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三江化工

SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

**CONTINUING CONNECTED TRANSACTION —
FRAMEWORK AGREEMENT FOR THE PURCHASE OF
HYDROGEN GAS AND OTHER MISCELLANEOUS MATERIALS**

CONTINUING CONNECTED TRANSACTION

The Directors announce that, on 28 December 2020, the Company entered into the Framework Agreement with Mei Fu Petrochemical pursuant to which, Mei Fu Petrochemical has agreed to supply hydrogen gas and other miscellaneous materials to the Company for a term of three years ending on 31 December 2023 with a consideration net exceeding RMB10 million on an annual basis.

IMPLICATIONS OF THE LISTING RULES

As the relevant applicable percentage ratios in respect of the Annual Caps are more than 0.1% but less than 5%, the Framework Agreement and the 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.

FRAMEWORK AGREEMENT

The Directors announce that, on 28 December 2020, the Company entered into the Framework Agreement with Mei Fu Petrochemical pursuant to which, Mei Fu Petrochemical has agreed to supply hydrogen gas and other miscellaneous materials to the Company for a term of three years ending on 31 December 2023 with a consideration net exceeding RMB10 million on an annual basis.

Date: 28 December 2020

Parties: (1) Mei Fu Petrochemical, a Connected Person; and
(2) the Company.

Subject matter

Pursuant to the Framework Agreement, Mei Fu Petrochemical has agreed to supply hydrogen gas and other miscellaneous materials to the Company for the three years ending 31 December 2023.

Term

The Framework Agreement shall become effective on 1 January 2021 and has a term of three years ending on 31 December 2023 which may be renewable upon further agreement by the parties (subject to compliance with the Listing Rules).

The Company will comply with the relevant Listing Rules requirements when the term of the Framework Agreement is renewed.

Pricing principles

Pursuant to the Framework Agreement, the purchase price for hydrogen gas and other miscellaneous materials shall be the weighted average price of hydrogen gas and other miscellaneous materials of comparable quality purchased by Mei Fu Petrochemical's independent customers with comparable purchase level of the Company during the same month of supply. The purchase price payable by the Company in respect of the purchases under the Framework Agreement shall be tallied at the end of each calendar month, and shall be payable by the Company on or before the end of the following month.

In order to ensure that the purchase price for hydrogen gas and other miscellaneous materials of comparable quality is no less favourable than the purchase price offered by other independent suppliers of hydrogen gas and other miscellaneous materials of comparable quality to the Group, the Group would compare quotations from the other independent hydrogen gas and other miscellaneous materials suppliers after taking into account the additional transportation costs that may be incurred and analyse market information, and the unit purchase price for hydrogen gas and other miscellaneous materials will be agreed after arm's length negotiation with Mei Fu Petrochemical. Accordingly, the Board considers that such methods and procedures can ensure that the purchase of hydrogen gas and other miscellaneous materials will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

Historical transaction amounts and annual caps

The Group had the following amounts paid to Mei Fu Petrochemical in respect of the purchase of hydrogen gas and other miscellaneous materials from Mei Fu Petrochemical:

	For the year ended 31 December		For the period from 1 January 2020 to 30 November 2020 (i.e. the latest available of management accounts)
	2018	2019	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Actual transaction amount paid by the Group to Mei Fu Petrochemical (these continuing connected transactions fully exempt under Rule 14A.76 of Listing Rule)	937	2,004	2,000
	For the year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical annual caps in respect of the purchase of hydrogen gas and other miscellaneous materials from Mei Fu Petrochemical	—	—	—

Proposed Annual Caps

Based on:

- (1) the growth of the production capacities of ethylene oxide (“EO”), ethylene glycol (“EG”) and polypropylene (“PP”) of the Group 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 as middle stream level capacity increment on a yearly basis which led to an increase in the Group’s demand for hydrogen gas and other miscellaneous materials for production purposes as Hydrogen gas and other miscellaneous materials are used during the reaction processes of Methanol-to-olefins (“MTO”)’s Olefin Cracking Unit (“OCU”) and it can facilitate the reaction processes to maximize the propylene output for MTO production facility;
- (2) the expected amount of purchases to be made by the Group for hydrogen gas and other miscellaneous materials for the three years ending 31 December 2023; and
- (3) the estimated market price of hydrogen gas and other miscellaneous materials for the three years ending 31 December 2023,

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

	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual caps	10,000	10,000	10,000

REASONS FOR AND BENEFITS OF THE TRANSACTION

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.

Hydrogen gas and other miscellaneous materials are used during the reaction processes of Methanol-to-olefins (“**MTO**”)’s Olefin Cracking Unit (“**OCU**”) and it can facilitate the reaction processes to maximize the propylene output for MTO production facility. The entering into of the Framework Agreement will enable the Group to extend its business relationships between the Group and Mei Fu Petrochemical and further bring synergies to the parties. In addition, as the production base of the Group is situated close to that of Mei Fu Petrochemical, the delivery costs of goods to be borne by the Group can be reduced. In view of the geographical proximity and the fact that the Framework Agreement is non-exclusive and non-compulsory in nature, which allows the Group to have an option of procurement source in terms of seeking offers from Mei Fu Petrochemical, the Group entered into the Framework Agreement with Mei Fu Petrochemical.

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) are of the view that the terms of the Framework Agreement, which were arrived at after arm’s length negotiations between the Company and Mei Fu Petrochemical, 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.

CONNECTED PERSON

Mei Fu Petrochemical is owned as to 33.00% by Sure Capital, 21.85% by Hangzhou Haoming, 18.00% by Jianghao Investment, 17.15% by Weiyu Industrial and 10.00% by Jiaxing Guanhao and is controlled by Mr. Guan. Mr. Guan is a controlling Shareholder of the Company and the spouse of Ms. Han, an executive Director of the Company. As

Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company, Mei Fu Petrochemical is therefore an associate of Mr. Guan and Ms. Han and are thus a connected person of the Company under Chapter 14A of the Listing Rules.

LISTING RULES IMPLICATIONS

As the relevant applicable percentage ratios in respect of the Annual Caps are more than 0.1% but less than 5%, the Framework Agreement and the 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 shall, unless the context requires otherwise, have the following meanings:

“Annual Caps”	the maximum aggregate annual value of the purchase of hydrogen gas and other miscellaneous materials from Mei Fu Petrochemical under the Framework Agreement, details of which are set out in the section headed “Proposed Annual Caps” in this announcement
“associate(s)”	has the meaning ascribed to it 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
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Framework Agreement”	the framework agreement entered into between the Company and Mei Fu Petrochemical dated 28 December 2020
“Hangzhou Haoming”	杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*), a company established in the PRC with limited liability on 26 March 1998, is owned as to 75% by Mr. Guan, 20% by Ms. Han and 5% by Mr. Han
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Jianghao Investment”	嘉興港區江浩投資發展有限公司 (Jiaxing Gangqu Jianghao Investment Development Company Limited*), a company established in PRC with limited liability, and a company which is owned by Mr. Guan and Ms. Han as to 80.00% and 20.00% respectively as at the date of this announcement, a Connected Person of the Company
“Jiaxing Guan hao”	嘉興管浩怡投資合夥企業 (有限合夥) (Jiaxing Guanhaoyi Investment Partnership Limited (Limited Partnership)*), a limited liability partnership established in the PRC, is owned as to 50% by Mr. Guan and 50% by Ms. Han
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mei Fu Petrochemical”	浙江美福石油化工有限責任公司 (Zhejiang Mei Fu Petrochemical Co., Ltd*), a company established in the PRC with limited liability, is owned as to 33.00% by Sure Capital, 21.85% by Hangzhou Haoming, 18.00% by Jianghao Investment, 17.15% by Weiyu Industrial and 10.00% by Jiaxing Guan hao and is controlled by Mr. Guan. Mr. Guan is a controlling Shareholder of the Company and the spouse of Ms. Han, an executive Director of the Company. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company, Mei Fu Petrochemical is therefore an associate of Mr. Guan and Ms. Han and are thus a connected person of the Company
“Mr. Guan”	Mr. Guan Jianzhong, a controlling Shareholder of the Company and the spouse of Ms. Han
“Mr. Han”	Mr. Han Jianping, an executive Director and the brother of Ms. Han and the brother-in-law of Mr. Guan
“Ms. Han”	Ms. Han Jianhong, an executive Director and the spouse of Mr. Guan
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

- “Sure Capital” Sure Capital Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a company wholly-owned by Yihao Development Limited which is held under the Yihao Trust, the trustee of which is Vistra Trust (Singapore) Pte. Ltd whereas the Yihao Trust was established by Mr. Guan and Ms. Han as settlors, therefore a connected person of the Company as at the date of this announcement, a connected person of the Company
- “Weiyu Industrial” 杭州煒宇實業投資有限公司 (Hangzhou Weiyu Industrial Investment Co., Ltd.*), a company established in PRC with limited liability, is owned as to 85.50% by 杭州明光印染化工有限公司 (Hangzhou Mingguang Printing and Dyeing Chemical Co., Ltd.*) and 14.50% by 杭州偉達化工有限公司 (Hangzhou Weida Chemical Co., Ltd.*), all of whom are third parties independent of the Company and its connected person. 杭州明光印染化工有限公司 (Hangzhou Mingguang Printing and Dyeing Chemical Co., Ltd.*), a company established in PRC with limited liability, is owned as to 51.00% by Weng Yuzhen* (翁玉珍), 43.00% by Guo Mingliang* (郭明良) and 6.00% by Guo Mingdong* (郭明東) and 杭州偉達化工有限公司 (Hangzhou Weida Chemical Co., Ltd.*), a company established in PRC with limited liability, is owned as to 60.00% by Xin Zhangwei* (殷張偉), 30.00% by Yin Lili* (殷麗麗) and 10.00% by Yin Linan* (殷莉楠), all of whom are third parties independent of the Company and its connected person
- “%” per cent.

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

The PRC, 28 December 2020

As at the date of this announcement, the Board comprises three executive Directors: Ms. HAN Jianhong, Mr. HAN Jianping and Mr. RAO Huotao and three independent non-executive Directors: Mr. SHEN Kaijun, Ms. PEI Yu and Mr. KONG Liang.

*In this announcement, if there is any inconsistency between the Chinese names of the individuals and the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with * is for identification purpose only.*