000

Except for the revision of the existing annual caps to the revised annual caps under the Supplemental Xing Xing Steam Supply Agreement, all other principal terms (including the payment terms under the Xing Xing Steam Supply Agreement remain the same.

As disclosed in the circular of the Company dated 3 December 2020, the purchase price for high 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 Xing Xing in respect of purchases under the Xing Xing Steam Supply Agreement shall be tallied on the end of each calendar month and, shall be payable by Xing Xing on or before the end of the following month. Under the Xing Xing Steam Supply Agreement, Jiahua Energy Chemical Co. is responsible for the installation and maintenance of the steam meter. Where either party to the Xing Xing Steam Supply Agreement is in doubt as to the accuracy of the reading of the meter, either party may appoint a competent and independent party to check and verify the meter reading.

The Group will seek to employ the following measures to ensure that the price of high pressure steam offered by Jiahua Energy Chemical Co. to Xing Xing pursuant to the Xing Xing Steam Supply Agreement will be no less favourable than the price of supplying high 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 high pressure steam of comparable quality; and (ii) all supply contracts regarding high 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 high pressure steam since the purchase prices of high pressure steam payable by Xing Xing 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 high pressure steam that Jiahua Energy Chemical Co. charges Xing Xing are higher than the weighted average purchase prices of such high pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of high pressure steam that Jiahua Energy Chemical Co. charges Xing Xing are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Xing Xing will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of high 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 high pressure steam Jiahua Energy Chemical Co. offers to Xing Xing 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.

(III) Supplemental Sanjiang Chemical Steam Supply Agreement

Under the Supplemental Sanjiang Chemical Steam Supply Agreement, the existing annual cap is proposed to be revised as follows:

	For the year ending 31 December 2023 RMB'000
Existing annual cap	765,300
Revised annual cap	982,000

Except for the revision of the existing annual cap to the revised annual cap under the Supplemental Sanjiang Chemical Steam Supply Agreement, all other principal terms (including the payment terms under the Sanjiang Chemical Steam Supply Agreement remain the same.

As disclosed in the circular of the Company dated 3 December 2020, the purchase price for low, medium and high 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 Chemical in respect of purchases under the Sanjiang Chemical Steam Supply Agreement shall be tallied on the end of each calendar month and, together with an extra 2% of the tallied usage amount of 0.8MPa low pressure steam by Sanjiang Chemical to cover the loss in transmission (which is a market practice and only applicable to the purchase of 0.8MPa low pressure steam), shall be payable by Sanjiang Chemical on or before the end of the following month.

The Group will seek to employ the following measures to ensure that the price of low, medium and high pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Chemical pursuant to the Sanjiang Chemical Supply Agreement will be no less favourable than the price of supplying low, medium and high 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, medium and high pressure steam of comparable quality; and (ii) all supply contracts regarding low, medium and high 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, medium and high pressure steam since the purchase prices of low, medium and high pressure steam payable by Sanjiang Chemical 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, medium and high pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Chemical are higher than the weighted average purchase prices of such low, medium and high pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low, medium and high pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Chemical are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang Chemical will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low, medium and high 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, medium and high pressure steam Jiahua Energy Chemical Co. offers to Sanjiang Chemical 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.

(IV) Reasons for and Benefits of Revising the Existing Annual Caps and the Basis for Determining the Revised Annual Caps Under the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement

Set out in the table below are the actual transaction amounts for the year ended 31 December 2021 and the eight months ended 31 August 2022 for each of the Sanjiang New Material Steam Supply Agreement, Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement.

Nature of transaction	For the year ended 31 December 2021 <i>RMB'000</i>	For the eight months ended 31 August 2022 <i>RMB'000</i>
(i) Purchase of steam by Sanjiang New Material from Jiahua Energy Chemical Co. under the Sanjiang New Material Steam Supply Agreement	97,924	105,856
(ii) Purchase of steam by Xing Xing from Jiahua Energy Chemical Co. under the Xing Xing Steam Supply Agreement	210,613	184,303
(iii) Purchase of steam by Sanjiang Chemical from Jiahua Energy Chemical Co. under the Sanjiang Chemical Steam Supply Agreement	165,384	96,259

Upon review of the actual transaction amounts of low pressure (1.3MPa) and medium pressure steam (3.4MPa) supplied to Sanjiang New Material by Jiahua Energy Chemical Co. under the Sanjiang New Material Steam Supply Agreement, the actual transacted costs of high pressure steam (i.e. 4.6MPa) supplied to Xing Xing by Jiahua Energy Chemical Co. under the Xing Xing Steam Supply Agreement and the actual transacted costs of low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) supplied to Sanjiang Chemical by Jiahua Energy Chemical Co. under the Sanjiang Chemical Steam Supply Agreement, it is evident that the existing annual caps under the Sanjiang New Material Steam Supply Agreement and the Xing Xing Steam Supply Agreement will likely

exceed. This is mainly due to the increase in unit prices of low pressure steam, medium pressure steam and high pressure steam as the manufacturing section in the PRC has revitalized which has driven up the market prices of energy and coals, including low pressure steam, medium pressure steam and high pressure steam, which is beyond the original expectation when determining the annual caps under the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement. Further, due to the price fluctuation of crude oil and natural gas/coal on a global basis and for the purpose of cost control by the Group, the commercial operation of the Group's 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis, which was initially scheduled to commence in late 2021, has been delayed and is only scheduled to commence in late 2022, whereby it is expected to finish ramp-up in early 2023 and will commence operation during 2023, therefore resulting in higher purchase volume of steam by Sanjiang Chemical for the year ending 31 December 2023 due to the Group's increased EO/EG production capacity in 2023. There is therefore an imminent need to increase the existing annual caps so that Sanjiang New Material, Xing Xing and Sanjiang Chemical are able to secure a steady supply of low pressure steam, medium pressure steam and high pressure steam at a reasonable and cost effective price (given the proximity of the production facilities between Jiahua Energy Chemical Co. and Sanjiang New Material and Xing Xing and Sanjiang Chemical) in order to fulfil their respective needs. The increased price of low pressure steam, medium pressure steam and high pressure steam also allows Jiahua Energy Chemical Co. to generate additional revenue for the remaining term under the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement (as amended by the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement) respectively.

In determining the revised annual caps under the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement, the parties have also taken into account the assumption that during the remaining term of the Sanjiang New Material Steam Supply Agreement, Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement (as amended by the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement), there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the Group.

As at the date of this announcement, the respective existing annual caps under the Sanjiang New Material Steam Supply Agreement, the Xing Xing Steam Supply Agreement and the Sanjiang Chemical Steam Supply Agreement have not been exceeded.

The Directors (excluding the independent non-executive Directors whose views will be given taking into account the advice to be obtained from an independent financial adviser) are of the view that the terms and conditions of each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and that the entry into of each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement is in the interests of the Company and its Shareholders as a whole.

(2) CONNECTED TRANSACTION

(I) Acquisition of Assets

On 23 September 2022, Sanjiang Chemical (as purchaser) entered into the Sale and Purchase Agreement with Mei Fu Petrochemical (as vendor) pursuant to which Mei Fu Petrochemical has conditionally agreed to sell and Sanjiang Chemical has conditionally agreed to purchase the Assets at a consideration of RMB117,840,000 (equivalent to approximately HK\$132,866,608). Set out below are then principal terms of the Sale and Purchase Agreement:

Date

23 September 2022

Parties

- (1) Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company, as purchaser; and
- (2) Mei Fu Petrochemical, a connected person of the Company, as vendor

Subject matter

Pursuant to the Sale and Purchase Agreement, Mei Fu Petrochemical has conditionally agreed to sell and Sanjiang Chemical has conditionally agreed to purchase the Assets at a consideration of RMB117,840,000 (equivalent to approximately HK\$132,866,608).

Conditions precedent

Completion is conditional upon the fulfilment of the certain conditions precedent which include, among other things, the following:

- (i) the independent Shareholders approving the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM; and
- (ii) the completion of the ramp-up of the Group's 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis and ancillary upstream level production facilities by no later than 31 March 2023 and being in a position to commence operation thereafter.

Consideration and Terms of Payment

The consideration for the acquisition of the Assets payable by Sanjiang Chemical under the Sale and Purchase Agreement is RMB117,840,000 (equivalent to approximately HK\$132,866,608) 50% of the consideration shall be payable by Sanjiang Chemical upon the signing of the Sale and Purchase Agreement and the remaining 50% of the consideration shall be paid on completion.

The consideration would be financed by the internal resources of the Group.

Basis of consideration

The consideration was determined after arm's length negotiations between Sanjiang Chemical and Mei Fu Petrochemical on normal commercial terms primarily with reference to the appraised value of the Assets of RMB117,840,000 (equivalent to approximately HK\$132,866,608) rendered by CHFT Advisory and Appraisal Limited, an independent valuer, as at 31 August 2022, using the cost approach and in particular, the replacement cost method.

Completion

Completion shall take place 5 business days (i) after the commencement of the operation of the Group's 6th phase EO/EG production facilities and ancillary upstream level production facilities; and (ii) after receipt of a confirmation from the board of directors of Mei Fu Petrochemical to Sanjiang Chemical confirming the completion of the isolation of the Assets from its production processes, whichever is later. At Completion, Mei Fu Petrochemical shall deliver the title of the Assets to Sanjiang Chemical. Given the proximity of the location of Sanjiang Chemical and Mei Fu Petrochemical, both Sanjiang Chemical and Mei Fu Petrochemical agreed that the Assets would not be dismantled upon

completion for relocation to the premises of Sanjiang Chemical but will remain at Mei Fu Petrochemical with Sanjiang Chemical having an exclusive right to enter into the premises where the Assets are situated.

Information on the Assets

The Assets to be acquired by Sanjiang Chemical pursuant to the Sale and Purchase Agreement is an aromatic extraction unit situate at Mei Fu Petrochemical including its ancillary surveillance and monitoring systems together with certain infrastructure attaching to the aromatic extraction unit as fixtures. The device comprising the Assets uses mixed aromatics as raw material (500,000 tonnes per year) and after processing these with liquid-liquid extraction technology with sulfolane as solvent and upon completion of the relevant aromatics extraction and separation process to produce benzene, toluene and mixed xylene (400,000 tonnes per year) together with by-products such as raffinate (which is used for further deep processing). The device comprising the Assets operates 8,400 hours per year with an operation flexibility of between 50% to 120%. The device comprising the Assets have been in smooth operation as at the date of this announcement.

As at 31 August 2022, the book value of the Assets amounted to approximately RMB111,786,556 (equivalent to approximately HK\$126,032,766) in aggregate. As at 31 August 2022, the appraised value for the Assets was RMB117,840,000 (equivalent to approximately HK\$132,866,608).

(II) Reasons for and Benefits of Entering into the Sale and Purchase Agreement

The Assets has not been leased and used by the Group prior to the entering into of the Sale and Purchase Agreement. The Group' 6th phase EO/EG production facilities with 1,000,000MT output on a yearly basis has a by-product output of mixed aromatics of 261,000MT per year and the direct sales of mixed aromatics to market would be subject to consumer tax, which is estimated to be representing approximately 20% of the revenue of mixed aromatics. The device comprising the Assets uses mixed aromatics as raw material (500,000 tonnes per year) and convert mixed aromatics into chemicals, toluene and mixed xylene and other downstream products that are not subject to consumer tax and the Group believes it is a substantial saving for the Group on a long term basis for acquiring the Assets.

(3) INFORMATION OF THE COMPANY AND THE GROUP

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.

(4) INFORMATION OF CONNECTED PERSONS

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..

Mei Fu Petrochemical is a limited company established in the PRC and is principally engaged in the production and sale of propylene chemical light fuel, clean light fuel, liquefied petroleum gas, heavy fuel, oil and dry gas, propane, MTBE, sulfur, asphalt and lubricants.

(5) LISTING RULES IMPLICATIONS

Jiahua Energy Chemical Co. is owned as to approximately 36.77% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. Mei Fu Petrochemical is owned as to approximately 82.85% by Mr. Guan indirectly through a number of investment holding companies controlled by Mr. Guan. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company and Jiahua Energy Chemical Co. and Mr. Guan is an executive Director and a controlling shareholder of Mei Fu Petrochemical, Jiahua Energy Chemical Co. and Mei Fu Petrochemical are therefore each an associate of Mr. Guan and Ms. Han and are thus each a connected person of the Company and the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules whereas the transactions contemplated under Sale and Purchase Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable ratios in respect of (i) the proposed revised annual caps of each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement for the two years ending 31 December 2023 is more than 5% but less than 25% and the proposed revised annual cap of the Supplemental Sanjiang Chemical Steam Supply Agreement for the year ending 31 December 2023 is more than 25% but less than 75%; and (ii) the Sale and Purchase Agreement is more than 5% but less than 25%, the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement and the Supplemental Xing Xing Steam Supply Agreement constitute discloseable and constitute continuing connected transactions of the Company under Chapters 14 and 14A of the Listing Rules and the transactions contemplated under the Supplemental Sanjiang Chemical Steam Supply Agreement constitute a major transaction and continuing connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and the Sale and Purchase Agreement constitute a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules. Accordingly, (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement and the Supplemental Xing Xing Steam Supply Agreement are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules and the Supplemental Sanjiang Chemical Steam Supply Agreement is subject to the reporting, announcement and shareholders' approval under Chapter 14 of the Listing Rules; and (ii) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement are therefore subject to reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules whereas the Sale and Purchase Agreement is subject to reporting, announcement, annual review and the independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

(6) GENERAL

The Company will seek independent shareholders' approval for (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement; and (ii) the proposed revised annual caps for the two years ending 31 December 2023 for the transactions contemplated under each of the Supplemental Sanjiang New Material Steam Supply Agreement and the Supplemental Xing Xing Steam Supply Agreement and the proposed revised annual cap for the year ending 31 December 2023 for the transactions contemplated under the Supplemental Sanjiang Chemical Steam Supply Agreement at the EGM. The Company has established an independent board committee (comprising only and all the independent non-executive Directors) to advise the independent shareholders as to whether the terms of (i) each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental

Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the respective proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and Shareholders as whole.

A circular containing, among other things, (i) further information on each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the proposed revised annual caps thereunder and the Sale and Purchase Agreement; (ii) the recommendation from the independent board committee to the independent Shareholders; (iii) the advice from Lego Corporate Finance Limited, which has been appointed as the independent financial adviser to the independent board committee and the independent Shareholders; and (iv) a notice of the EGM, will be despatched to the Shareholders on or before 31 October 2022.

Ms. Han was interested in each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and she therefore abstained from voting on the board resolutions of the Company approving each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in each of the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement, the Supplemental Sanjiang Chemical Steam Supply Agreement and the Sale and Purchase 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:

- “Assets” an aromatic extraction unit (芳烴抽提裝置) situate at Mei Fu Petrochemical including its ancillary surveillance and monitoring systems together with certain infrastructure attaching to the aromatic extraction unit;
- “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 (中國三江精細化工有限公司), 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;
“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 (i) the Supplemental Sanjiang New Material Steam Supply Agreement, the Supplemental Xing Xing Steam Supply Agreement and the Supplemental Sanjiang Chemical Steam Supply Agreement and the proposed revised annual caps contemplated thereunder and (ii) the Sale and Purchase Agreement and the transactions contemplated thereunder by the independent Shareholders;
“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.*), a company established in the PRC with limited liability on 26 March 1998, is owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han respectively and is therefore a connected person of the Company as at the date of this announcement;
“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 and currently listed on the Shanghai Stock Exchange (stock code: 600273);

“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 is owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% respectively and is therefore a connected person of the Company as at the date of this announcement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“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, is owned as to 33.00% by Sure Capital, 31.85% by Hangzhou Haoming, 18.00% by Jianghao Investment and 17.15% by Ningbo Yongsheng. Mr. Guan is a controlling shareholder of the Company and the spouse of Ms. Han, an executive Director of the Company. As Ms. Han is an executive Director and Mr. Guan is a controlling shareholder of the Company, Mei Fu Petrochemical is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company;
“MPa”	a metric unit of pressure;
“Mr. Guan”	Mr. Guan Jianzhong, a controlling Shareholder of the Company;
“Ms. Han”	Ms. Han Jianhong, an executive Director and the spouse of Mr. Guan;
“Ningbo Yongsheng”	寧波甬升石化有限公司 (Ningbo Yongsheng Petroleum Co. Ltd*), a company established in the PRC with limited liability and is owned as to 99% by Zhuo Dingguo* (卓定國) and 1% by Zhong Yan* (鐘燕), all of whom are independent from the Company and its connected person(s) as at the date of this announcement;
“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;

“Sale and Purchase Agreement”	the sale and purchase agreement dated 23 September 2022 entered into between Sanjiang Chemical and Mei Fu Petrochemical pursuant to which Mei Fu Petrochemical has conditionally agreed to sell and Sanjiang Chemical has conditionally agreed to purchase the Assets at a consideration of RMB117,840,000 (equivalent to approximately HK\$132,866,608);
“Sanjiang Chemical”	三江化工有限公司 (Sanjiang Chemical Co. Ltd.*), a company established in the PRC with limited liability on 9 December 2003, which is an indirect wholly-owned subsidiary of the Company;
“Sanjiang Chemical Desalinated Water and Miscellaneous Materials Supply Agreement”	the desalinated water and miscellaneous materials supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 11 December 2020 pursuant to which, Jiahua Energy Chemical Co. has agreed to supply desalinated water and miscellaneous materials to each of Sanjiang Chemical for the three years ending 31 December 2023;
“Sanjiang Chemical Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for the three years ending 31 December 2023;
“Sanjiang New Material”	浙江三江化工新材料有限公司 (Zhejiang Sanjiang New Material Co., Ltd*), a company established in the PRC with limited liability on 23 December 2011, which is an indirect wholly-owned subsidiary of the Company;
“Sanjiang New Material Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 1.3MPa) and medium pressure steam (i.e. 3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023;
“Shareholder(s)”	shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

- “Supplemental Sanjiang Chemical Desalinated Water and Miscellaneous Materials Supply Agreement” the supplemental agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 23 September 2022 to amend the existing annual caps in the Sanjiang Chemical Desalinated Water and Miscellaneous Materials Supply Agreement;
- “Supplemental Sanjiang Chemical Steam Supply Agreement” the supplemental agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 23 September 2022 to amend the existing annual caps in the Sanjiang Chemical Steam Supply Agreement;
- “Supplemental Sanjiang New Material Steam Supply Agreement” the supplemental agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co. dated 23 September 2022 to amend the existing annual caps in the Sanjiang New Material Steam Supply Agreement;
- “Supplemental Xing Xing Steam Supply Agreement” the supplemental agreement entered into between Xing Xing and Jiahua Energy Chemical Co. dated 23 September 2022 to amend the existing annual caps in the Xing Xing Steam Supply Agreement;
- “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 as at the date of this announcement;
- “Xing Xing” 浙江興興新能源科技有限公司 (Zhejiang Xingxing New Energy Technology Co., Ltd.*), a limited liability company established in the PRC and a non-wholly owned subsidiary of the Company, which is owned as to 87% by Sanjiang Chemical and as to 6%, 3%, 2% and 2% respectively by each of Mr. Guo Jinzong* (郭勁松), Mr. Guo Mingliang* (郭明良), Mr. Guo Mingdong* (郭明東) and Mr. Xin Zhangwei* (殷張偉), all of whom are third parties independent of the Company and its connected person;
- “Xing Xing Steam Supply Agreement” the steam supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023; and

“%”

percent

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

The PRC, 23 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 inconsistency between the Chinese names of individuals or 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.*