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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 —
ENERGY MANAGEMENT FRAMEWORK AGREEMENT WITH
JIAHUA ENERGY CHEMICAL CO.**

CONTINUING CONNECTED TRANSACTIONS

The Board is pleased to announce that on 29 December 2023 after trading hours, Jiahua Energy Chemical Co. entered into the Energy Management Framework Agreement with the Company, pursuant to which Jiahua Energy Chemical Co. (including its subsidiaries) has agreed to modify the power source of the drive motors of the circulation pumps of the Company (including its subsidiaries) and in return, the Company (including its subsidiaries) has agreed to pay Jiahua Energy Chemical Co. (including its subsidiaries) the energy saving costs at annual caps not exceeding RMB12.0 million (on an agreed profit sharing basis), for a term commencing from 1 January 2024 to 31 December 2024.

LISTING RULES IMPLICATION

Jiahua Energy Chemical Co. is owned as to approximately 36.77% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company, 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 Energy Management Framework Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable ratio in respect of the annual cap of the Energy Management Framework Agreement is less than 5%, the Energy Management Framework Agreement and the transactions contemplated thereunder are therefore subject to reporting, 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 29 December 2023, after trading hours, Jiahua Energy Chemical Co. entered into the Energy Management Framework Agreement with the Company, pursuant to which Jiahua Energy Chemical Co. (including its subsidiaries) has agreed to modify the power source of the drive motors of the circulation pumps of the Company (including its subsidiaries) from using electricity-driven basis to steam-driven basis where Jiahua Energy Chemical Co. (including its subsidiaries) has also agreed to provide the necessary steam that would be used in those modified drive motors of the circulation pumps and in return, the Company (including its subsidiaries) has agreed to supply condensate water (i.e. condensate water is generated during the course of steam usage) to Jiahua Energy Chemical Co. (including its subsidiaries) and the Company (including its subsidiaries) have also agreed to pay Jiahua Energy Chemical Co. (including its subsidiaries) the energy saving costs at annual caps not exceeding RMB12.0 million (on an agreed profit sharing basis), for a term commencing from 1 January 2024 to 31 December 2024.

The Company (including its subsidiaries) used to use electricity to operate the drive motors of the circulation pumps and Jiahua Energy Chemical Co. (including its subsidiaries) proposed to the Company (including its subsidiaries) to replace electricity by steam in operating the drive motors of the circulation pumps. Jiahua Energy Chemical Co. (including its subsidiaries) is responsible to equip the steam-driven drive motors of the circulation pumps for the Company (including its subsidiaries), supply the necessary steam for the operation of the drive motors of the circulation pumps and the Company (including its subsidiaries) would get additional condensate water and energy saving (i.e. the Company (including its subsidiaries) used to use electricity to operate the drive motors of the circulation pumps. After using the steam-driven drive motors of the circulation pump, the Company (including its subsidiaries) 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 the Company (including its subsidiaries) would then compare the energy saving costs with the additional costs incurred by Jiahua Energy Chemical Co. for providing steam to Jiahua Energy Chemical Co. and the additional income generated by the additional condensate water during the course of steam usage and pay Jiahua Energy Chemical Co. (including its subsidiaries) the net energy saving costs on an agreed profit sharing basis.

The details of the Energy Management Framework Agreement is set out below.

ENERGY MANAGEMENT FRAMEWORK AGREEMENT

Date

29 December 2023

Parties

- (1) The Company; and
- (2) Jiahua Energy Chemical Co., a connected person of the Company.

Subject Matter

Jiahua Energy Chemical Co. (including its subsidiaries) has agreed to modify the power source of the drive motors of the circulation pumps of the Company (including its subsidiaries) and shall be responsible for the construction, installation, testing and maintenance of the drive motors for the circulation pumps. Jiahua Energy Chemical Co. (including its subsidiaries) 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. (including its subsidiaries) 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 the Company (including its subsidiaries). The Company (including its subsidiaries) shall be

responsible for the operation of the drive motors for the circulation pumps and shall pay to Jiahua Energy Chemical Co. (including its subsidiaries) the energy saving costs ((i.e. the Company (including its subsidiaries) 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, the Company (including its subsidiaries) 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 the Company (including its subsidiaries).

Term

The term of the Energy Management Framework Agreement shall be a period commencing from 1 January 2024 to 31 December 2024. The parties may commence negotiations at least three months prior to the expiry of the Energy Management Framework Agreement for renewal. The Company will comply with the relevant Listing Rules requirements if the Energy Management Framework Agreement is renewed.

Consideration

Pursuant to the Energy Management Framework Agreement, 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 and the consideration shall not exceed an annual cap of RMB12.0 million.

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

The basis of the consideration was set after arm's length negotiations between the Company (including its subsidiaries) 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 RMB710 per tonne (inclusive of tax), subject to the fulfilment of the production requirement of the Company (including its subsidiaries), 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 (the Company (including its subsidiaries) could calculate the energy saving as if the Company (including its subsidiaries) 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. (including its subsidiaries) for providing steam to the Company (including its subsidiaries) and the Company (including its subsidiaries) 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. (including its subsidiaries) 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 (the Company (including its subsidiaries) could calculate the energy saving as if the Company (including its subsidiaries) 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. (including its subsidiaries) for providing steam to the Company (including its subsidiaries) and the Company (including its subsidiaries) shall be entitled to a profit sharing percentage of 20% of the energy saving costs and the amount payable in the relevant month by the Company (including its subsidiaries) shall be accordingly deducted.

The Company (including its subsidiaries) requires steam in the operation of drive motors of the circulation pumps and coal price of RMB710 per tonne (inclusive of tax) is a breakeven level based on the Group's estimation, 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 the period ending 31 December 2024:

	For the year ended 31 December		For the period from 1 January 2023 to 30 November 2023 (i.e. the latest available of management accounts)
	2021	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Actual transaction amount	<u>14,317</u>	<u>2,939</u>	<u>1,305</u>
	For the year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical annual caps	<u>38,000</u>	<u>19,000</u>	<u>15,000</u>

REASONS FOR THE TRANSACTION

The Group is principally engaged in the manufacturing and supplying of ethylene oxide (“EO”), ethylene glycol (“EG”), polypropylene (“PP”), methyl tert-butyl ether, surfactants and the provision of the relevant processing services in the PRC. The entering into of the Energy Management Framework Agreement 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 Framework Agreement is fair and reasonable and on normal commercial terms and that the entering into of the Energy Management Framework 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 36.77% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. As Ms. Han is an executive Director and Mr. Guan is a controlling Shareholder of the Company, Jiahua Energy Chemical Co. is therefore associates of Mr. Guan and Ms. Han and is thus connected person of the Company and the transactions contemplated under the Energy Management Framework Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable ratio in respect of the annual caps of the Energy Management Framework Agreement is less than 5%, the Management Energy Framework Agreement 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.

Ms. Guan is an executive Director and the daughter of Mr. Guan and Ms. Han.

Ms. Han and Ms. Guan were interested in each of the Energy Management Framework Agreement and they therefore abstained from voting on the board resolutions of the Company approving the Energy Management Framework Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in each of the Energy Management Framework 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;

“Energy Management Framework Agreement”	the energy management Framework agreement dated 29 December 2023 entered into between Jiahua Energy Chemical Co. and the Company;
“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;
“Macau”	the Macau Special Administrative Region of the PRC;
“MPa”	megapascals;
“Mr. Guan”	Mr. Guan Jianzhong, a controlling Shareholder of the Company;
“Ms. Guan”	Ms. Guan Siyi, an executive Director and the daughter of Mr. Guan and Ms. Han
“Ms. Han”	Ms. Han Jianhong, an executive Director and the spouse of Mr. Guan;
“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;
“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);

“%” per cent.

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

The PRC, 29 December 2023

As at the date of this announcement, the Board comprises four executive Directors: Ms. HAN Jianhong, Mr. RAO Huotao, Ms. CHEN Xian and Ms. GUAN Siyi 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 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.*