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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)

**CONNECTED TRANSACTION
RELATING TO ACQUISITION OF 9.5% OF THE EQUITY INTEREST
IN THE TARGET COMPANY**

THE ACQUISITION

On 31 August 2020, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser agreed to purchase and the Vendor agreed to sell its remaining 9.5% of the equity interest in the Target Company at the Consideration of RMB72,200,000 (equivalent to approximately HK\$80,395,000).

LISTING RULES IMPLICATION

As the applicable percentage ratios in respect of the Acquisition are more than 0.1% but less than 5%, the Acquisition is subject to the reporting and announcement requirements but is exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to (i) the announcement of the Company dated 1 June 2012 and the circular of the Company dated 11 June 2012 regarding the discloseable and connected transaction in relation to the acquisition of 75% of the equity interest in the Target Company; and (ii) the announcement of the Company dated 15 December 2017 regarding the connected transaction in relation to the acquisition of 2.5% of the equity interest in the Target Company.

On 31 August 2020, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser agreed to purchase and the Vendor agreed to sell its remaining 9.5% of the equity interest in the Target Company at the Consideration of RMB72,200,000 (equivalent to approximately HK\$80,395,000).

Details of the Acquisition Agreement are set out below.

THE ACQUISITION AGREEMENT

Date:

31 August 2020

Parties:

- (1) The Purchaser: 三江化工有限公司 (Sanjiang Chemical Co., Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company.

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.

- (2) The Vendor: 浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), a limited liability company established in the PRC and is owned as to an aggregate of 29.48% by third parties independent of the Company and its connected person, and as to 70.52% by Haoming, which is in turn owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han. Each of Mr. Guan, Ms. Han and Mr. Han is an executive Director and accordingly, the Vendor is a connected person by virtue of its being an associate of connected persons of the Company under the Listing Rules.

The Vendor is principally engaged in investment holding.

Assets to be acquired:

The Purchaser has agreed to purchase, and the Vendor has agreed to sell, 9.5% of the equity interest in the Target Company.

Consideration and terms of payment:

The Consideration for the Acquisition is RMB72,200,000 (equivalent to approximately HK\$80,395,000), which will be paid by the Purchaser to the Vendor within three Business Days from the date of the Acquisition Agreement (or such other date as may be agreed by the parties) by way of bank transfer to the Vendor's designated PRC bank account. The Consideration will be funded by internal resources of the Group.

Basis of the Consideration

The Directors (including the independent non-executive Directors, but excluding Mr. Guan, Ms. Han and Mr. Han who are required to abstain from voting) confirm that the Consideration was arrived at after arm's length negotiations and on normal commercial terms between the Purchaser and the Vendor with reference to the following factors:

1. the proportionate equity interest that the Purchaser will obtain in the Target Company;
2. the valuation of the market value of 100% equity interest of the Target Company of approximately RMB1.2 billion as at the valuation date of 31 July 2020 prepared by the Independent Valuer using the guideline public company method under the market approach; and
3. the unaudited net profit of the Target Company for the seven months ended 31 July 2020 of approximately RMB155 million prepared in accordance with HKFRSs;
4. the unaudited net assets value of the Target Company as at 31 July 2020 of approximately RMB253 million, prepared in accordance with HKFRSs;
5. the Directors consider the Target Company is able to generate profits and contribute positively to the Group going forwards.

Completion of the Acquisition Agreement

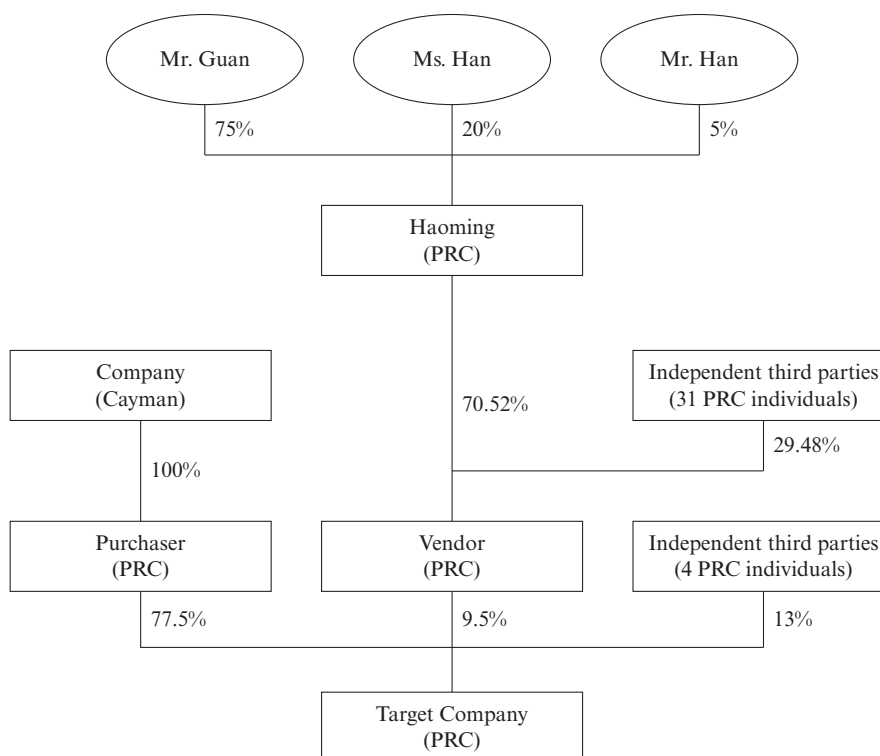
Completion of the Acquisition Agreement shall take place within three Business Days from the date of the Acquisition Agreement (or such other date as may be agreed by the parties).

Upon Completion, the Target Company will be owned as to 87% and 13% by the Purchaser and four individuals who are third parties independent of the Company and its connected person, respectively.

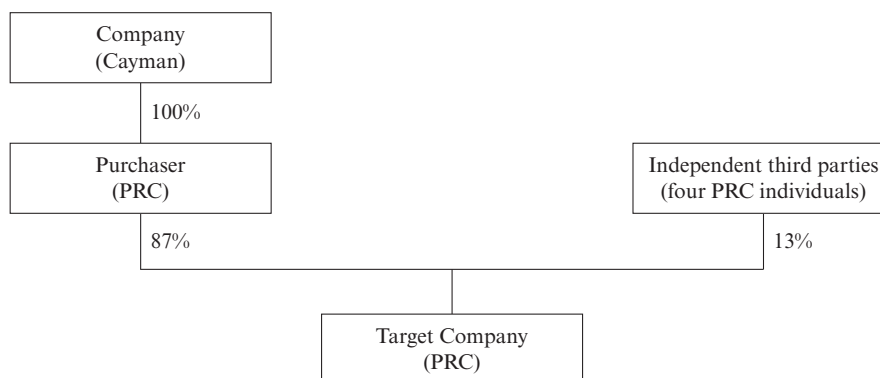
Information on the Target Company

The Target Company is a limited liability company established in the PRC on 19 January 2011 with a registered capital of RMB800,000,000 and a paid-up capital of RMB800,000,000 as at the date of this announcement. Its equity interest is, as at the date of this announcement, owned as to 77.5% by the Purchaser, as to 9.5% by the Vendor, and as to an aggregate of 13% by four individuals who are third parties independent of the Company and its connected person.

Set out below is the shareholding structure of the Target Company immediately before Completion:



Set out below is the shareholding structure of the Target Company immediately after Completion:



The Target Company is principally engaged in the production of ethylene and propylene by processing methanol based on MTO Technology, i.e. Methanol-to-Olefin-based technology and related ancillary technologies. Set out below is a summary of the unaudited financial information on the Target Company for the years ended 31 December 2018 and 2019 (prepared in accordance with HKFRS):

	For the year ended	
	31 December	
	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3,714,103	4,675,800
(Loss)/profit before taxation	(435,981)	116,038
(Loss)/profit for the year	(435,981)	116,038

As at 31 December 2019, the Target Company had total assets value and net deficit amount of approximately RMB5,949,161,000 and RMB52,518,000 respectively based on the unaudited financial information prepared in accordance with HKFRSs.

REASONS FOR AND BENEFIT OF THE ACQUISITION

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.

The Target Company is principally engaged in manufacture and sale of ethylene and propylene.

As at the date of this announcement, the Target Company is a non wholly-owned subsidiary of the Company as to 77.5% by the Purchaser, 9.5% by the Vendor and 13% by four individuals who are third parties independent of the Company and its connected person.

According to the memorandum and articles of the Target Company, the Purchaser, being a shareholder of the Target Company, has the first right of refusal to acquire the shares of the Target Company in the case where the Vendor or other third party shareholders are willing to sell their equity interest in the Target Company (“**First Right of Refusal**”). Since the Vendor wished to focus on its other businesses, the Vendor offered the sale of the 9.5% of the equity interest in the Target Company at the consideration of RMB72,200,000 (equivalent to approximately HK\$80,395,000) to the Company. The Company accepted the offer and agreed to the Acquisition in order to further (i) maximise the economic benefits and profit-sharing through the Group’s control and operation of the Target Company; and (ii) consolidate the Group’s control over the Target Company given the fact that, MTO production facility is the ultimate upstream level from the Group’s perspective and the success of all the strategic planning, decisions and movements that made by the Group depends heavily on the Group’s control over the Target Company.

Having taken into the market value of 100% equity interest of the Target Company as at 31 July 2020 of approximately RMB1.2 billion under the Valuation Report, the Directors (including the independent non-executive Directors, but excluding Mr. Guan, Ms. Han and Mr. Han who are required to abstain from voting) are of the view the Consideration is a good bargain for the Company in the long term. They also consider that the terms of the Acquisition Agreement, which were arrived at after arm’s length negotiations between the Purchaser and the Vendor, are fair and reasonable and are on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and its shareholders as a whole.

Since each of Mr. Guan, Ms. Han and Mr. Han has a material interest in the Acquisition, they therefore abstained from voting on board resolutions of the Company approving the Acquisition.

LISTING RULES IMPLICATION

As at the date of this announcement, the Vendor is a non-wholly owned subsidiary of Haoming, which is owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han. Each of Mr. Guan, Ms. Han and Mr. Han is an executive Director and accordingly, the Vendor is a connected person by virtue of its being an associate of connected persons of the Company under the Listing Rules. Hence, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Acquisition are more than 0.1% but less than 5%, the Acquisition is subject to the reporting and announcement requirements but is exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Acquisition”	the acquisition of 9.5% equity interest in the Target Company by the Purchaser from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 31 August 2020 entered into between the Purchaser and the Vendor in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day (excluding a Saturday, Sunday and public holiday) on which banks in the PRC are generally open for business throughout their normal business hours
“Company”	China Sanjiang Fine Chemicals Company Limited (stock code: 2198), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration to be payable by the Purchaser to the Vendor pursuant to the Acquisition Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“Haoming”	杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*), a limited liability company established in the PRC, which is owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han

“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accounts as in effect from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Valuer”	CHFT Advisory And Appraisal Ltd, a qualified valuer registered in Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Guan”	Mr. Guan Jianzhong, an executive Director of the Company
“Mr. Han”	Mr. Han Jianping, an executive Director of the Company
“Ms. Han”	Ms. Han Jianhong, an executive Director of the Company
“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	三江化工有限公司 (Sanjiang Chemical Co., Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Share(s)”	the share(s) of par value of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) the Shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	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, which, immediately prior to Completion, was owned as to 77.5% by the Purchaser, as to 9.5% by the Vendor, and as to 13% by four individuals who are third parties independent of the Company and its connected person
“Valuation Report”	the valuation report in relation to the market value of 100% equity interest of the Target Company as at the valuation date of 31 July 2020 prepared by the Independent Valuer

“Vendor”	浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), a limited liability company established in the PRC and owned as to 29.48% by third parties independent of the Company and its connected person, and as to 70.52% by Haoming
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By order of the Board
China Sanjiang Fine Chemicals Company Limited
GUAN Jianzhong
Chairman and Executive Director

The People’s Republic of China, 31 August 2020

Unless the context requires otherwise, translation of RMB into HK\$ are made, for illustration purpose only, at the rate of RMB1 = HK\$1.1135. No representation is made that any amounts in RMB or HK\$ could have been or could be converted at the above rate or at any rates or at all.

As at the date of this announcement, the Board comprises four executive Directors: Mr. GUAN Jianzhong, 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 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.*