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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 TRANSACTION
SANJIANG CHEMICAL TOLUENE SALES AGREEMENT**

CONTINUING CONNECTED TRANSACTION

Sanjiang Chemical Toluene Sales Agreement

On 27 July 2023, Sanjiang Chemical and Jiafu New Material entered into the Sanjiang Chemical Toluene Sales Agreement pursuant to which, Sanjiang Chemical has agreed to supply Toluene to Jiafu New Material for a period of approximately six months commencing on the date of this announcement and ending on 31 December 2023 at annual caps not exceeding RMB20,000,000.

LISTING RULES IMPLICATION

Jiafu New Material, a company established in the PRC with limited liability, is a wholly-owned subsidiary of Jiahua Energy Chemical Co. and Jiahua Energy Chemical Co. is owned as to approximately 36.77% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han.

As Ms. Han is Mr. Guan's wife and an executive Director and Mr. Guan is a controlling Shareholder of the Company, each of Jiahua Energy Chemical Co. and Jiafu New Material is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company and the transactions contemplated under the Sanjiang Chemical Toluene Sales Agreement constitute continuing connected transaction(s) of the Company under Chapter 14A of the Listing Rules.

As the applicable ratios in respect of the considerations under the Sanjiang Chemical Toluene Sales Agreement are less than 5%, the Sanjiang Chemical Toluene Sales 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.

On 27 July 2023, Sanjiang Chemical and Jiafu New Material entered into the Sanjiang Chemical Toluene Sales Agreement pursuant to which, Sanjiang Chemical has agreed to supply toluene to Jiafu New Material for a period of approximately six months commencing on the date of this announcement and ending on 31 December 2023 at annual caps not exceeding RMB20,000,000.

SANJIANG CHEMICAL TOLUENE SALES AGREEMENT

Date

27 July 2023

Parties

- (1) Sanjiang Chemical, an indirect wholly-owned subsidiary of the Company, as supplier; and
- (2) Jiafu New Material, a connected person of the Company, as purchaser.

Subject matter

Pursuant to the Sanjiang Chemical Toluene Sales Agreement, Sanjiang Chemical has agreed to supply toluene to Jiafu New Material for a period of approximately six months commencing on the date of this announcement and ending on 31 December 2023 at annual caps not exceeding RMB20,000,000.

Term

The Sanjiang Chemical Toluene Sales Agreement shall become effective from the date of this announcement and has a term of approximately six months ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

Pursuant to the Sanjiang Chemical Toluene Sales Agreement, the purchase price for toluene shall be at a price which is the weighted average of quotes obtained by Jiafu New Material from its independent suppliers for the relevant product of comparable quality

and volume during the same period of supply. The relevant purchase price shall be tallied on the end of each calendar month, and shall be payable on or before the end of the following months.

In order to ensure that the selling price for relevant product of comparable quality is no less favourable than the prevailing market price, the Group would compare quotations given by Sanjiang Chemical to other independent purchasers for toluene of comparable quality and volume after taking into account the additional transportation costs that may be incurred and analyse such market information, and the unit selling price for toluene will be agreed after arm's length negotiation with Jiafu New Material. Accordingly, the Board considers that such methods and procedures can ensure that the supply of toluene will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

The Company will comply with the relevant Listing Rules requirements when the term of the Sanjiang Chemical Toluene Sales Agreement is renewed.

Historical transaction amounts and proposed annual caps

Set out below are the historical figures and proposed annual caps for the supply of toluene:

| | For the year ended 31 December 2021 RMB'000 | For the year ended 31 December 2022 RMB'000 | For the period from 1 January 2023 to the date of this announcement RMB'000 |
|---|--|--|--|
| Historical transaction amounts with independent third parties | <u>—</u> | <u>—</u> | <u>—</u> |
| | | | For the period from the date of this announcement to 31 December 2023 RMB'000 |
| Proposed annual caps | | | <u>20,000</u> |

No historic amount is available as Sanjiang Chemical did not enter into any agreements with Jiafu New Material in respect of the supply of toluene.

The proposed annual caps are estimated based on:

- (1) the expected amount of purchasing to be made by Jiafu New Material from Sanjiang Chemical during the period of approximately six months ending 31 December 2023; and
- (2) the estimated market price of relevant goods during the period of approximately six months ending 31 December 2023.

Such projection is assumed solely for determining the annual caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group.

The independent non-executive Directors and the auditor of the Company will on a regular basis be provided with the (i) Sanjiang Chemical Toluene Sales Agreement; (ii) agreements entered into between Sanjiang Chemical and independent third parties for supply of toluene; and (iii) fee quotations provided by independent third parties for the supply of toluene for review and comparison purposes. The independent non-executive Directors will also review and compare the relevant payment terms, payment method and price payable under these agreements to ensure that the transactions contemplated under the Sanjiang Chemical Toluene Sales Agreement are conducted on normal commercial terms. The auditor of the Company will review and confirm the transactions contemplated under the Sanjiang Chemical Toluene Sales Agreement are conducted in accordance with the terms of the Sanjiang Chemical Toluene Sales Agreement.

REASONS FOR THE TRANSACTIONS

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 is 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 gas and argon in the PRC.

Jiafu New Material, a company established in the PRC with limited liability, is a wholly-owned subsidiary of Jiahua Energy Chemical Co. and Jiahua Energy Chemical Co. is a limited liability company established in the PRC and is principally engaged in the business of production and trading of desalinated water, steam, chlorine gas 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 10% or above interests in Jiahua Energy Chemical Co..

Reasons for entering into Sanjiang Chemical Toluene Sales Agreement

The entering into of the Sanjiang Chemical Toluene Sales Agreement will enable the Group to extend its business relationships between the Group and Jiahua Energy Chemical Co. and its wholly-owned subsidiary, Jiafu New Material, and further bring synergies to the parties. In addition, as the production base of the Group is situated close to that of Jiahua Energy Chemical Co. and its wholly-owned subsidiary, Jiafu New Material, the delivery costs of goods to be borne by the Group can be reduced. The Sanjiang Chemical Toluene Sales Agreement is non-exclusive and non-compulsory in nature, which allows the Group to maximize the usage of its relevant production facilities for toluene production at the time of having spare capacity. In view of the foregoing reasons, the Group entered into the Sanjiang Chemical Toluene Sales Agreement with Jiafu New Material.

The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of Sanjiang Chemical Toluene Sales Agreement are fair and reasonable and on normal commercial terms and in the ordinary and usual course of business of the Group and that the entering into Sanjiang Chemical Toluene Sales Agreement is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATION

Jiafu New Material, a company established in the PRC with limited liability, is a wholly-owned subsidiary of Jiahua Energy Chemical Co. and Jiahua Energy Chemical Co. is owned as to approximately 36.77% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han.

As Ms. Han is the wife of Mr. Guan and is an executive Director and Mr. Guan is a controlling Shareholder of the Company, each of Jiahua Energy Chemical Co. and Jiafu New Material is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company and the transactions contemplated under Sanjiang Chemical Toluene Sales Agreement constitute continuing connected transaction(s) of the Company under Chapter 14A of the Listing Rules.

As the applicable ratios in respect of the consideration under the Sanjiang Chemical Toluene Sales Agreement are less than 5%, the Sanjiang Chemical Toluene Sales 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 Sanjiang Chemical Toluene Sales Agreement and they therefore abstained from voting on the board resolutions of the Company approving the Sanjiang Chemical Toluene Sales Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in the Sanjiang Chemical Toluene Sales 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:

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| “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; |
| “Group” | the Company and its subsidiaries, from time to time; |
| “HKD” | Hong Kong Dollars, the lawful currency of Hong Kong; |
| “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); |

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| “Jiafu New Material” | 浙江嘉福新材料科技有限公司 (Zhejiang Jiafu New Material Technology Co., Ltd.*), a company established in the PRC with limited liability, is a wholly-owned subsidiary of Jiahua Energy Chemical Co, a connected person of the Company; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “Macau” | the Macau Special Administrative Region of the PRC; |
| “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, and the spouse of Mr. Guan; |
| “PRC” | the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan; |
| “RMB” | Renminbi, the lawful currency of the PRC; |
| “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; |
| “Shareholder(s)” | shareholders of the Company; |
| “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, 27 July 2023

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 and 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.*