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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 NITROGEN GAS SALES AGREEMENT**

CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 11 December 2020 (“**Announcement**”) in relation to, among other things, the transactions contemplated under the (1) Fatty Alcohol Supply Agreement, (2) Sanjiang Chemical Ethylene Storage Services Agreement, (3) Condensate Water Purchase Agreements, (4) Desalinated Water and Miscellaneous Materials Supply Agreements, (5) Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement and (6) Grand Novel Management Agreement and the respective annual caps for the three years ending on 31 December 2023. Unless otherwise defined, terms used herein shall have the same meaning as defined in the Announcement.

Sanjiang Chemical Nitrogen Gas Sales Agreement

On 28 December 2020, Sanjiang Chemical and Jiahua New Material entered into the Sanjiang Chemical Nitrogen Gas Sales Agreement pursuant to which, Sanjiang Chemical has agreed to supply nitrogen gas to Jiahua New Material for a period of one year ending on 31 December 2021 at an annual cap not exceeding RMB1,900,000.

LISTING RULES IMPLICATION

Jiahua New Material, a company established in the PRC with limited liability, is a direct wholly-owned subsidiary of Jiahua Energy Chemical Co. and Jiahua Energy Chemical Co. is owned as to approximately 40.86% 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 Jiahua 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 Nitrogen Gas Sales Agreement constitute continuing connected transaction(s) of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the proposed annual caps under (a) the Sanjiang Chemical Nitrogen Gas Sales Agreement of amount RMB1,900,000 for the year ending 31 December 2021; and (b) the (5) Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement of amount RMB30,000,000 for the three years ending 31 December 2023 as set out in the Announcement, are aggregated as (i) they were entered into between Sanjiang Chemical, as supplier, and members of a connected person (i.e. Jiahua Energy Chemical Co. and Jiahua New Material), as customers; and (ii) they are of a similar nature relating to the supply of nitrogen gas by Sanjiang Chemical to members of the same connected person (i.e. Jiahua Energy Chemical Co. and Jiahua New Material) with similar pricing mechanism and, therefore, total proposed annual cap under the Sanjiang Chemical Nitrogen Gas Sales Agreement and the (5) Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement is RMB31,900,000 for the year ending 31 December 2021.

As one or more of the applicable ratios in respect of the aggregated proposed annual cap under the Sanjiang Chemical Nitrogen Gas Sales Agreement and the (5) Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement of amount RMB31,900,000 for the year ending 31 December 2021 are more than 0.1% but less than 5%, the transactions contemplated under the Sanjiang Chemical Nitrogen Gas Sales Agreement and the (5) Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement are therefore subject to the reporting, announcement and annual review 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 28 December 2020, Sanjiang Chemical and Jiahua New Material entered into the Sanjiang Chemical Nitrogen Gas Sales Agreement pursuant to which, Sanjiang Chemical has agreed to supply nitrogen gas to Jiahua New Material for a period of one year ending on 31 December 2021 at an annual cap not exceeding RMB1,900,000.

SANJIANG CHEMICAL NITROGEN GAS SALES AGREEMENT

Date

28 December 2020

Parties

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

Subject matter

Pursuant to the Sanjiang Chemical Nitrogen Gas Sales Agreement, Sanjiang Chemical has agreed to supply nitrogen gas to Jiahua New Material for the year ending 31 December 2021.

Term

The Sanjiang Chemical Nitrogen Gas Sales Agreement shall become effective on 1 January 2021 and has a term ending on 31 December 2021 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

Consideration

Pursuant to the Sanjiang Chemical Nitrogen Gas Sales Agreement, the purchase price for nitrogen gas shall be at a price which is the weighted average of those obtained by Jiahua New Material from its independent suppliers for the relevant product of comparable quality and volume during the same month 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 nitrogen gas 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 nitrogen gas will be agreed after arm's length negotiation with Jiahua New Material. Accordingly, the Board considers that such methods and procedures can ensure that the supply of nitrogen gas 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 respective terms of the Sanjiang Chemical Nitrogen Gas Sales Agreement is renewed.

Historical transaction amounts and annual caps

Sanjiang Chemical had the following amounts received from Jiahua New Material in respect of the sales of nitrogen gas:

	For the year ended 31 December		For the period from 1 January 2020 to 30 November 2020 (i.e. the latest available of management accounts)
	2018	2019	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Actual transaction amount received by Sanjiang Chemical from Jiahua New Material (these continuing connected transactions fully exempt under Rule 14A.76 of Listing Rule)	649	1,345	1,197
	For the year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical annual caps in respect of the sales of nitrogen gas to Jiahua New Material	—	—	—

Proposed Annual Caps

Based on:

- (1) the expected amount of purchasing to be made by Jiahua New Material from Sanjiang Chemical for the year ending 31 December 2021; and
- (2) the estimated market price of relevant goods for the year ending 31 December 2021, it is expected that the estimated annual cap for the Sanjiang Chemical Nitrogen Gas Sales Agreement for the year ending 31 December 2021 is RMB1,900,000.

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 Nitrogen Gas Sales Agreement; (ii) agreements entered into between the Group and independent third parties for provision of nitrogen gas; and (iii) fee quotations provided by independent third parties for the provision of nitrogen gas 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 Nitrogen Gas Sales Agreement are conducted on normal commercial terms. The auditor of the Company will review and confirm the transactions contemplated under the Sanjiang Chemical Nitrogen Gas Sales Agreement are conducted in accordance with the terms of the Sanjiang Chemical Nitrogen Gas 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 was also engaged in the provision of processing services for polypropylene, methyl tert-butyl ether and surfactants to its customers and the production and supply of other chemical products such as C4, pentene and industrial gases, namely oxygen, nitrogen and argon in the PRC.

Jiahua New Material, a company established in the PRC with limited liability, is a directly 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 more than 10% or above interests in Jiahua Energy Chemical Co..

Reasons for entering into Sanjiang Chemical Nitrogen Gas Sales Agreement

The entering into of the Sanjiang Chemical Nitrogen Gas Sales Agreement will enable the Group to extend its business relationships between the Group and Jiahua Energy Chemical Co. and its wholly-owned subsidiary, Jiahua 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, Jiahua New Material, the delivery costs of goods to be borne by the Group can be reduced. The Sanjiang Chemical Nitrogen Gas Sales Agreement is non-exclusive and non-compulsory in nature, which allows the Group to maximize the usage of its relevant production facilities for gas production at the time of having spare capacity. In view of the foregoing reasons, the Group entered into the Sanjiang Chemical Nitrogen Gas Sales Agreement with Jiahua New Material.

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

LISTING RULES IMPLICATION

Jiahua New Material, a company established in the PRC with limited liability, is a directly wholly-owned subsidiary of Jiahua Energy Chemical Co. and Jiahua Energy Chemical Co. is owned as to approximately 40.86% 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, Jiahua 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 Nitrogen Gas Sales Agreement constitute continuing connected transaction(s) of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the proposed annual caps under (a) the Sanjiang Chemical Nitrogen Gas Sales Agreement of amount RMB1,900,000 for the year ending 31 December 2021; and (b) the (5) Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement of amount RMB30,000,000 for the three years ending 31 December 2023 as set out in the Announcement, are aggregated as (i) they were entered into between Sanjiang Chemical, as supplier, and members of a connected person (i.e. Jiahua Energy Chemical Co. and Jiahua New Material), as customers; and (ii) they are of a similar nature relating to the supply of nitrogen gas by Sanjiang Chemical to members of the same connected person (i.e. Jiahua Energy Chemical Co. and Jiahua New Material) with similar pricing mechanism and, therefore, total proposed annual cap under the Sanjiang Chemical Nitrogen Gas Sales Agreement and the (5) Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement is RMB31,900,000 for the year ending 31 December 2021.

As one or more of the applicable ratios in respect of the aggregated proposed annual cap under the Sanjiang Chemical Nitrogen Gas Sales Agreement and the (5) Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement of amount RMB31,900,000 for the year ending 31 December 2021 are more than 0.1% but less than 5%, the transactions contemplated under the Sanjiang Chemical Nitrogen Gas Sales Agreement and the (5) Sanjiang Chemical Gas and Miscellaneous Materials Sales Agreement are therefore subject to the reporting, announcement and annual review 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. Han is interested in Sanjiang Chemical Nitrogen Gas Sales Agreement and she therefore abstained from voting on the board resolutions of the Company approving Sanjiang Chemical Nitrogen Gas Sales Agreement. Save as disclosed, none of the Directors had any material interest in Sanjiang Chemical Nitrogen Gas Sales Agreement and none of them are required to abstain from voting on the board resolutions of the Company in respect thereof.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	board of Directors of the Company;
“Company”	China Sanjiang Fine Chemicals Company Limited (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;
“EG”	ethylene glycol;
“EO”	ethylene oxide;
“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);
“Jiahua New Material”	浙江嘉化新材料有限公司 (Zhejiang Jiahua New Material Co., Ltd*), a company established in the PRC with limited liability, is a directly 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. 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;
“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, 28 December 2020

As at the date of this announcement, the Board comprises three executive Directors: Ms. HAN Jianhong, Mr. HAN Jianping and Mr. RAO Huotao 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.*