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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)**

**REVISED ANNUAL CAPS IN RESPECT OF  
THE FRAMEWORK AGREEMENT FOR REPAIR  
AND MAINTENANCE SERVICES  
FOR THE TERM ENDING ON 31 DECEMBER 2022**

Reference is made to the announcement of the Company dated 3 August 2020 (“**Announcement**”) in relation to, among other things, the transactions contemplated under the Framework Agreement and the respective Annual Cap for the term ending on 31 December 2022. Unless otherwise defined, terms used herein shall have the same meaning as defined in the Announcement.

On 3 August 2020, the Company entered into the Framework Agreement with Gangan for the term ending on 31 December 2022 with details as follows:

<b>Parties</b>	<b>Term</b>	<b>Services</b>
(1) Gangan, a connected person (as defined under the Listing Rules)	From 3 August 2020 to 31 December 2022	Repair and maintenance services in respect of chemical plant and machineries for the Group
(2) The Company		

## Pricing

The terms of all contracts under the Framework Agreement shall be negotiated on an arm's length basis and shall be fair and reasonable. The relevant market price is determined by reference to the fee quote information gathered by the Group from various contractors of similar qualification and size in similar locations based on such market terms to make sure that the terms offered by Gangan would not be less favorable than those offered by third parties on the market.

Where the market price is not available, the contracted price, which shall be determined after arm's length negotiation by both parties based on the principle of cost plus a fair and reasonable profit rate and by reference to the historical prices.

The Group would employ several measures to ensure the price of repair and maintenance services offered by Gangan to the Group is no less favourable than the price of repair and maintenance services of comparable quality offered by other independent third parties to the Group. The Group would employ the following measures:

- the production department would plan and list out a yearly repair and maintenance plan during the course of setting the yearly budget plan and would seek quotes from time to time from at least 2 qualified independent third party contractors and also from Gangan with reference to the yearly repair and maintenance plan;
- the production department would compare each quote and require clarification if necessary from independent third party contractors and Gangan about the terms and conditions of their offers;
- the Group adopts lowest-pricing policy and among those offers, the production department is required to select the lowest-price offer among comparable offers and propose such to finance department for review and approval;
- the finance department would review the production department's proposal together with all the offers the production department receive for second checking and approval; and
- in the event that the production department does not propose the lowest-price offer, finance department would recommend the production department to revise its proposal to adhere to the lowest-pricing policy.

**REVISED ANNUAL CAPS IN RESPECT OF THE FRAMEWORK AGREEMENT FOR REPAIR AND MAINTENANCE SERVICES FOR THE TERM ENDING ON 31 DECEMBER 2022**

As stated in the Announcement, the previously announced Annual Caps for the continuing connected transactions contemplated under the Framework Agreement were determined based on the following:

- (1) the fact that the Group paid to independent third parties and Gangan of approximately RMB78.0 million in total for repair and maintenance services for the year ended 31 December 2019;
- (2) the expected amount of repair and maintenance services required by the Group from Gangan for each of the approximately three years ending 31 December 2022; and
- (3) the estimated market price for repair and maintenance services for each of the approximately three years ending 31 December 2022.

Due to the following reasons, the Revised Annual Caps for the period from 1 December 2020 to 31 December 2022 are revised:

- (a) Pursuant to the notice issued by the Dangerous Chemical Safety Supervision Department Bureau of PRC Central Government\* (危險化學品安全監管司) dated 31 October 2020, which emphasizes thorough checking on chemical plants, pipelines and machineries on a more frequent basis, the Group has scheduled an additional checking for all production facilities, pipelines and machineries in December 2020 and the Group is also planning more thorough checking as required by the aforesaid notice in 2021 and 2022. As a result, the demands for the Group as to repair and maintenance services on chemical plants, pipelines and machineries are expected to be increased substantially in December 2020 and the whole year of 2021 and 2022.
- (b) the Group is constructing new production facilities with 1,000,000MT output of EO/EG as middlestream level for our Group and 1,250,000MT output of ethylene as upstream level for our Group on an annual basis and the ramp up of these new production facilities would increase the Group's demands for repair and maintenance services on chemical plants, pipelines and machineries from 2021 and onwards.

The Revised Annual Caps are revised as follows:

<b>Parties</b>	<b>Services</b>	<b>Original Annual Caps for the period from 3 August 2020 to 31 December 2022</b>	<b>Revised Annual Caps for the period from 3 August 2020 to 31 December 2022</b>
(1) Gangan (2) The Company	Repair and maintenance services in respect of chemical plants and machineries for the Group	— For the period from 3 August 2020 to 31 December 2020: RMB13,000 — For the year ended 31 December 2021: RMB30,000 — For the year ended 31 December 2022: RMB30,000	— For the period from 3 August 2020 to 31 December 2020: RMB23,000 — For the year ended 31 December 2021: RMB40,000 — For the year ended 31 December 2022: RMB40,000

The Revised Annual Caps for the period from 1 December 2020 to 31 December 2022 have been determined based on the estimated activity levels between the parties, taking into account the reasons for revising the Revised Annual Caps as mentioned above and the historical values of the relevant transactions during the period from 1 December 2020 to 31 December 2022.

A summary of each of the historical amounts regarding the continuing connected transactions contemplated under the Framework Agreement, their existing Annual Caps as set out in the Announcement and the Revised Annual Caps is set out in the table below.

<b>Parties</b>	<b>Services</b>	<b>Actual transaction amount for the period from 3 August 2020 to 31 October 2020</b>	<b>Existing Annual Caps for the year ending 31 December</b>			<b>Revised Annual Caps for the year ending 31 December</b>		
			<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
		<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
(1) Gangan (2) The Company	Repair and maintenance services in respect of chemical plants and machineries for the Group	11.5	13.0	30.0	30.0	23.0	40.0	40.0

Such projection is assumed solely for determining the Annual Caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group.

The Independent non-executive Directors and the auditor of the Company will on a regular basis be provided with the (i) Framework Agreement; (ii) agreements entered into between the Group and independent third parties for the provision of the Services; and (iii) fee quotations provided by independent third parties for the provision of the Services for review and comparison purpose. The Independent non-executive Directors will also review and compare the relevant payment terms, payment method and price payable under these agreements to ensure that the transactions contemplated under the Framework Agreement is conducted on normal commercial terms. The auditor of the Company will review and confirm the transactions contemplated under the Framework Agreement is conducted in accordance with the terms of the Framework Agreement.

## **REASONS FOR AND BENEFITS OF THE FRAMEWORK AGREEMENT**

Gangan is one of the local repair and maintenance service providers specialized in checking and cleaning chemical plants, pipelines and machineries and entering into the Framework Agreement allows the Group to have an option of procurement source in terms of seeking offers from Gangan.

Since Ms. Han has a material interest in the Framework Agreement, she therefore abstained from voting on board resolutions of the Company approving the Framework Agreement.

The Directors (including the independent non-executive Directors, but excluding Ms. Han who is required to abstain from voting) are of the view that the terms of the Framework Agreement, which were arrived at after arm's length negotiations between the Company and Gangan, 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. The Board (including the independent non-executive Directors but excluding the Directors who has abstained from voting) are also of the opinion that the Revised Annual Caps are fair and reasonable.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Gangan is owned as to 80.00% by Ms. Guan, as to 10.00% by Mr. Guan and as to 10.00% by Jianghao Investment, which is owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% respectively. Ms. Han is an executive Director and the mother of Ms. Guan and accordingly, Gangan is a Connected Person by virtue of its being an associate of Connected Persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios in respect of the Annual Caps and Revised Annual Caps are more than 0.1% but less than 5%, the Framework Agreement and the Annual Caps and Revised Annual Caps are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## DEFINITIONS

In this announcement, the following expressions (unless the context otherwise requires) have the following meanings:

- “Annual Caps”** the annual caps for the continuing connected transactions contemplated under the Framework Agreement dated 3 August 2020
- “associate(s)”** has the meaning ascribed thereto under the Listing rules
- “Board”** the board of Directors
- “Company”** China Sanjiang Fine Chemicals Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
- “Gangan”** 浙江港安智能科技有限公司 (“Zhejiang Gangan Intelligent Technology Co., Ltd\*”, formally known as 嘉興港區港安工業設備安裝有限公司 (Jiaxing Gangqu Gangan Industrial Equipment Installation Co., Ltd\*)), a company established in the PRC with limited liability, and a company which was owned by Ms. Guan, Mr. Guan and Jianghao Investment as to 80.00%, 10.00% and 10.00% respectively as at the date of this announcement, a Connected Person of the Company
- “Ms. Guan”** Ms. Guan Siyi (管思怡), is the daughter of Mr. Guan and Ms. Han.

**“Revised Annual Caps”**

the revised annual caps for the continuing connected transactions contemplated under the Framework Agreement for the period from 1 December 2020 to 31 December 2022, as set out under the section headed “Revised Annual Caps in respect of the Framework Agreement for Repair and Maintenance Services for the term ending on 31 December 2022” in this announcement

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

The PRC, 30 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 discrepancy 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.*