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三江化工

SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2198)

**CONNECTED TRANSACTIONS — ENERGY MANAGEMENT
AGREEMENTS WITH JIAHUA ENERGY CHEMICAL CO.**

CONNECTED TRANSACTIONS

The Board is pleased to announce that on 15 May 2020, after trading hours, Jiahua Energy Chemical Co. entered into the Energy Management Agreement I and Energy Management Agreement II with Sanjiang New Material (an indirect wholly-owned subsidiary of the Company) and Xing Xing (a 77.5% indirectly-owned subsidiary of the Company), respectively pursuant to which Jiahua Energy Chemical Co. has agreed to modify the drive motors of the circulation pumps of Sanjiang New Material and Xing Xing and in return, Sanjiang New Material and Xing Xing have agreed to pay Jiahua Energy Chemical Co. the energy saving costs at an annual cap not exceeding RMB18.3 million and RMB8.9 million (on an agreed profit sharing basis), respectively for a term commencing from the date of signing of Energy Management Agreement I and Energy Management Agreement II up to 31 December 2020.

LISTING RULES IMPLICATION

Jiahua Energy Chemical Co. is owned as to approximately 42.04% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. As both Mr. Guan and Ms. Han are executive Directors, Jiahua Energy Chemical Co. is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company and the transactions contemplated under each of the Energy Management Agreement I and Energy Management Agreement II constitute connected transactions of the Company under Chapter 14A of the Listing Rules. In addition, as the Energy Management Agreements were entered into within a 12-month period, the transactions ought to be aggregated under Rule 14A.81 of the Listing Rules.

As the aggregate applicable ratio in respect of the annual caps of the Energy Management Agreement I and Energy Management Agreement II is less than 5%, the Energy Management Agreement I and Energy Management Agreement II and the transactions contemplated thereunder are therefore subject to reporting and announcement and annual review requirements but are exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board is pleased to announce that on 15 May 2020, after trading hours, Jiahua Energy Chemical Co. entered into the Energy Management Agreement I and Energy Management Agreement II with Sanjiang New Material (an indirect wholly-owned subsidiary of the Company) and Xing Xing (a 77.5% indirectly-owned subsidiary of the Company), respectively pursuant to which Jiahua Energy Chemical Co. has agreed to modify the drive motors of the circulation pumps of Sanjiang New Material and Xing Xing from using electricity-driven basis to steam-driven basis where Jiahua Energy Chemical Co. has also agreed to provide the necessary steam that would be used in those modified drive motors of the circulation pumps and in return, Sanjiang New Material and Xing Xing have agreed to supply condensate water (i.e. condensate water is generated during the course of steam usage) to Jiahua Energy Chemical Co. and Sanjiang New Material and Xing Xing have also agreed to pay Jiahua Energy Chemical Co. the energy saving costs at an annual cap not exceeding RMB18.3 million and RMB8.9 million respectively (on an agreed profit sharing basis), both for a term commencing from the date of signing of the Energy Management Agreement I and Energy Management Agreement II up to 31 December 2020.

Sanjiang New Material and Xing Xing used to use electricity to operate the drive motors of the circulation pumps and Jiahua Energy Chemical Co. proposed to Sanjiang New Material and Xing Xing to replace electricity by steam in operating the drive motors of the circulation pumps. Jiahua Energy Chemical Co. is responsible to equip the steam-driven drive motors of the circulation pumps for Sanjiang New Material and Xing Xing, supply the necessary steam for the operation of the drive motors of the circulation pumps and Sanjiang New Material and Xing Xing would get additional condensate water and energy saving (i.e. Sanjiang New Material and Xing Xing used to use electricity to operate the drive motors of the circulation pumps. After using the steam-driven drive motors of the circulation pump, Sanjiang New Material and Xing Xing could calculate the energy saving as if they had used electricity on the same output basis) from the installation and operation of the steam-driven drive motors of the circulation pump and Sanjiang New Material and Xing Xing would then compare the energy saving costs with the additional costs incurred by Jiahua Energy Chemical Co. for providing steam to Sanjiang New Material and Xing Xing and the additional income generated by the additional condensate water during the course of steam usage and pay Jiahua Energy Chemical Co. the net energy saving costs on an agreed profit sharing basis.

The details of the Energy Management Agreement I and Energy Management Agreement II are set out below.

ENERGY MANAGEMENT AGREEMENT I

Date

15 May 2020

Parties

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

Subject Matter

Jiahua Energy Chemical Co. has agreed to modify the drive motors of the circulation pumps of Sanjiang New Material and shall be responsible for the construction, installation, testing and maintenance of the drive motors for the circulation pumps. Jiahua Energy Chemical Co. has also agreed to provide technical support throughout the term and shall also be responsible for providing the necessary steam that would be used in those modified drive motors of the circulation pumps. The condensate water produced during the aforesaid steam usage shall belong to Jiahua Energy Chemical Co.. Sanjiang New Material and Jiahua Energy Chemical Co. would calculate the amount of steam used and condensate water produced according to the meters installed in the site of Sanjiang New Material. Sanjiang New Material shall be responsible for the operation of

the drive motors for the circulation pumps and shall pay to Jiahua Energy Chemical Co. the energy saving costs ((i.e. Sanjiang New Material and Xing Xing used to use electricity to operate the drive motors of the circulation pumps. After installation of the steam-driven drive motors of the circulation pump, Sanjiang New Material and Xing Xing could calculate the energy saving as if they had used electricity on the same output basis) on an agreed profit sharing basis) based on the meter installed in the site of Sanjiang New Material.

Term

The term of the Energy Management Agreement I shall be a period commencing from the date of signing of the Energy Management Agreement I to 31 December 2020. The parties may commence negotiations at least three months prior to the expiry of the Energy Management Agreement I for renewal. The Company will comply with the relevant Listing Rules requirements if the Energy Management Agreement I is renewed.

Consideration

Pursuant to the Energy Management Agreement I, the price for steam, condensate water and the energy saving costs shall be calculated according to the terms set out in the Energy Management Agreement I and the consideration shall not exceed an annual cap of RMB18.3 million.

The price for steam, condensate water and the energy saving costs payable by Sanjiang New Material shall be agreed on the 25th day of each calendar month and would be payable by Sanjiang New Material before the 10th calendar day of the following month.

The basis of the consideration was set after arm's length negotiations between Sanjiang New Material and Jiahua Energy Chemical Co., taking into account the estimated amounts of steam, condensate water and the energy saving costs to be incurred and also the prevailing industrial standards in calculating the formulas for such payment terms.

Profit Sharing

In the event that the market price of coal is higher than RMB718 per tonne (inclusive of tax), subject to the fulfilment of the production requirement of Sanjiang New Material, Jiahua Energy Chemical Co. shall have the discretion in deciding whether to continue to provide steam for those modified drive motors of the circulation pumps and Jiahua Energy Chemical Co. shall bear all related losses incurred for the provision of the aforesaid steam (if any). In the event that the market price of coal is less than RMB718 per tonne (inclusive of tax) but higher than RMB680 per tonne (inclusive of tax), Jiahua Energy Chemical Co. shall be entitled to a profit sharing percentage of 90% of the energy saving costs, which is the net amount calculated by the Finance Department of the Group through comparing energy saving of electricity usage (Sanjiang New Material could calculate the energy saving as if Sanjiang New Material had used electricity on the same output basis), the additional income generated by the additional condensate water during

the course of steam usage with the additional costs that was incurred by Jiahua Energy Chemical Co. for providing steam to Sanjiang New Material and Sanjiang New Material shall be entitled to a profit sharing percentage of 10% of the energy saving costs. In the event that the market price of coal is less than RMB680 per tonne (inclusive of tax), Jiahua Energy Chemical Co. shall be entitled to a profit sharing percentage of 80% of the energy saving costs, which is the net amount calculated by the Finance Department of the Group through comparing energy saving of electricity usage (Sanjiang New Material could calculate the energy saving as if Sanjiang New Material had used electricity on the same output basis), the additional income generated by the additional condensate water during the course of steam usage with the additional costs that was incurred by Jiahua Energy Chemical Co. for providing steam to Sanjiang New Material and Sanjiang New Material shall be entitled to a profit sharing percentage of 20% of the energy saving costs and the amount payable in the relevant month by Sanjiang New Material shall be accordingly deducted.

Sanjiang New Material requires low pressure steam (1.3 MPa) in the operation of drive motors of the circulation pumps and coal price of RMB718 per tonne (inclusive of tax) is a breakeven level, which means there is no difference between operating an electricity-driven basis drive motors of the circulation pumps and operating a steam-driven basis drive motors of the circulation pumps in terms of energy saving, which is estimated by the Group and Jiahua Energy Chemical Co..

ENERGY MANAGEMENT AGREEMENT II

Date

15 May 2020

Parties

- (1) Xing Xing, a 77.5% indirectly-owned subsidiary of the Company; and
- (2) Jiahua Energy Chemical Co., a connected person of the Company.

Subject Matter

Jiahua Energy Chemical Co. has agreed to modify the drive motors of the circulation pumps of Xing Xing and shall be responsible for the construction, installation, testing and maintenance of the drive motors for the circulation pumps. Jiahua Energy Chemical Co. has also agreed to provide technical support throughout the term and shall also be responsible for providing the necessary steam that would be used in those modified drive motors of the circulation pumps. The condensate water produced during the aforesaid steam usage shall belong to Jiahua Energy Chemical Co. Xing Xing and Jiahua Energy Chemical Co. would calculate the amount of steam used and condensate water produced according to the meters installed in the site of Xing Xing. Xing Xing shall be responsible for the operation of the drive motors for the circulation pumps and shall pay to Jiahua

Energy Chemical Co. the energy saving costs ((i.e. Sanjiang New Material and Xing Xing used to use electricity to operate the drive motors of the circulation pumps. After installation of the steam-driven drive motors of the circulation pump, Sanjiang New Material and Xing Xing could calculate the energy saving as if they had used electricity on the same output basis) on an agreed profit sharing basis) based on the meter installed in the site of Xing Xing.

Term

The term of the Energy Management Agreement II shall be a period commencing from the date of signing of the Energy Management Agreement II to 31 December 2020. The parties may commence negotiations at least three months prior to the expiry of the Energy Management Agreement II for renewal. The Company will comply with the relevant Listing Rules requirements if the Energy Management Agreement II is renewed.

Consideration

Pursuant to the Energy Management Agreement II, the price for steam, condensate water and energy saving costs shall be calculated according to the terms set out in the Energy Management Agreement II and the consideration shall not exceed an annual cap of RMB8.9 million.

The price for steam, condensate water and energy saving costs payable by Xing Xing shall be agreed on the 25th day of each calendar month and would be payable by Xing Xing before the 10th calendar day of the following month.

The basis of the consideration was set after arm's length negotiations between Xing Xing and Jiahua Energy Chemical Co., taking into account the estimated amounts of steam, condensate water and energy saving costs to be incurred and also the prevailing industrial standards in calculating the formulas for such payment terms.

Profit Sharing

In the event that the market price of coal is higher than RMB710 per tonne (inclusive of tax), subject to the fulfilment of the production requirement of Xing Xing, Jiahua Energy Chemical Co. shall have the discretion in deciding whether to continue to provide steam for those modified drive motors of the circulation pumps and Jiahua Energy Chemical Co. shall bear all related losses incurred for the provision of the aforesaid steam (if any). In the event that the market price of coal is less than RMB710 per tonne (inclusive of tax) but higher than RMB680 per tonne (inclusive of tax), Jiahua Energy Chemical Co. shall be entitled to a profit sharing percentage of 90% of the energy saving costs, which is the net amount calculated by the Finance Department of the Group through comparing energy saving of electricity usage (Xing Xing could calculate the energy saving as if Xing Xing had used electricity on the same output basis), the additional income generated by the additional condensate water during the course of steam usage with the additional costs that was incurred by Jiahua Energy Chemical Co. for providing steam to Xing Xing

and Xing Xing shall be entitled to a profit sharing percentage of 10% of the energy saving costs. In the event that the market price of coal is less than RMB680 per tonne (inclusive of tax), Jiahua Energy Chemical Co. shall be entitled to a profit sharing percentage of 80% of the energy saving costs, which is the net amount calculated by the Finance Department of the Group through comparing energy saving of electricity usage (Xing Xing could calculate the energy saving as if Xing Xing had used electricity on the same output basis), the additional income generated by the additional condensate water during the course of steam usage with the additional costs that was incurred by Jiahua Energy Chemical Co. for providing steam to Xing Xing and Xing Xing shall be entitled to a profit sharing percentage of 20% of the energy saving costs and the amount payable in the relevant month by Xing Xing shall be accordingly deducted.

Xing Xing requires high pressure steam (4.6 MPa) in the operation of drive motors of the circulation pumps and coal price of RMB710 per tonne (inclusive of tax) is a breakeven level, which means there is no difference between operating an electricity-driven basis drive motors of the circulation pumps and operating a steam-driven basis drive motors of the circulation pumps in terms of energy saving, which is estimated by the Group and Jiahua Energy Chemical Co..

HISTORICAL FIGURES AND ANNUAL PROPOSED CAPS

Set out below are the historical figures and the proposed annual caps for a period of approximately eight months period ending 31 December 2020:

Transactions	Historical amount for the period ended 31 December 2019 RMB (million)	Existing Cap for the period ended 31 December 2019 RMB (million)	Proposed Cap amount for the period ending 31 December 2020 RMB (million)
1. Payment of energy saving costs to Jiahua Energy Chemical Co. by Sanjiang New Material	8.1	18.3	18.3
2. Payment of energy saving costs to Jiahua Energy Chemical Co. by Xing Xing	—	8.9	8.9

REASONS FOR THE TRANSACTION

The Group is principally engaged in the manufacturing and supplying of ethylene oxide, ethylene glycol, polypropylene and surfactants and the provision of processing services. The entering into of the Energy Management Agreements will enable the Group to extend its business relationships between the Group and Jiahua Energy Chemical Co. and further bring synergies to the parties.

The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of the Energy Management Agreements are fair and reasonable and on normal commercial terms and that the entering into of the Energy Management Agreements 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 42.04% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. As both Mr. Guan and Ms. Han are executive Directors, Jiahua Energy Chemical Co. is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company and the transactions contemplated under each of the Energy Management Agreements constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

In addition, as the Energy Management Agreements were entered into within a 12-month period, the transactions ought to be aggregated under Rule 14A.81 of the Listing Rules.

As the aggregate applicable ratio in respect of the annual caps of the Energy Management Agreements is less than 5%, the Management Energy Agreements and the transactions contemplated thereunder are therefore subject to reporting and announcement and annual review requirements but are exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Mr. Guan and Ms. Han was interested in each of the Energy Management Agreements and they therefore abstained from voting on the board resolutions of the Company approving each of the Energy Management Agreements and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in each of the Energy Management Agreements and none of them were required to abstain from voting on the board resolutions of the Company in respect of each of the Energy Management Agreements.

DEFINITIONS

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

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| “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;
“Energy Management Agreement I”	the energy management agreement dated 15 May 2020 entered into between Jiahua Energy Chemical Co. and Sanjiang New Material, a wholly-owned subsidiary of the Company;
“Energy Management Agreement II”	the energy management agreement dated 15 May 2020 entered into between Jiahua Energy Chemical Co. and Xing Xing, a 77.5% indirectly-owned subsidiary of the Company;
“Energy Management Agreements”	collectively, the Energy Management Agreement I and Energy Management Agreement II;
“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;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macau Special Administrative Region of the PRC;
“Mr. Guan”	Mr. Guan Jianzhong, an executive Director;
“Ms. Han”	Ms. Han Jianhong, an executive Director;
“MPa”	megapascals;
“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 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;
“Shareholder(s)”	shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsidiary(ies)”	has the meaning ascribed to it in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
“Xing Xing”	浙江興興新能源科技有限公司 (Zhejiang Xing Xing New Energy Technology Co., Ltd*), a company established in the PRC with limited liability on 19 January 2011 and a 77.5% indirectly-owned subsidiary of the Company; and
“%”	per cent.

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

Hong Kong, 15 May 2020

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

In this announcement, if there is any 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.*