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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 HAOXING ENERGY CONSERVATION

CONNECTED TRANSACTIONS

The Board is pleased to announce that on 15 May 2020, after trading hours, Haoxing Energy Conservation entered into the Energy Management Agreement I, Energy Management Agreement II and Energy Management Agreement III with Sanjiang Chemical (an indirect wholly-owned subsidiary of the Company), Sanjiang Haojia (an indirect wholly-owned subsidiary of the Company) and Xing Xing (a 77.5% indirectly-owned subsidiary of the Company), respectively pursuant to which, Haoxing Energy Conservation has agreed to modify the drive motors of the circulation pumps and ancillary cooling equipments of Sanjiang Chemical, Sanjiang Haojia and Xing Xing and in return, Sanjiang Chemical, Sanjiang Haojia and Xing Xing have agreed to pay Haoxing Energy Conservation, the energy saving costs at annual caps not exceeding RMB3.0 million, RMB2.0 million and RMB3.0 million (on an agreed profit sharing basis), respectively for a term commencing from the date of signing of the Energy Management Agreement I, Energy Management Agreement II and Energy Management Agreement III up to 31 December 2022.

LISTING RULES IMPLICATION

Haoxing Energy Conservation is owned as to approximately 55.5% by Mr. Guan, executive Director and is thus a connected person of the Company and the transactions contemplated under Energy Management Agreement I, Energy Management Agreement II and Energy Management Agreement III 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, these 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, Energy Management Agreement II and Energy Management Agreement III, is less than 5%, the Energy Management Agreement I, Energy Management Agreement II and Energy Management Agreement III, 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, Haoxing Energy Conservation entered into the Energy Management Agreement I, Energy Management Agreement II and Energy Management Agreement III with Sanjiang Chemical (an indirect wholly-owned subsidiary of the Company), Sanjiang Haojia (an indirect wholly-owned subsidiary of the Company) and Xing Xing (a 77.5% indirectly-owned subsidiary of the Company), respectively pursuant to which, Haoxing Energy Conservation has agreed to modify the drive motors of the circulation pumps and ancillary cooling equipments of Sanjiang Chemical, Sanjiang Haojia and Xing Xing by using/installing the technology and equipments developed by Haoxing Energy Conservation to increase the efficiency and output of the drive motors of the circulation pumps and ancillary cooling equipments of Sanjiang Chemical, Sanjiang Haojia and Xing Xing for each unit of electricity consumed which enables Sanjiang Chemical, Sanjiang Haojia and Xing Xing to save electricity costs and in return, Sanjiang Chemical, Sanjiang Haojia and Xing Xing have agreed to pay Haoxing Energy Conservation the energy saving costs at annual caps not exceeding RMB3.0 million, RMB2.0 million and RMB3.0 million respectively (on an agreed profit sharing basis), for a term commencing from the date of signing of the Energy Management Agreement I, Energy Management Agreement II and Energy Management Agreement III up to 31 December 2022. Pursuant to the Energy Management Agreement I, Energy Management Agreement II and Energy Management Agreement III, Haoxing Energy Conservation is responsible to install its self-developed equipments for the drive motors of the circulation pumps and ancillary cooling equipments for Sanjiang Chemical, Sanjiang Haojia and Xing Xing and Sanjiang Chemical, Sanjiang Haojia and Xing Xing would get energy saving (i.e. After installation of the equipments developed by Haoxing Energy Conservation, Sanjiang Chemical, Sanjiang Haojia and Xing Xing could use the same

amount of electricity unit with more output from drive motors of the circulation pumps and ancillary cooling equipments and Sanjiang Chemical, Sanjiang Haojia and Xing Xing could calculate the energy saving as if they had not installed the equipments developed by Haoxing Energy Conservation) from the installation and operation of the equipments developed by Haoxing Energy Conservation and Sanjiang Chemical, Sanjiang Haojia and Xing Xing would pay Haoxing Energy Conservation the energy saving costs on an agreed profit sharing basis.

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

ENERGY MANAGEMENT AGREEMENT I

Date

15 May 2020

Parties

- (1) Sanjiang Chemical, an indirect wholly-owned subsidiary of the Company; and
- (2) Haoxing Energy Conservation, a connected person of the Company

Subject Matter and Term

Haoxing Energy Conservation has agreed to modify the drive motors of the circulation pumps and ancillary cooling equipments of Sanjiang Chemical by using/installing the technology and equipments developed by Haoxing Energy Conservation and is responsible for the construction, installation, testing and maintenance of those equipments. Haoxing Energy Conservation has also agreed to provide technical support throughout the term. Sanjiang Chemical has agreed to pay Haoxing Energy Conservation the energy saving (i.e. After installation of the equipments developed by Haoxing Energy Conservation, Sanjiang Chemical could use the same amount of electricity unit with more output from drive motors of the circulation pumps and ancillary cooling equipments and Sanjiang Chemical could calculate the energy saving as if they had not installed the equipments developed by Haoxing Energy Conservation) from the installation and operation of the equipments developed by Haoxing Energy Conservation on an agreed profit sharing basis for a period commencing from the date of signing of Energy Management Agreement I up to 31 December 2022. Sanjiang Chemical is entitled to a profit sharing percentage of 40% of the energy saving costs while Haoxing Energy Conservation is entitled to a profit sharing percentage of 60% of the energy saving costs throughout the 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 up to 31 December 2022. 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.

Pursuant to the Energy Management Agreement I, 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 RMB3.0 million. The price for the energy saving costs payable by Sanjiang Chemical shall be agreed by the end of each quarter and would be payable by Sanjiang Chemical before the 15th calendar day following the issuance of the billings of the quarter. The basis of the consideration was set after arm's length negotiations between Sanjiang Chemical and Haoxing Energy Conservation, taking into account the estimated amounts of the energy saving.

ENERGY MANAGEMENT AGREEMENT II

Date

15 May 2020

Parties

- (1) Sanjiang Haojia, an indirect wholly-owned subsidiary of the Company; and
- (2) Haoxing Energy Conservation, a connected person of the Company

Subject Matter and Term

Haoxing Energy Conservation has agreed to modify the drive motors of the circulation pumps and ancillary cooling equipments of Sanjiang Haojia by using/installing the technology and equipments developed by Haoxing Energy Conservation and is responsible for the construction, installation, testing and maintenance of those equipments. Haoxing Energy Conservation has also agreed to provide technical support throughout the term. Sanjiang Haojia has agreed to pay Haoxing Energy Conservation the energy saving (i.e. After installation of the equipments developed by Haoxing Energy Conservation, Sanjiang Haojia could use the same amount of electricity unit with more output from drive motors of the circulation pumps and ancillary cooling equipments and Sanjiang Haojia could calculate the energy saving as if they had not installed the equipments developed by Haoxing Energy Conservation) from the installation and operation of the equipments developed by Haoxing Energy Conservation on an agreed profit sharing basis for a period commencing from the date of signing of Energy Management Agreement II up to 31 December 2022. Sanjiang Haojia is entitled to a profit sharing percentage of 40% of the energy saving costs while Haoxing Energy Conservation is entitled to a profit sharing percentage of 60% of the energy saving costs throughout the 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 2022. 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.

Pursuant to the Energy Management Agreement II, the 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 RMB2.0 million. The price for the energy saving costs payable by Sanjiang Haojia shall be agreed by the end of each quarter and would be payable by Sanjiang Haojia before the 15th calendar day following the issuance of the billings of the quarter. The basis of the consideration was set after arm's length negotiations between Sanjiang Haojia and Haoxing Energy Conservation, taking into account the estimated amounts of the energy saving.

ENERGY MANAGEMENT AGREEMENT III

Date

15 May 2020

Parties

- (1) Xing Xing, a 77.5% indirectly-owned subsidiary of the Company; and
- (2) Haoxing Energy Conservation, a connected person of the Company

Subject Matter and Term

Haoxing Energy Conservation has agreed to modify the drive motors of the circulation pumps and ancillary cooling equipments of Xing Xing by using/installing the technology and equipments developed by Haoxing Energy Conservation and is responsible for the construction, installation, testing and maintenance of those equipments. Haoxing Energy Conservation has also agreed to provide technical support throughout the term. Xing Xing has agreed to pay Haoxing Energy Conservation the energy saving (i.e. After installation of the equipments developed by Haoxing Energy Conservation, Xing Xing could use the same amount of electricity unit with more output from drive motors of the circulation pumps and ancillary cooling equipments and Xing Xing could calculate the energy saving as if they had not installed the equipments developed by Haoxing Energy Conservation) from the installation and operation of the equipments developed by Haoxing Energy Conservation on an agreed profit sharing basis for a period commencing from the date of signing of Energy Management Agreement III up to 31 December 2022. Xing Xing is entitled to a profit sharing percentage of 48% of the energy saving costs while Haoxing Energy Conservation is entitled to a profit sharing percentage of 52% of the energy saving costs throughout the term.

The term of the Energy Management Agreement III shall be a period commencing from the date of signing of the Energy Management Agreement III to 31 December 2022. The parties may commence negotiations at least three months prior to the expiry of the Energy Management Agreement III for renewal. The Company will comply with the relevant Listing Rules requirements if the Energy Management Agreement III is renewed.

Pursuant to the Energy Management Agreement III, the energy saving costs shall be calculated according to the terms set out in the Energy Management Agreement III and the consideration shall not exceed an annual cap of RMB3.0 million. The price for the energy saving costs payable by Xing Xing shall be agreed by the end of each quarter and would be payable by Xing Xing before the 15th calendar day following the issuance of the billings of the quarter. The basis of the consideration was set after arm's length negotiations between Xing Xing and Haoxing Energy Conservation, taking into account the estimated amounts of the energy saving.

HISTORICAL FIGURES AND ANNUAL PROPOSED CAPS

Set out below are the historical figures and the proposed annual caps for a period commencing from the date of signing of the Energy Management Agreement I, Energy Management Agreement II and Energy Management Agreement III up to 31 December 2022:

Transactions	Historical amount	Existing Cap for	Proposed Cap amount		
	for the period ended 31 December 2019 <i>RMB (million)</i>	the period ended 31 December 2019 <i>RMB (million)</i>	for the period ending 31 December 2020 <i>RMB (million)</i>	for the year ending 31 December 2021 <i>RMB (million)</i>	for the year ending 31 December 2022 <i>RMB (million)</i>
1. Payment of energy saving costs to Haoxing Energy Conservation by Sanjiang Chemical	6.0	6.0	3.0	3.0	3.0
2. Payment of energy saving costs to Haoxing Energy Conservation by Sanjiang Haojia	—	—	2.0	2.0	2.0
3. Payment of energy saving costs to Haoxing Energy Conservation by Xing Xing	—	—	3.0	3.0	3.0

REASONS FOR THE TRANSACTIONS

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 Haoxing Energy Conservation and further bring synergies to the parties.

There are a number of suppliers available in the market providing similar energy saving solutions and the Group went through tendering processes and took the best available offers in terms of pricing (i.e. the highest profit sharing ratio from the Group's perspective) among all tenders. Energy Management Agreement III has a higher profit sharing ratio than those of Energy Management Agreement I and Energy Management Agreement II as tender offers depend on the expected construction costs, installation costs and any other costs to be borne by those suppliers and installation/construction difficulties vary from site to site.

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

Haoxing Energy Conservation is owned as to approximately 55.5% by Mr. Guan, executive Director and is thus a connected person of the Company and the transaction contemplated under Energy Management Agreements 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, these 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, 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, being the spouse of Mr. Guan, 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:

“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 Haoxing Energy Conservation and Sanjiang Chemical, a wholly-owned subsidiary of the Company;
“Energy Management Agreement II”	the energy management agreement dated 15 May 2020 entered into between Haoxing Energy Conservation and Sanjiang Haojia, a wholly-owned subsidiary of the Company;
“Energy Management Agreement III”	the energy management agreement dated 15 May 2020 entered into between Haoxing Energy Conservation and Xing Xing, a 77.5% indirectly-owned subsidiary of the Company;
“Energy Management Agreements”	collectively, the Energy Management Agreement I, Energy Management Agreement II and Energy Management Agreement III;
“Group”	the Company and its subsidiaries, from time to time;
“Haoxing Energy Conservation”	浙江浩星節能科技有限公司 (Zhejiang Haoxing Energy Conservation Technology Co. Ltd.*) a company established on the PRC with limited liability on 12 August 2011;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“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;
“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 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;
“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.*