

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**DISCLOSABLE TRANSACTION
ACQUISITION OF THE TARGET COMPANY**

THE ACQUISITION — SHARE PURCHASE AGREEMENT

The Board is pleased to announce that on 30 August 2023, the Purchaser, a wholly owned subsidiary of the Group, and the Vendor, an Independent Third Party, entered into a Share Purchase Agreement, pursuant to which the Purchaser agreed to acquire, and the Vendor agreed to sell 100% of the issued shares of the Target Company with a consideration of approximately RMB212 million.

Upon completion of the acquisition, the Target Company will become an indirect wholly owned subsidiary of the Group and therefore the financial results of the Target Company will be consolidated into those of the Group.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the acquisition exceeds 5% but all the percentage ratios are less than 25% (see Article 14.07 of the Listing Rules for the definition), the acquisition constitutes a disclosable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements, but exempt from the requirement of obtaining shareholders' approval under Chapter 14 of the Listing Rules.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

On 30 August 2023 after trading hour, Sanjiang Chemical (or the “Purchaser”), a wholly-owned subsidiary of the Group and Lotte Chemical Corporation (KRX: 011170) (or the “Vendor”), an Independent Third Party, entered into a Share Purchase Agreement pursuant to which the Purchaser agreed to acquire, and the Vendor agreed to sell 100% of issued shares of the Target Company with a consideration of approximately RMB212 million. Upon completion of the acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company and therefore the financial results of the Target Company will be consolidated into those of the Group.

SHARE PURCHASE AGREEMENT

Date

30 August 2023

Parties

- (1) Sanjiang Chemical, an indirect wholly-owned subsidiary of the Company, as the Purchaser; and
- (2) Lotte Chemical Corporation (KRX: 011170), an Independent Third Party, as the Vendor

Subject matter

Pursuant to the Share Purchase Agreement, the Purchaser has agreed to acquire, and the Vendor has agreed to sell 100% of the issued shares of the Target Company at a consideration of RMB zero and the Purchaser has agreed to inject approximately RMB212 million cash into the Target Company for the Target Company’s repayment of its bank borrowings, subject to the terms and conditions of the Share Purchase Agreement.

As of the date of this announcement, the Vendor owns 100% of the total issued shares of the Target Company. Upon completion of the acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company and therefore the financial results of the Target Company will be consolidated into those of the Group.

Consideration and payment terms

The consideration for transferring 100% equity interest of the Target Company under the Share Purchase Agreement amounted to approximately RMB212 million, representing the aggregate of the consideration of zero for transferring 100% equity interest of the Target Company and the cash injection of approximately RMB212 million by the Purchaser into the Target Company for its repayment of its bank borrowings.

Pursuant to the Share Purchase Agreement, Within 8 working days after the signing the Share Purchase Agreement, Sanjiang Chemical would transfer approximately RMB12 million to the Target Company for its repayment of bank borrowings.

Pursuant to the Share Purchase Agreement, Sanjiang Chemical would transfer the remaining amount of approximately RMB200 million to the Target Company for its repayment of bank borrowings on or before 30 September 2023.

Basis of the Consideration

The total consideration of approximately RMB212 million was determined after arm's length negotiations between the Purchaser and the Vendor after taking into consideration, amongst other items, (A) the Target Company's assets and production facilities, which include but not limited to:- i) Land use right of 140 acres in size; ii) 50,000 metric tons per year Ethanolamine (乙醇胺) production unit; iii) 50,000 metric tons per year surfactants (表面活性劑) production unit; iv) 1,800 metric tons per year Expanded polypropylene (聚丙烯塑料發泡) production unit; and v) 30,000 metric tons per year Ployether polyol (聚醚多元醇) production unit; (B) The valuation report based on the valuation as of 31 July 2023 on the net asset value of the Target Company of amount approximately RMB238 million, mainly including:- i) the revalued amount of RMB168 million for the land use right of 140 acres based on comparable market transactions method, representing approximately RMB144 million appreciation of value when comparing to the net book value of such land use right of 140 acres amounted to RMB24 million per the unaudited financial statements of the Target Company for the period ended 31 July 2023 prepared based on PRC Generally Accepted Accounting Practices ("PRC GAAP"); and ii) the revalued amount of RMB290 million for property, plant and equipment based on replacement costs method, representing approximately RMB194 million appreciation of value when comparing to the net book value of such property, plant and equipment amounted to RMB96 million per the unaudited financial statements of the Target Company for the period ended 31 July 2023 prepared based on PRC GAAP); (C) the audited financial statements of 2021 and the audited financial statements of 2022 of the Target Company prepared based on PRC GAAP. The appreciation of value of property, plant and equipment was mainly due to reversal of impairment made by the Target Company in view of suspension of operation.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the terms and conditions of Share Purchase 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 Share Purchase Agreement is in the interests of the Company and its Shareholders as a whole.

INFORMATION OF THE TARGET COMPANY

The principal activities of the Target Company are the manufacture and supply of Ethanolamine, diethanolamine, triethanolamine, crude triethanolamine, methoxy polyethylene glycols, polyethylene glycol, propylene glycol polyethylene glycol, isobutene polyethylene glycol, isoamylene polyethylene glycol, DEIPA, and Expanded polypropylene in PRC.

Set out below are the audited & unaudited historical financial information of the Target Company prepared based on PRC GAAP:

	For the year ended 31 December 2020 (audited) RMB'000	For the year ended 31 December 2021 (audited) RMB'000	For the year ended 31 December 2022 (audited) RMB'000	For the six months ended 30 June 2023 (unaudited) RMB'000
Revenue	526,485	702,594	554,156	23,922
Profit/(loss) before tax	23,196	(7,924)	(68,450)	(25,602)
Profit/(loss) after tax	23,196	(7,924)	(68,450)	(25,602)
Total assets value	419,580	385,691	278,921	198,032
Net assets value	42,318	34,394	(34,056)	(58,706)

INFORMATION OF THE VENDOR

According to Wikipedia, Lotte Chemical Corporation (KRX: 011170) is a chemical company headquartered in Seoul, South Korea. Lotte Chemical is one of the largest chemical companies in the world by revenue. Lotte Chemical manufactures synthetic resins and other chemical products used for various industrial materials (https://en.wikipedia.org/wiki/Lotte_Chemical). Lotte Chemical Corporation is formerly known as Honam Petrochemical Corp (“Honam”) and it changed its name to “Lotte Chemical Corporation” after being acquired by Lotte Corporation (KRX: 004990). KRX: 011170 is the stock code for Lotte Chemical Corporation,

According to Wikipedia, Lotte Corporation (KRX: 004990) is a South Korean multinational conglomerate corporation, and the fifth-largest chaebol in South Korea. Lotte began its history on June 28, 1948, by Korean businessman Shin Kyuk-ho in Tokyo. Shin expanded Lotte to his ancestral country, South Korea, with the establishment of Lotte Confectionery in Seoul on April 3, 1967 (https://en.wikipedia.org/wiki/Lotte_Corporation). KRX: 004990 is the stock code for Lotte Corporation.

Save for the above, the Group has no any other available information about the ultimate beneficiary owners of Lotte Chemical Corporation (KRX: 011170) and the Group confirms that, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, both Lotte Chemical Corporation (KRX: 011170) and Lotte Corporation (KRX: 004990) are third parties independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SHARE PURCHASE AGREEMENT

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.

The entering into of the Share Purchase Agreement will enable the Group to increase its production capacities in downstream level and increase its land bank in the local region. Vertical integration and streamlining intra-group production processes are the major trend in the development of the petrochemical industry. The acquisition of the Target Company enables the Group to mutually supply materials and share public utilities with the Target Company and resources would be fully optimized and utilized effectively and operating costs would be reduced. Through the laboratories and production units acquired from Target Company, the Group is able to enhance the quality, variety, and functionality of epoxyethane derivatives, meeting higher and more sophisticated development requirements and the synergy impacts for such acquisition is valuable to the Group and it cannot be quantified.

LISTING RULES IMPLICATION

As one of the applicable percentage ratios in respect of the acquisition exceeds 5% but all the percentage ratios are less than 25% (see Article 14.07 of the Listing Rules for the definition), the acquisition constitutes a disclosable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements, but exempt from the requirement of obtaining shareholders' approval under Chapter 14 of the Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of Share Purchase 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 Share Purchase Agreement is in the interests of the Company and its Shareholders as a whole.

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 (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;
“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;
“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;
“MT”	metric tonne(s);
“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” or “the Purchaser”	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;

“Share Purchase Agreement”	the Share Purchase Agreement entered into between the Purchaser and the Vendor on 30 August 2023 for the transfer of 100% equity interest in the Target Company;
“Shareholder(s)”	shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Company”	Lotte Chemical (Jiaxing) Co., Ltd.* (樂天化學(嘉興)有限公司), a company incorporated on 25 May 2010 in Zhejiang Province, People’s Republic of China with limited liability; and
“%”	per cent.

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

The PRC, 30 August 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.*