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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)

**DISCLOSABLE TRANSACTION
DISPOSAL OF 100% EQUITY INTEREST IN ZHEBEI**

THE DISPOSAL — SHARE TRANSFER AGREEMENT

The Board is pleased to announce that on 3 November 2023, Capitol International Limited (“Capitol”), a direct wholly owned subsidiary of the Group, and Sanjiang Chemical Co., Ltd (“Sanjiang Chemical”), an indirect wholly owned subsidiary of the Group (together with Capitol, collectively referred as the “Vendors”), and Zhoushan Hongsheng Petrochemical Co., Ltd.* (舟山鴻升石化有限公司) (“Zhoushan Hongsheng” or the “Purchaser”), an Independent Third Party, entered into Share Transfer Agreement I and Share Transfer Agreement II respectively, pursuant to which the Purchaser agreed to acquire, and the Vendors agreed to sell 56.38% and 43.62% of the issued shares of Zhejiang Zhebei Petrochemical Co., Ltd (“Zhebei” or the “Target Company”) with considerations of approximately RMB104 million and RMB80 million respectively.

Upon Completion, the Target Company will cease to be a subsidiary of the Company and its financial results will be deconsolidated from the financial statements of the Group.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the disposal exceeds 5% but all the percentage ratios are less than 25% (see Rule 14.07 of the Listing Rules for the definition), the disposal 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 3 November 2023 after trading hour, Capitol, a direct wholly owned subsidiary of the Group, and Sanjiang Chemical, an indirect wholly owned subsidiary of the Group, and Zhoushan Hongsheng, an Independent Third Party, entered into Share Transfer Agreement I and Share Transfer Agreement II respectively, pursuant to which the Purchaser agreed to acquire, and the Vendors agreed to sell 56.38% and 43.62% of the issued shares of Zhebei with considerations of approximately RMB104 million and RMB80 million respectively. Upon Completion, Zhebei will cease to be a subsidiary of the Company and its financial results will be deconsolidated from the financial statements of the Group.

Zhoushan Hongsheng is a company incorporated in PRC on 4 July 2016 and is owned as to 90% by Zhuo Dingguo* (卓定國) and 10% by Qian Yan* (鍾燕) respectively. To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, each of the Purchaser and its ultimate beneficial owner(s) is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

SHARE TRANSFER AGREEMENT I

Date

3 November 2023

Parties

- (1) Capitol, a direct wholly-owned subsidiary of the Company, as the Vendor; and
- (2) Zhoushan Hongsheng, an Independent Third Party, as the Purchaser.

Subject matter

Pursuant to the Share Transfer Agreement I, the Purchaser has agreed to acquire, and the Vendor has agreed to sell 56.38% of the issued shares of the Target Company at a consideration of RMB104 million.

Basis of the consideration and payment terms

The consideration was determined after arm's length negotiations between the Purchaser and the Vendor after taking into consideration, amongst other items, the Target Company's net assets value ("NAV"), which include primarily the Land use right; and the valuation report on such Land use right based on the valuation as of 30 September 2023. The consideration shall be calculated according to the following formula:

NAV of the Target Company = (A) Market value of Land use right + (B) Book value of Current Assets + (C) Book value of Non-Current Assets – (D) Book value of Liabilities

Where:

- (A) Market value of Land use right means the market value of the Land use right of RMB158 million, which was based on valuation report as of 30 September 2023 performed by an independent valuer and was arrived at after arm's length negotiations between the Purchaser and Vendors;
- (B) Book value of Current Assets comprise of (i) other receivables of RMB20 million; and (ii) cash and bank balances of RMB11 million;
- (C) Book value of Non-Current Assets comprise of software costs of RMB0.041 million; and
- (D) Book value Liabilities comprise of other accounts payable and taxes payable of RMB6 million.

As at 30 September 2023, the NAV of the Target Company was RMB183 million.

The consideration shall be settled by the Purchaser in accordance with the following schedule:

- i) 50% of the consideration shall be payable by the Purchaser within 1 month after the signing of the Share Transfer Agreement I; and
- ii) the remaining 50% of the consideration shall be payable by the Purchaser within 3 months after the signing of the Share Transfer Agreement I.

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

SHARE TRANSFER AGREEMENT II

Date

3 November 2023

Parties

- (1) Sanjiang Chemical, an indirect wholly-owned subsidiary of the Company, as the Vendor; and
- (2) Zhoushan Hongsheng, an Independent Third Party, as the Purchaser.

Subject matter

Pursuant to the Share Transfer Agreement II, the Purchaser has agreed to acquire, and the Vendor has agreed to sell 43.62% of the issued shares of the Target Company at a consideration of RMB80 million.

Basis of the consideration and payment terms

The consideration was determined after arm's length negotiations between the Purchaser and the Vendor after taking into consideration, amongst other items, the Target Company's net assets value ("NAV"), which include primarily the Land use right; and the valuation report on such Land use right based on the valuation as of 30 September 2023. The consideration shall be calculated according to the following formula:

NAV of the Target Company = (A) Market value of Land use right + (B) Book value of Current Assets + (C) Book value of Non-Current Assets – (D) Book value of Liabilities

Where:

- (A) Market value of Land use right means the market value of the Land use right of RMB158 million, which was based on valuation report as of 30 September 2023 performed by an independent valuer and was arrived at after arm's length negotiations between the Purchaser and Vendors;
- (B) Book value of Current Assets comprise of (i) other receivables of RMB20 million; and (ii) cash and bank balances of RMB11 million;
- (C) Book value of Non-Current Assets comprise of software costs of RMB0.041 million; and
- (D) Book value Liabilities comprise of other accounts payable and taxes payable of RMB6 million.

As at 30 September 2023, the NAV of the Target Company was RMB183 million.

The consideration shall be settled by the Purchaser in accordance with the following schedule:

- i) 50% of the consideration shall be payable by the Purchaser within 1 month after the signing of the Share Transfer Agreement II; and
- ii) the remaining 50% of the consideration shall be payable by the Purchaser within 3 months after the signing of the Share Transfer Agreement II.

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

INFORMATION OF THE TARGET COMPANY

The Target Company is dormant up to the date of this announcement.

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

	For the year ended 31 December 2022 (unaudited) RMB'000	For the six months ended 30 September 2023 (unaudited) RMB'000
Revenue	—	—
Profit/(loss) before tax	—	—
Profit/(loss) after tax	—	—

INFORMATION OF THE VENDOR

The principal activities of the Zhoushan Hongsheng are the manufacturing and trading of solvent oil, kerosene, mixed aromatics, solvents, diesel, and gasoline.

Zhoushan Hongsheng is a company incorporated in PRC on 4 July 2016 and is owned as to 90% by Zhuo Dingguo* (卓定國) and 10% by Qian Yan* (鍾燕) respectively. To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, each of the Purchaser and its ultimate beneficial owner(s) is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

FINANCIAL EFFECTS OF THE DISPOSAL

Upon Completion, the Target Company will cease to be a subsidiary of the Company and its financial results will be deconsolidated from the financial statements of the Group.

It is expected that the Company will record a loss on disposal of approximately RMB4.50 million, which is calculated by reference to the carrying value of the Target Company in the Company's consolidated accounts, before any adjustments in accordance with the terms of the Share Transfer Agreement I and Share Transfer Agreement II and before taxation.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SHARE TRANSFER 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 Transfer Agreement will enable the Group to monetize the value in its investment in the Target Company and represents an opportunity to enhance the financial flexibility of the Group at this point of time.

The disposal will further strengthen the cash flow and financial position of the Group and the Company intends to use the proceeds from the disposal for general working capital and future investment.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the disposal exceeds 5% but all the percentage ratios are less than 25% (see Rule 14.07 of the Listing Rules for the definition), the disposal 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 Transfer Agreement I and Share Transfer Agreement II 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 Transfer Agreement I and Share Transfer Agreement II are 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”	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 Transfer Agreement I”	the Share Transfer Agreement entered into between the Purchaser and Capitol on 3 November 2023 for the transfer of 56.38% equity interest in the Target Company;
“Share Transfer Agreement II”	the Share Transfer Agreement entered into between the Purchaser and the Sanjiang Chemical on 3 November 2023 for the transfer of 43.62% equity interest in the Target 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, 3 November 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.*