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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 TRANSACTIONS**

**(1) STEAM SUPPLY AGREEMENTS**

**(2) SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT**

**AND**

**(3) PORT AND STORAGE SERVICES AGREEMENTS**

**Independent Financial Advisor to the  
Independent Board Committee and the Independent Shareholders  
Titan Financial Services Limited**



**CONTINUING CONNECTED TRANSACTIONS**

**(1) Steam Supply Agreements**

***(i) Xing Xing Steam Supply Agreement***

On 12 November 2020, Xing Xing (an indirectly non wholly-owned subsidiary of the Company) entered into the Xing Xing Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6Mpa) to Xing Xing for the three years ending 31 December 2023.

***(ii) Sanjiang Chemical Steam Supply Agreement***

On 12 November 2020, Sanjiang Chemical (an indirectly wholly-owned subsidiary of the Company) entered into the Sanjiang Chemical Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023.

***(iii) Sanjiang New Material Steam Supply Agreement***

On 12 November 2020, Sanjiang New Material (an indirectly wholly-owned subsidiary of the Company) entered into the Sanjiang New Material Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 1.3MPa) and medium pressure steam (i.e. 3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023.

***(iv) Sanjiang Haojia Steam Supply Agreement***

On 12 November 2020, Sanjiang Haojia (an indirectly wholly-owned subsidiary of the Company) entered into the Sanjiang Haojia Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023.

**(2) Sanjiang Chemical Ethylene Sales Agreement**

On 12 November 2020, Sanjiang Chemical entered into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co. pursuant to which Sanjiang Chemical has agreed to supply ethylene to Jiahua Energy Chemical Co. for a period of three years ending 31 December 2023.

**(3) Port and Storage Services Agreements**

***(i) Xing Xing Port and Storage Services Agreement***

On 12 November 2020, Mei Fu Port (a wholly-owned subsidiary of Jiahua Energy Chemical Co.) entered into the Xing Xing Port and Storage Services Agreement with Xing Xing pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Xing Xing for a period of three years ending 31 December 2023.

***(ii) Sanjiang Chemical Port and Storage Services Agreement***

On 12 November 2020, Mei Fu Port entered into the Sanjiang Chemical Port and Storage Services Agreement with Sanjiang Chemical pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

***(iii) Sanjiang New Material Port and Storage Services Agreement***

On 12 November 2020, Mei Fu Port entered into the Sanjiang New Material Port and Storage Services Agreement with Sanjiang New Material pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang New Material for a period of three years ending 31 December 2023.

***(iv) Sanjiang Haojia Port and Storage Services Agreement***

On 12 November 2020, Mei Fu Port entered into the Sanjiang Haojiao Port and Storage Services Agreement with Sanjiang Haojia pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Haojia for a period of three years ending 31 December 2023.

***(v) Sanjiang Chemical and Jiahua Energy Storage Services Agreement***

On 12 November 2020, Jiahua Energy Chemical Co. entered into the Sanjiang Chemical and Jiahua Energy Storage Services Agreement with Sanjiang Chemical pursuant to which Jiahua Energy Chemical Co. has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

**LISTING RULES IMPLICATION**

Jiahua Energy Chemical Co. is owned as to approximately 40.86% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han whereas Mei Fu Port is a wholly-owned subsidiary of Jiahua Energy Chemical Co.. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company, Jiahua Energy Chemical Co. and Mei Fu Port are therefore associates of Mr. Guan and Ms. Han and are thus connected persons of the Company and the transactions contemplated under each of the Steam Supply Agreements and Port and Storage Services Agreements and Sanjiang Chemical Ethylene Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, each of the proposed annual caps under each of the Steam Supply Agreements are aggregated as (i) they were entered into between members of the Group, as purchaser, and a connected person (i.e. Jiahua Energy Chemical Co.), as supplier; and (ii) they are of a similar nature relating to the purchase of steam by members of the Group from the same connected person (i.e. Jiahua Energy Chemical Co.) with similar pricing mechanism.

Pursuant to Rule 14A.81 of the Listing Rules, each of the proposed annual caps under each of the Port and Storage Services Agreements are aggregated as (i) they were entered into between members of the Group, as purchaser, and a connected person (i.e. Jiahua Energy Chemical Co.) and its wholly-owned subsidiary (i.e. Mei Fu Port), as supplier; and (ii) they are of a similar nature relating to the provision of Port and Storage Services by the same connected person (i.e. Jiahua Energy Chemical Co.) and its wholly-owned subsidiary (i.e. Mei Fu Port) with similar pricing mechanism to members of the Group.

As one or more of the applicable ratios in respect of (i) the aggregated proposed annual caps of each of the Steam Supply Agreements and Port and Storage Services Agreements for the three years ending 31 December 2023 and (ii) the proposed annual caps of the Sanjiang Chemical Ethylene Sales Agreement for the three years ending 31 December 2023 is more than 5%, the transactions contemplated under the Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement are therefore subject to reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek independent shareholders' approval for (i) each of the Steam Supply Agreements, each of the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement; and (ii) the proposed annual caps for the three years ending 31 December 2023 for the transactions contemplated under each of the Steam Supply Agreements, each of the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement at the EGM.

The Company has established an independent board committee (comprising only and all the independent non-executive Directors) to advise the independent shareholders as to whether the terms of each of Steam Supply Agreements and the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the respective proposed annual caps contemplated thereunder are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and Shareholders as whole.

A circular containing, among other things, (i) further information on each of the Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the proposed annual caps thereunder; (ii) the recommendation from the independent board committee to the independent shareholders; (iii) the advice from the independent financial adviser to the independent board committee and the independent shareholders; and (iv) a notice of the EGM, will be despatched to the Shareholders on or before 1 December 2020.

## **(1) DETAILS OF THE STEAM SUPPLY AGREEMENTS**

On 12 November 2020, Xing Xing, an indirectly non wholly-owned subsidiary of the Company, entered into the Xing Xing Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023.

On 12 November 2020, Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company, entered into the Sanjiang Chemical Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023.

On 12 November 2020, Sanjiang New Material, an indirectly wholly-owned subsidiary of the Company, entered into the Sanjiang New Material Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 1.3MPa) and medium pressure steam (i.e. 3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023.

On 12 November 2020, Sanjiang Haojia, an indirectly wholly-owned subsidiary of the Company, entered into the Sanjiang Haojia Steam Supply Agreement with Jiahua Energy Chemical Co. pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023.

Set out below is the principal terms of the Xing Xing Steam Supply Agreement, Sanjiang Chemical Steam Supply Agreement, Sanjiang New Material Steam Supply Agreement and Sanjiang Haojia Steam Supply Agreement.

### **(I) Xing Xing Steam Supply Agreement**

#### ***Date***

12 November 2020

### ***Parties***

- (1) Jiahua Energy Chemical Co., a connected person of the Company, as supplier; and
- (2) Xing Xing, an indirectly non wholly-owned subsidiary of the Company.

### ***Subject matter***

Pursuant to the Xing Xing Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023.

### ***Term***

The Xing Xing Steam Supply Agreement shall become effective on 1 January 2021 and has a term 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 Xing Xing Steam Supply Agreement, the purchase price for high pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Xing Xing in respect of purchases under the Xing Xing Steam Supply Agreement shall be tallied on the end of each calendar month and, shall be payable by Xing Xing on or before the end of the following month.

Under the Xing Xing Steam Supply Agreement, Jiahua Energy Chemical Co. is responsible for the installation and maintenance of the steam meter. Where either party to the Xing Xing Steam Supply Agreement is in doubt as to the accuracy of the reading of the meter, either party may appoint a competent and independent party to check and verify the meter reading.

### ***Determination of the pricing policy of steam***

The Group will seek to employ the following measures to ensure that the price of high pressure steam offered by Jiahua Energy Chemical Co. to Xing Xing pursuant to the Xing Xing Steam Supply Agreement will be no less favourable than the price of supplying high pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases high pressure steam of comparable quality; and (ii) all supply

contracts regarding high pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of high pressure steam since the purchase prices of high pressure steam payable by Xing Xing are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and

- (2) in the event that the prices of high pressure steam that Jiahua Energy Chemical Co. charges Xing Xing are higher than the weighted average purchase prices of such high pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of high pressure steam that Jiahua Energy Chemical Co. charges Xing Xing are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Xing Xing will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of high pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of high pressure steam Jiahua Energy Chemical Co. offers to Xing Xing are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of high pressure steam as described above can ensure that the transactions contemplated under Xing Xing Steam Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders, taking into account that the above procedures will make reference to prices Jiahua Energy Chemical Co. offers to independent third party(ies) and thus serve as a safeguarding measure to prevent any possibility that the final pricing offered to the connected person will turn out to be less favourable to the Group than the market price.

## **(II) Sanjiang Chemical Steam Supply Agreement**

*Date*

12 November 2020

### ***Parties***

- (1) Jiahua Energy Chemical Co., a connected person of the Company, as supplier; and
- (2) Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company.

### ***Subject matter***

Pursuant to the Sanjiang Chemical Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6MPa) to Sanjiang Chemical for a term of three years ending 31 December 2023.

### ***Term***

The Sanjiang Chemical Steam Supply Agreement shall become effective on 1 January 2021 and has a term 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 Steam Supply Agreement, the purchase price for low, medium and high pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Sanjiang Chemical in respect of purchases under the Sanjiang Chemical Steam Supply Agreement shall be tallied on the end of each calendar month and, together with an extra 2% of the tallied usage amount of 0.8MPa low pressure steam by Sanjiang Chemical to cover the loss in transmission (which is a market practice and only applicable to the purchase of 0.8MPa low pressure steam), shall be payable by Sanjiang Chemical on or before the end of the following month.

### ***Determination of the pricing policy of steam***

The Group will seek to employ the following measures to ensure that the price of low, medium and high pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Chemical pursuant to the Sanjiang Chemical Steam Supply Agreement



will be no less favourable than the price of supplying low, medium and high pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low, medium and high pressure steam of comparable quality; and (ii) all supply contracts regarding low, medium and high pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of low, medium and high pressure steam since the purchase prices of low, medium and high pressure steam payable by Sanjiang Chemical are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
- (2) in the event that the prices of low, medium and high pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Chemical are higher than the weighted average purchase prices of such low, medium and high pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low, medium and high pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Chemical are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang Chemical will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low, medium and high pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of low, medium and high pressure steam Jiahua Energy Chemical Co. offers to Sanjiang Chemical are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of low, medium and high pressure steam as described above can ensure that the transactions contemplated under Sanjiang Chemical Steam Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders, taking into account that the above procedures will make reference to prices Jiahua Energy Chemical Co. offers to independent third party(ies) and thus

serve as a safeguarding measure to prevent any possibility that the final pricing offered to the connected person will turn out to be less favourable to the Group than the market price.

### **(III) Sanjiang New Material Steam Supply Agreement**

#### ***Date***

12 November 2020

#### ***Parties***

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

#### ***Subject matter***

Pursuant to the Sanjiang New Material Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 1.3MPa) and medium pressure steam (i.e. 3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023.

#### ***Term***

The Sanjiang New Material Steam Supply Agreement shall become effective on 1 January 2021 and has a term 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 New Material Steam Supply Agreement, the purchase price for low and medium pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Sanjiang New Material in respect of purchases under the Sanjiang New Material Steam Supply Agreement shall be tallied on the end of each calendar month and, shall be payable by Sanjiang New Material on or before the end of the following month.

### ***Determination of the pricing policy of steam***

The Group will seek to employ the following measures to ensure that the price of low and medium pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang New Material pursuant to the Sanjiang New Material Steam Supply Agreement will be no less favourable than the price of supplying low and medium pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low and medium pressure steam of comparable quality; and (ii) all supply contracts regarding low and medium pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of low and medium pressure steam since the purchase prices of low and medium pressure steam payable by Sanjiang New Material are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
- (2) in the event that the prices of low and medium pressure steam that Jiahua Energy Chemical Co. charges Sanjiang New Material are higher than the weighted average purchase prices of such low and medium pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low and medium pressure steam that Jiahua Energy Chemical Co. charges Sanjiang New Material are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang New Material will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low and medium pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of low and medium pressure steam Jiahua Energy Chemical Co. offers to Sanjiang New Material are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of low and medium pressure steam as described above can ensure that the transactions contemplated under Sanjiang

New Material Steam Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders, taking into account that the above procedures will make reference to prices Jiahua Energy Chemical Co. offers to independent third party(ies) and thus serve as a safeguarding measure to prevent any possibility that the final pricing offered to the connected person will turn out to be less favourable to the Group than the market price.

#### **(IV) Sanjiang Haojia Steam Supply Agreement**

##### ***Date***

12 November 2020

##### ***Parties***

- (1) Jiahua Energy Chemical Co., a connected person of the Company, as supplier; and
- (2) Sanjiang Haojia, an indirectly wholly-owned subsidiary of the Company.

##### ***Subject matter***

Pursuant to the Sanjiang Haojia Steam Supply Agreement, Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 0.8MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023.

##### ***Term***

The Sanjiang Haojia Steam Supply Agreement shall become effective on 1 January 2021 and has a term 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 Haojia Steam Supply Agreement, the purchase price for low pressure steam shall be at a price which is the weighted average of those obtained by Jiahua Energy Chemical Co. from its independent purchasers for the relevant product of comparable quality and steam pressure during the same month of supply. The purchase price payable by Sanjiang Haojia in respect of purchases under the Sanjiang Haojia Steam Supply Agreement shall be tallied on the end of each calendar month and, together with an extra 2% of the tallied usage amount of 0.8MPa low pressure steam by Sanjiang Haojia to cover the loss in transmission (which is a market practice and only applicable to the purchase of 0.8MPa low pressure steam), shall be payable by Sanjiang Haojia on or before the end of the following month.

### ***Determination of the pricing policy of steam***

The Group will seek to employ the following measures to ensure that the price of low pressure steam offered by Jiahua Energy Chemical Co. to Sanjiang Haojia pursuant to the Sanjiang Haojia Steam Supply Agreement will be no less favourable than the price of supplying low pressure steam of comparable quality to other independent third party(ies) by Jiahua Energy Chemical Co.:

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co. to its independent purchasers that purchases low pressure steam of comparable quality; and (ii) all supply contracts regarding low pressure steam of comparable quality entered into between Jiahua Energy Chemical Co. and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co.) as to the weighted average purchase prices of low pressure steam since the purchase prices of low pressure steam payable by Sanjiang Haojia are agreed to be the weighted average prices of such steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers during the same month of supply; and
- (2) in the event that the prices of low pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Haojia are higher than the weighted average purchase prices of such low pressure steam of comparable quality offered by Jiahua Energy Chemical Co. to its independent purchasers (in other words the prices of low pressure steam that Jiahua Energy Chemical Co. charges Sanjiang Haojia are less favourable than those charged by Jiahua Energy Chemical Co. to independent third parties) during the same month of supply, Sanjiang Haojia will negotiate with Jiahua Energy Chemical Co. to adjust the proposed purchase prices of low pressure steam to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of low pressure steam Jiahua Energy Chemical Co. offers to Sanjiang Haojia are no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of the Group will arrange for the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing of low pressure steam as described above can ensure that the transactions contemplated under Sanjiang Haojia Steam Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders, taking into account that the above procedures will make reference to prices Jiahua Energy Chemical Co.

offers to independent third party(ies) and thus serve as a safeguarding measure to prevent any possibility that the final pricing offered to the connected person will turn out to be less favourable to the Group than the market price.

## HISTORICAL FIGURES, EXISTING CAPS AND PROPOSED ANNUAL CAPS OF THE STEAM SUPPLY AGREEMENTS

Set out below are the historical figures for each of the two years ended 31 December 2019 and the 8-month period ended 31 August 2020 and the proposed annual caps for each of the three years ending 31 December 2023 in respect of the transactions contemplated under each of the Steam Supply Agreements:

Nature of transaction	Historical amount			Proposed cap amount		
	For the year ended 31 December		For the 8-month period ended 31 August	For the year ending 31 December		
	2018	2019	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(i) Purchase of steam by Xing Xing from Jiahua Energy Chemical Co						
— Historical amount	138,734	172,959	111,526			
— Historical cap	246,300	246,300	246,300			
— Proposed cap				223,400	223,400	223,400
(ii) Purchase of steam by Sanjiang Chemical from Jiahua Energy Chemical Co						
— Historical amount	117,939	91,973	65,157			
— Historical cap	118,000	123,000	128,000			
— Proposed cap				297,700	765,300	765,300
(iii) Purchase of steam by Sanjiang New Material from Jiahua Energy Chemical Co						
— Historical amount	88,642	93,195	71,378			
— Historical cap	90,000	96,000	99,000			
— Proposed cap				120,000	120,000	120,000
(iv) Purchase of steam by Sanjiang Haojia from Jiahua Energy Chemical Co						
— Historical amount	N/A	3,358	1,939			
— Historical cap	N/A	6,000	6,000			
— Proposed cap				6,300	6,300	6,300

## **Basis of cap**

The proposed caps for the Xing Xing Steam Supply Agreement are based on:

- (1) the historical amount of purchases made by Xing Xing from Jiahua Energy Chemical Co. for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;
- (2) the expected amount of purchases to be made by Xing Xing from Jiahua Energy Chemical Co. for high pressure steam for the three years ending 31 December 2023; and
- (3) the expected unit price of steam, taking into account the average unit prices of high pressure steam transacted between Xing Xing and Jiahua Energy Chemical Co. for the 8-month period ended 31 August 2020, being the actual figures available to the Company at the time when the Company made the relevant annual cap estimation.

The proposed caps for the Sanjiang Chemical Steam Supply Agreement are based on:

- (1) the expected amount of purchases to be made by Sanjiang Chemical from Jiahua Energy Chemical Co. for low, medium and high pressure steam for the period of three years ending 31 December 2023;
- (2) the growth of the production capacities of ethylene oxide (“EO”) and ethylene glycol (“EG”) of Sanjiang Chemical for the period of three years ending 31 December 2023 as a result of the ramp up of the new production facilities with 1,000,000MT output of EO/EG on a yearly basis, which led to an increase in the Group’s demand for steam by approximately 3,100,000MT on a yearly basis for production purposes;
- (3) the expected unit price of steam, taking into account the average unit prices of low, medium and high pressure steam transacted between Sanjiang Chemical with Jiahua Energy Chemical Co. for the 8-month period ended 31 August 2020, being the actual figures available to the Company at the time when the Company made the relevant annual caps estimation;
- (4) the Group’s production plan based on the latest catalyst changeout plan under which the Group uses less ethylene and in the same time uses more steam at the initial stage of the catalyst life cycle; and
- (5) the historical amount of purchases made by Sanjiang Chemical from Jiahua Energy Chemical Co. for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020.

The proposed caps for the Sanjiang New Material Steam Supply Agreement are based on:

- (1) the expected amount of purchases to be made by Sanjiang New Material from Jiahua Energy Chemical Co. for the period of three years ending 31 December 2023;
- (2) the expected unit price of steam, taking into account the average unit prices of low and medium pressure steam transacted between Sanjiang New Material with Jiahua Energy Chemical Co. for the 8-month period ended 31 August 2020, being the actual figures available to the Company at the time when the Company made the relevant annual caps estimation;
- (3) the Group's production plan based on the latest catalyst changeout plan under which the Group uses less ethylene and in the same time uses more steam at the initial stage of the catalyst life cycle; and
- (4) the historical amount of purchases made by Sanjiang New Material from Jiahua Energy Chemical Co. for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020.

The proposed cap for the Sanjiang Haojia Steam Supply Agreement are based on:

- (1) the expected future usage and growth of the production capacities of polypropylene ("PP") of Sanjiang Haojia for the three years ending 31 December 2023;
- (2) the expected amount of purchases to be made by Sanjiang Haojia from Jiahua Energy Chemical Co. for low pressure steam for the three years ending 31 December 2023; and
- (3) the expected unit price of steam, taking into account the average unit prices of low pressure steam transacted between Sanjiang Haojia with Jiahua Energy Chemical Co. for the 8-month period ended 31 August 2020, being the actual figures available to the Company at the time when the Company made the relevant annual caps estimation;

## **(2) DETAILS OF THE SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT**

On 12 November 2020, Sanjiang Chemical entered into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co. pursuant to which Sanjiang Chemical has agreed to supply ethylene to Jiahua Energy Chemical Co. for a period of three years ending 31 December 2023. Set out below is the principal terms of the Sanjiang Chemical Ethylene Sales Agreement.



***Date***

12 November 2020

***Parties***

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

***Subject matter***

Pursuant to the Sanjiang Chemical Ethylene Sales Agreement, Sanjiang Chemical has agreed to supply ethylene to Jiahua Energy Chemical Co. for the three years ending 31 December 2023.

***Term***

The Sanjiang Chemical Ethylene Sales Agreement shall become effective on 1 January 2021 and have a term 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 Ethylene Sales Agreement, the selling price for ethylene shall be at a price which is the weighted average of those offered by Sanjiang Chemical to its independent customers for the relevant product of comparable quality during the same month of supply.

In order to ensure that the selling price is no less favourable than the prevailing market price, the Group would compare the selling price offered by Sanjiang Chemical to its independent customers after taking into account the additional transportation costs that may be incurred and analyse such market information, and the unit purchase price ethylene will be agreed after arm's length negotiation with Jiahua Energy Chemical Co. In particular, the Group will seek to employ the following measures:

- (1) the finance department of the Group will obtain (i) all monthly invoices issued by Sanjiang Chemical to its independent customers that purchases ethylene from Sanjiang Chemical; and (ii) all selling contracts regarding ethylene of comparable quality entered into between Sanjiang Chemical and other independent customers on a quarterly basis to ascertain the completeness of the calculation as to the weighted average selling prices of ethylene since the selling prices of ethylene payable by Jiahua Energy Chemical Co. are agreed to

be the weighted average prices of such ethylene of comparable quality offered by Sanjiang Chemical to its independent customers during the same month of supply; and

- (2) in the event that the prices of ethylene that Sanjiang Chemical sells Jiahua Chemical Co. are lower than the weighted average selling prices of such ethylene of comparable quality offered by Sanjiang Chemical to its independent customers (in other words the prices of ethylene that Sanjiang Chemical charges Jiahua Energy Chemical Co. are less favourable than those offered by Sanjiang Chemical to independent customers) during the same month of supply, Sanjiang Chemical will negotiate with Jiahua Energy Chemical Co. to adjust the proposed selling prices of ethylene to prices that are equal to or higher than the weighted average selling prices it offers to those independent customers. If the prices of ethylene Sanjiang Chemical offers to Jiahua Energy Chemical Co. are no less favourable than the weighted average of the selling price it offers to independent customers, the finance department of the Group will arrange for the approval of the prices offered by Sanjiang Chemical by each of the head of the finance department of the Group and the general manager of the Group.

Accordingly, the Board considers that the methods and procedures can ensure that the supply of ethylene 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 Ethylene Sales Agreement is renewed.

## **HISTORICAL FIGURES AND PROPOSED ANNUAL CAPS OF THE SANJIANG CHEMICAL ETHYLENE SALES AGREEMENT**

### **Historical transactions figures**

There are no historical transaction figures available as Sanjiang Chemical did not supply ethylene to Jiahua Energy Chemical Co. for the three years ended 31 December 2020.

### **Estimated cap and basis of cap**

Based on:

- (1) the expected amount of purchases to be made by Jiahua Energy Chemical Co., based on Jiahua Energy Chemical Co.'s production capacity ramp-up plan, from Sanjiang Chemical for ethylene for the three years ending 31 December 2023; and
- (2) the expected unit price of ethylene, taking into account the simple average prevailing market price of ethylene for the two years and 6-month period ended 30 June 2020 being approximately RMB6,300/MT due to the volatility of ethylene price in nature, being the actual figures available to the Company at the time when the Company made the relevant annual caps estimation;

it is expected that the estimated aggregated annual caps for each of the three years ending 31 December 2023 will be as follows:

	<b>For the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual caps	106,000	425,000	850,000

### **(3) DETAILS OF THE PORT AND STORAGE SERVICES AGREEMENTS**

On 12 November 2020, Mei Fu Port entered into the Xing Xing Port and Storage Services Agreement with Xing Xing pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Xing Xing for a period of three years ending 31 December 2023.

On 12 November 2020, Mei Fu Port entered into the Sanjiang Chemical Port and Storage Services Agreement with Sanjiang Chemical pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

On 12 November 2020, Mei Fu Port entered into the Sanjiang New Material Port and Storage Services Agreement with Sanjiang New Material pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang New Material for a period of three years ending 31 December 2023.

On 12 November 2020, Mei Fu Port entered into the Sanjiang Haojia Port and Storage Services Agreement with Sanjiang Haojia pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Haojia for a period of three years ending 31 December 2023.

On 12 November 2020, Jiahua Energy Chemical Co. entered into the Sanjiang Chemical and Jiahua Energy Storage Services Agreement with Sanjiang Chemical pursuant to which Jiahua Energy Chemical Co. has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

Set out below is the principal terms of the Xing Xing Port and Storage Services Agreement, Sanjiang Chemical Port and Storage Services Agreement, Sanjiang New Material Port and Storage Services Agreement, Sanjiang Haojia Port and Storage Services Agreement and Sanjiang Chemical and Jiahua Energy Storage Services Agreement.

## **(I) Xing Xing Port and Storage Services Agreement**

### ***Date***

12 November 2020

### ***Parties***

- (1) Mei Fu Port, a connected person of the Company, as service provider; and
- (2) Xing Xing, an indirectly non wholly-owned subsidiary of the Company.

### ***Subject matter***

Pursuant to the Xing Xing Port and Storage Services Agreement, Mei Fu Port has agreed to provide the Port and Storage Services to Xing Xing for a period of three years ending 31 December 2023.

### ***Term***

The Xing Xing Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term 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 Xing Xing Port and Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB30 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

In order to ensure that the unit rate per tonne offered by Mei Fu Port is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Mei Fu Port. Currently, the Group also uses other port and storage services provided by other third parties in the same region. Should the other independent port and storage services providers are able to provide port and storage services of comparable quality taking into account the

timing for queuing up, at prices lower than the rates offered by the Mei Fu Port on similar terms and conditions offered by Mei Fu Port, the Group will then appoint the other port and storage service providers for the provision of port and storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis. Accordingly, the Board considers that the methods and procedures can ensure that the engagement of the Port and Storage Services will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

## **(II) Sanjiang Chemical Port and Storage Services Agreement**

### ***Date***

12 November 2020

### ***Parties***

- (1) Mei Fu Port, a connected person of the Company, as service provider; and
- (2) Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company.

### ***Subject matter***

Pursuant to the Sanjiang Chemical Port and Storage Services Agreement, Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

### ***Term***

The Sanjiang Chemical Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term 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 Port and Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB25 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

In order to ensure that the unit rate per tonne offered by Mei Fu Port is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Mei Fu Port. Currently, the Group also uses other port and storage services provided by other third parties in the same region. Should the other independent port and storage services providers are able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by the Mei Fu Port on similar terms and conditions offered by Mei Fu Port, the Group will then appoint the other port and storage service providers for the provision of port and storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis. Accordingly, the Board considers that the methods and procedures can ensure that the engagement of the Port and Storage Services will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

### **(III) Sanjiang New Material Port and Storage Services Agreement**

#### ***Date***

12 November 2020

#### ***Parties***

- (1) Mei Fu Port, a connected person of the Company, as service provider; and
- (2) Sanjiang New Material, an indirectly wholly-owned subsidiary of the Company.

#### ***Subject matter***

Pursuant to the Sanjiang New Material Port and Storage Services Agreement, Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang New Material for a period of three years ending 31 December 2023.

#### ***Term***

The Sanjiang New Material Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term 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 New Material Port and Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB50 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

In order to ensure that the unit rate per tonne offered by Mei Fu Port is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Mei Fu Port. Currently, the Group also uses other port and storage services provided by other third parties in the same region. Should the other independent port and storage services providers are able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by the Mei Fu Port on similar terms and conditions offered by Mei Fu Port, the Group will then appoint the other port and storage service providers for the provision of port and storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis. Accordingly, the Board considers that the methods and procedures can ensure that the engagement of the Port and Storage Services will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

#### **(IV) Sanjiang Haojia Port and Storage Services Agreement**

##### ***Date***

12 November 2020

##### ***Parties***

- (1) Mei Fu Port, a connected person of the Company, as service provider; and
- (2) Sanjiang Haojia, an indirectly wholly-owned subsidiary of the Company.

### ***Subject matter***

Pursuant to the Sanjiang Haojia Port and Storage Services Agreement, Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Haojia for a period of three years ending 31 December 2023.

### ***Term***

The Sanjiang Haojia Port and Storage Services Agreement shall become effective on 1 January 2021 and has a term 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 Haojia Port and Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to be loaded, unloaded, stored and handled at a range between RMB30 per tonne and RMB80 per tonne, depending on the type of goods and level of usage, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including port unloading/loading fees, storage fees, customs reporting and inspection fees, and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

In order to ensure that the unit rate per tonne offered by Mei Fu Port is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Mei Fu Port. Currently, the Group also uses other port and storage services provided by other third parties in the same region. Should the other independent port and storage services providers are able to provide port and storage services of comparable quality taking into account the timing for queuing up, at prices lower than the rates offered by the Mei Fu Port on similar terms and conditions offered by Mei Fu Port, the Group will then appoint the other port and storage service providers for the provision of port and storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other port and storage services providers on a discretionary basis. Accordingly, the Board considers that the methods and procedures can ensure that the engagement of the Port and Storage Services will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.



## **(V) Sanjiang Chemical and Jiahua Energy Storage Services Agreement**

### ***Date***

12 November 2020

### ***Parties***

- (1) Jiahua Energy Chemical Co., a connected person of the Company, as service provider; and
- (2) Sanjiang Chemical, an indirectly wholly-owned subsidiary of the Company.

### ***Subject matter***

Pursuant to the Sanjiang Chemical and Jiahua Energy Storage Services Agreement, Jiahua Energy Chemical Co. has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023.

### ***Term***

The Sanjiang Chemical and Jiahua Energy Storage Services Agreement shall become effective on 1 January 2021 and has a term 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 and Jiahua Energy Storage Services Agreement, the consideration for the Port and Storage Services shall be calculated by multiplying the tonnage of goods to, for this agreement purpose, be stored and handled at a range between RMB150 per tonne and RMB250 per tonne, depending on the type of goods and level of usage and type of chemical stored, which is in turn determined taking into account the cost of provision of such Port and Storage Services, including, for this agreement purpose, the storage fees and land transport fees, on the basis of the prevailing market rate and after arm's length negotiation among the parties concerned. The Group will settle the payment for Port and Storage Services through its internal resources.

In order to ensure that the unit rate per tonne offered by Jiahua Energy Chemical Co. is no less favourable than the prevailing market rate, the Group would compare quotations from the other independent service providers for the Port and Storage Services in the relevant area and analyse such market information, and the unit rate per tonne for the Port and Storage Services will be agreed after arm's length negotiation with Jiahua Energy Chemical Co..

The Group will seek to employ the following measures to ensure that the price of Port and Storage Services offered by Jiahua Energy Chemical Co. to Sanjiang Chemical pursuant to the Sanjiang Chemical and Jiahua Energy Storage Services Agreement will be no less favourable than the price of providing Port and Storage Services of comparable quality under comparable terms and conditions by other independent third party(ies) to Sanjiang Chemical:

- (1) Before the engagement of Jiahua Energy Chemical Co. for the provision of Port and Storage Services, the finance department of the Group will obtain quotations from independent storage service providers that are able to provide storage services of comparable quality under comparable terms and conditions and in the event that the prices of Port and Storage Services that Jiahua Energy Chemical Co. offers to Sanjiang Chemical are higher than the prices set out in the aforesaid quotations from independent storage service providers, the Group will then appoint the other independent storage services providers for the provision of storage services as the non-exclusive arrangement under the Port and Storage Services Agreements allows the Group to use other storage services providers on a discretionary basis.
- (2) If the prices of Port and Storage Services that Jiahua Energy Chemical Co. offers to Sanjiang Chemical are no less favourable than the prices offered by independent services providers, the finance department of the Group will arrange for the engagement of Jiahua Energy Chemical Co. for the provision of Port and Storage Services and the approval of the prices offered by Jiahua Energy Chemical Co. by each of the head of the finance department of the Group and the general manager of the Group.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing under the Sanjiang Chemical and Jiahua Energy Storage Services Agreement as described above can ensure that the transactions contemplated under the Sanjiang Chemical and Jiahua Energy Storage Services Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

## HISTORICAL FIGURES, EXISTING CAPS AND PROPOSED ANNUAL CAPS OF THE PORT AND STORAGE SERVICES AGREEMENTS

Set out below are the historical figures for each of the two years ended 31 December 2019 and the 8-month period ended 31 August 2020 and the proposed annual caps for each of the three years ending 31 December 2023 in respect of the transactions contemplated under each of the Port and Storage Services Agreements:

Nature of transaction	Historical amount			Proposed cap amount		
	For the year ended 31 December		For the 8-month period ended 31 August	For the year ending 31 December		
	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
(i) Fees paid for Port and Storage Services by Xing Xing to Mei Fu Port						
— Historical amount	52,601	61,210	48,583			
— Historical cap	70,000	70,000	70,000			
— Proposed cap				84,400	84,400	84,400
(ii) Fees paid for Port and Storage Services by Sanjiang Chemical to Mei Fu Port						
— Historical amount	4,625	8,488	6,994			
— Historical cap	5,000	13,000	13,000			
— Proposed cap				77,100	146,000	146,000
(iii) Fees paid for Port and Storage Services by Sanjiang New Material to Mei Fu Port						
— Historical amount	2,968	1,893	2,108			
— Historical cap	3,500	6,000	6,000			
— Proposed cap				8,400	8,400	8,400
(iv) Fees paid for Port and Storage Services by Sanjiang Haojia to Mei Fu Port						
— Historical amount	N/A	996	284			
— Historical cap	N/A	4,000	4,000			
— Proposed cap				5,600	5,600	5,600
(v) Fees paid for Port and Storage Services by Sanjiang Chemical to Jiahua Energy Chemical Co.						
— Historical amount	N/A	N/A	N/A			
— Historical cap	N/A	N/A	N/A			
— Proposed cap				80,000	156,000	312,000

## **Basis of cap**

The proposed caps for the Xing Xing Port and Storage Services Agreement are based on:

- (1) the historical amount of fees paid by Xing Xing to Mei Fu Port for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;
- (2) the expected unit fees to be paid by Xing Xing to Mei Fu Port for the three years ending 31 December 2023;
- (3) the expected unit of service to be required by Xing Xing for Port and Storage Services for the three years ending 31 December 2023; and
- (4) the expected market conditions and increase in demand for Port and Storage Services from Mei Fu Port.

The proposed caps for the Sanjiang Chemical Port and Storage Services Agreement are based on:

- (1) the historical amount of fees paid by Sanjiang Chemical to Mei Fu Port for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;
- (2) the growth of the production capacities of EO and EG of Sanjiang Chemical for the period of three years ending 31 December 2023 as a result of the ramp up of the new production facilities with 1,000,000MT output of EO/EG on a yearly basis, which led to an increase in the Group's demand for Port and Storage Services by approximately 2,000,000MT in terms of feedstock procurement on a yearly basis;
- (3) the expected unit fees to be paid by Sanjiang Chemical to Mei Fu Port for the three years ending 31 December 2023;
- (4) the expected unit of service to be required by Sanjiang Chemical for Port and Storage Services for the three years ending 31 December 2023; and
- (5) the expected market conditions and increase in demand for Port and Storage Services from Mei Fu Port.

The proposed caps for the Sanjiang New Material Port and Storage Services Agreement are based on:

- (1) the historical amount of fees paid by Sanjiang New Material to Mei Fu Port for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;
- (2) the expected unit fees to be paid by Sanjiang New Material to Mei Fu Port for the three years ending 31 December 2023;
- (3) the expected unit of service to be required by Sanjiang New Material for Port and Storage Services for the three years ending 31 December 2023; and

- (4) the expected market conditions and increase in demand for Port and Storage Services from Mei Fu Port.

The proposed caps for the Sanjiang Haojia Port and Storage Services Agreement are based on:

- (1) the historical amount of fees paid by Sanjiang Haojia to Mei Fu Port for the two years ended 31 December 2019 and the 8-month period ended 31 August 2020;
- (2) the expected unit fees to be paid by Sanjiang Haojia to Mei Fu Port for the three years ending 31 December 2023;
- (3) the expected unit of service to be required by Sanjiang Haojia for Port and Storage Services for the three years ending 31 December 2023; and
- (4) the expected market conditions and increase in demand for Port and Storage Services from Mei Fu Port.

The proposed caps for the Sanjiang Chemical and Jiahua Energy Storage Services Agreement are based on:

- (1) the growth of the production capacities of EO and EG of Sanjiang Chemical for the period of three years ending 31 December 2023 as a result of the ramp up of the new production facilities with 1,000,000MT output of EO/EG on a yearly basis, which led to an increase in the Group's demand for Port and Storage Services by approximately 1,300,000MT in terms of low temperature chemical storage requirement on a yearly basis;
- (2) the expected unit fees to be paid by Sanjiang Chemical to Jiahua Energy for the three years ending 31 December 2023;
- (3) the expected unit of service to be required by Sanjiang Chemical for Port and Storage Services for the three years ending 31 December 2023; and
- (4) the expected market conditions and increase in demand for Port and Storage Services from Jiahua Energy Chemical Co..

The difference in the consideration for the Port and Storage Services among the Port and Storage Services Agreements is mainly due to the following factors:

- (i) the need for different measures to be implemented to handle the different type of goods and chemicals;
- (ii) the difference in the degree of danger for the different type of goods and chemicals which require different level of care; and
- (iii) the difference in container sizes for transporting and storing of such type of goods and chemicals due to local rules and regulations.

## **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 Energy Chemical Co. is a limited company established in the PRC and is principally engaged in the business of production and trading of desalinated water, steam, chlor-alkali, ortho-para, fatty alcohol 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..

Mei Fu Port is a wholly-owned subsidiary of Jiahua Energy Chemical Co. and Mei Fu Port is principally engaged in the provision of port unloading/loading, storage, customs reporting, inspection and land transportation services for various chemical products.

### **(1) Reasons for entering into the Steam Supply Agreements**

Given that Jiahua Energy Chemical Co. is the only company that provides low, medium and high pressure steam in the Zhapu area of Jiaying City, the PRC, which is the same economic development zone where the Group is located, it is impractical for the Group to source steam from another area as both steam pressure and steam heat would be lost substantially during the transmission of steam through long-distance pipelines. In particular, as the production base of the Group is situated close to that of Jiahua Energy Chemical Co., the transportation cost of steam from Jiahua Energy Chemical Co. to the Group is reduced. Moreover, Jiahua Energy Chemical Co. has been supplying steam to the Group since the year ended 31 December 2007 and the quality of goods and services provided by it has been considered by the Group to be satisfactory. Based on past operational convenience and benefits brought to the Group and extended business relationships established between the Group and Jiahua Energy Chemical Co., such continuing relationships are expected to bring synergies to the parties. Further, as the Group has an existing transmission network for steam in place for transmission of steam from Jiahua Energy Chemical Co., the Group can procure supply of steam from Jiahua Energy Chemical Co without incurring additional fixed costs. Each of the Steam Supply Agreements is on normal commercial terms given that the pricing and terms are no more favourable for Jiahua Energy Chemical Co. than those given to other independent purchasers. In view of the geographical proximity and to secure a constant and stable supply of low, medium and high pressure steam for production purposes in the future, the Group entered into each of the Steam Supply Agreements.

## **(2) Reasons for entering into the Sanjiang Chemical Ethylene Sales Agreement**

Entering into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co., the arrangement of which is non-exclusive in nature, opens up an option for the Group to sell ethylene to Jiahua Energy Chemical Co. at the price which is no less favourable than the prevailing market price (based on the aforesaid pricing mechanism and internal controls) when the Group has spare capacity in terms of ethylene output. As mentioned above, the geographical proximity between the production base of the Group and that of Jiahua Energy Chemical Co. and the long and well established business relationships between the Group and Jiahua Energy Chemical Co. bring synergies to the parties. In view of the foregoing reasons, Sanjiang Chemical entered into the Sanjiang Chemical Ethylene Sales Agreement with Jiahua Energy Chemical Co..

## **(3) Reasons for entering into the Port and Storage Services Agreements**

The entering into of the Port and Storage Services Agreements enables the Group to have more options in terms of port and storage services accesses and there are internal controls in place to ensure that the terms and rates offered by Mei Fu Port and Jiahua Energy Chemical Co. are no less favourable than those offered by other independent port and storage services providers. In view of the foregoing reasons, the Group entered into the Port and Storage Services Agreements.

The Directors (excluding the independent non-executive Directors whose views will be given taking into account the advice to be obtained from an independent financial adviser) are of the view that the terms and conditions of each of the Steam Supply Agreements and the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene 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 entry into of each of the Steam Supply Agreements and the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement is in the interests of the Company and its Shareholders as a whole.

## **LISTING RULES IMPLICATION**

Jiahua Energy Chemical Co. is owned as to approximately 40.86% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han whereas Mei Fu Port is a wholly-owned subsidiary of Jiahua Energy Chemical Co.. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company, Jiahua Energy Chemical Co. and Mei Fu Port are therefore associates of Mr. Guan and Ms. Han and are thus connected persons of the Company and the transactions contemplated under each of the Steam Supply Agreements and Port and Storage Services Agreements and Sanjiang Chemical Ethylene Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, each of the proposed annual caps under each of the Steam Supply Agreements are aggregated as (i) they were entered into between members of the Group, as purchaser, and a connected person (i.e. Jiahua Energy Chemical Co.), as supplier; and (ii) they are of a similar nature relating to the purchase of steam by members of the Group from the same connected person (i.e. Jiahua Energy Chemical Co.) with similar pricing mechanism.

Pursuant to Rule 14A.81 of the Listing Rules, each of the proposed annual caps under each of the Port and Storage Services Agreements are aggregated as (i) they were entered into between members of the Group, as purchaser, and a connected person (i.e. Jiahua Energy Chemical Co.) and its wholly-owned subsidiary (i.e. Mei Fu Port), as supplier; and (ii) they are of a similar nature relating to the provision of port and storage services by the same connected person (i.e. Jiahua Energy Chemical Co.) and its wholly-owned subsidiary (i.e. Mei Fu Port) with similar pricing mechanism to members of the Group.

As one or more of the applicable ratios in respect of (i) each of the aggregated proposed annual caps of the Steam Supply Agreements and Port and Storage Services Agreements for the three years ending 31 December 2023 and (ii) the proposed annual caps of the Sanjiang Chemical Ethylene Sales Agreement for the three years ending 31 December 2023 is more than 5%, the transactions contemplated under the Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement are therefore subject to reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

The Company will seek independent shareholders' approval for (i) each of the Steam Supply Agreements, each of the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement; and (ii) the proposed annual caps for the three years ending 31 December 2023 for the transactions contemplated under each of the Steam Supply Agreements, each of the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement at the EGM.

The Company has established an independent board committee (comprising only and all the independent non-executive Directors) to advise the independent shareholders as to whether the terms of each of the Steam Supply Agreements and Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the respective proposed annual caps contemplated thereunder are fair and reasonable, in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and Shareholders as whole.

A circular containing, among other things, (i) further information on Steam Supply Agreements, the Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the proposed annual caps thereunder; (ii) the recommendation from the independent board committee to the independent



shareholders; (iii) the advice from the independent financial adviser to the independent board committee and the independent shareholders; and (iv) a notice of the EGM, will be despatched to the Shareholders on or before 1 December 2020.

Ms. Han was interested in each of Steam Supply Agreements and Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and she therefore abstained from voting on the board resolutions of the Company approving each of the Steam Supply Agreements and Port and Storage Services Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in each of the Steam Supply Agreements, Port and Storage Services Agreements and the Sanjiang Chemical Ethylene 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:

“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;
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Steam Supply Agreements and the Sanjiang Chemical Ethylene Sales Agreement and the proposed annual caps contemplated thereunder by the independent shareholders;
“Group”	the Company and its subsidiaries, from time to time;
“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);
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mei Fu Port”	浙江乍浦美福碼頭倉儲有限公司 (Zhejiang Zhapu Mei Fu Port & Storage Co. Ltd*), a limited liability company incorporated in the PRC and is a wholly-owned subsidiary of Jiahua Energy Chemical Co;
“MPa”	a metric unit of pressure;
“Mr. Guan”	Mr. Guan Jianzhong, a controlling Shareholder of the Company;
“Ms. Han”	Ms. Han Jianhong, an executive Director and the spouse of Mr. Guan;
“MT”	metric tonne(s);
“Port and Storage Services”	the provision of port unloading/loading, storage, customs reporting, inspection and land transportation services for various chemical products i.e. ethane, ethylene, propane, propylene, Liquefied petroleum gas, methanol, naphtha and so on as contemplated under the Port and Storage Services Agreements;
“Port and Storage Services Agreement(s)”	collectively, the Xing Xing Port and Storage Services Agreement, Sanjiang Chemical Port and Storage Services Agreement, Sanjiang New Material Port and Storage Services Agreement, Sanjiang Haojia Port and Storage Services Agreement and Sanjiang Chemical and Jiahua Energy Storage Services Agreement;
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan;
“RMB”	Renminbi yuan, 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;
- “Sanjiang Chemical and Jiahua Energy Storage Services Agreement” The port and storage service agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023;
- “Sanjiang Chemical Ethylene Sales Agreement” the ethylene sales agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Sanjiang Chemical has agreed to supply ethylene to Jiahua Energy Chemical Co. for a period of three years ending 31 December 2023;
- “Sanjiang Chemical Port and Storage Services Agreement” The port and storage service agreement entered into between Sanjiang Chemical and Mei Fu Port dated 12 November 2020 pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Chemical for a period of three years ending 31 December 2023;
- “Sanjiang Chemical Steam Supply Agreement” the steam supply agreement entered into between Sanjiang Chemical and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co has agreed to supply low pressure steam (i.e. 0.8MPa and 1.3MPa), medium pressure steam (i.e. 3.4MPa) and high pressure steam (i.e. 4.6Mpa) to Sanjiang Chemical for the three years ending 31 December 2023;
- “Sanjiang Haojia” 三江浩嘉高分子材料科技有限公司 (Sanjiang Haojia High Polymer Material Technology Co., Ltd\*), a company established in the PRC with limited liability on 28 December 2018, which is an indirect wholly-owned subsidiary of the Company;
- “Sanjiang Haojia Port and Storage Services Agreement” The port and storage service agreement entered into between Sanjiang Haojia and Mei Fu Port dated 12 November 2020 pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang Haojia for a period of three years ending 31 December 2023;

“Sanjiang Haojia Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang Haojia and Jiahua Energy Chemical Co dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (1.3MPa) to Sanjiang Haojia for a term of three years ending 31 December 2023;
“Sanjiang New Material”	浙江三江化工新材料有限公司 (Zhejiang Sanjiang New Material Co., Ltd*), a company established in the PRC with limited liability on 23 December 2011, which is an indirect wholly-owned subsidiary of the Company;
“Sanjiang New Material Port and Storage Services Agreement”	The port and storage service agreement entered into between Sanjiang New Material and Mei Fu Port dated 12 November 2020 pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Sanjiang New Material for a period of three years ending 31 December 2023;
“Sanjiang New Material Steam Supply Agreement”	the steam supply agreement entered into between Sanjiang New Material and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply low pressure steam (i.e. 1.3MPa) and medium pressure steam (i.e. 3.4MPa) to Sanjiang New Material for a term of three years ending 31 December 2023;
“Shareholder(s)”	shareholders of the Company;
“Steam Supply Agreements”	collectively, the Xing Xing Steam Supply Agreement, Sanjiang Chemical Steam Supply Agreement, Sanjiang New Material Steam Supply Agreement and the Sanjiang Haojia Steam Supply Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Xing Xing”	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 and a non-wholly owned subsidiary of the Company, which is owned as to 87% by Sanjiang Chemical and as to 6%, 3%, 2% and 2% respectively by each of Mr. Guo Jinzong* (郭勁松), Mr. Guo Mingliang* (郭明良), Mr. Guo Mingdong* (郭明東) and Mr. Xin Zhangwei* (殷張偉), all of whom are third parties independent of the Company and its connected person;

“Xing Xing Port and Storage Services Agreement”	The port and storage service agreement entered into between Xing Xing and Mei Fu Port dated 12 November 2020 pursuant to which Mei Fu Port has agreed to provide the Port and Storage Services to Xing Xing for a period of three years ending 31 December 2023;
“Xing Xing Steam Supply Agreement”	The steam supply agreement entered into between Xing Xing and Jiahua Energy Chemical Co. dated 12 November 2020 pursuant to which Jiahua Energy Chemical Co. has agreed to supply high pressure steam (i.e. 4.6MPa) to Xing Xing for the three years ending 31 December 2023; and
“%”	per cent.

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

The PRC, 12 November 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 or 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.*