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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**

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The Board is pleased to announce that on 1 February 2019, after trading hours, Sanjiang Chemical and Sanjiang New Material, each being a wholly-owned subsidiary of the Company, entered into the Supply Agreement with Jiaxing Rewang pursuant to which, Jiaxing Rewang has agreed to supply low pressure steam (0.8 MPa) to Sanjiang Chemical and/or Sanjiang New Material for a term of approximately three years commencing from 1 February 2019 to 31 December 2021 with considerations not exceeding RMB25,900,000, RMB25,900,000 and RMB25,900,000 respectively.

### **LISTING RULES IMPLICATION**

Jiaxing Rewang is owned as to approximately 50% by Jiahua Energy Chemical Co. and Jiahua Energy Chemical Co. is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. As both Mr. Guan and Ms. Han are executive Directors of the Company, Jiaxing Rewang is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company and the transactions contemplated under the Supply Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable ratios in respect of the considerations under the Supply Agreement are less than 5%, the Supply Agreement and the transactions contemplated thereunder are therefore subject to reporting and announcement requirements but are exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## **SUPPLY AGREEMENT**

### **Date**

1 February 2019

### **Parties**

- (1) Jiaxing Rewang, a connected person (as defined under the Listing Rules);
- (2) Sanjiang Chemical, a wholly-owned subsidiary of the Company; and
- (3) Sanjiang New Material, a wholly-owned subsidiary of the Company.

### **Subject matter**

Jiaxing Rewang has agreed to supply low pressure steam (0.8 MPa) to Sanjiang Chemical and/or Sanjiang New Material throughout the term of the Supply Agreement.

### **Term**

The term of the Supply Agreement shall become effective from 1 February 2019 and has a term of approximately three years ending on 31 December 2021. The parties may commence negotiations at least three months prior to the expiry of the Supply Agreement for renewal. The Company will comply with the relevant Listing Rules requirements if the Supply Agreement is renewed.

## Consideration

Pursuant to the Supply Agreement, the purchase price shall be the weighted average of those offered by Jiaxing Rewang to its independent purchasers for such low pressure steam of comparable quality during the same month of supply. The Group would employ several measures to ensure the price of low pressure steam offered by Jiaxing Rewang to Sanjiang Chemical and/or Sanjiang New Material is no less favourable than the price of supplying low pressure steam of comparable quality to other independent third party(ies) by Jiaxing Rewang. The following measures, which would be employed by the Group and Jiaxing Rewang, are determined after arm's length negotiation between the Group and Jiaxing Rewang:

- (a) the finance department of the Group will obtain the monthly average price of low pressure steam stipulated by Jiaxing Commodities Price Bureau (嘉興市物價局) which would be a price that Jiaxing Rewang has indicated to follow when setting its own prices;
- (b) the finance department of the Group will compare the monthly average price of the low pressure steam stipulated by Jiaxing Commodities Price Bureau with the low pressure steam prices that Jiaxing Rewang charges Sanjiang Chemical and/or Sanjiang New Material; and
- (c) in the event that the prices of low pressure steam Jiaxing Rewang charges Sanjiang Chemical and/or Sanjiang New Material are 2% higher (i.e. a level of deviation that the Group considers material) than the average price stipulated by Jiaxing Commodities Price Bureau, Sanjiang Chemical and/or Sanjiang New Material will negotiate with Jiaxing Rewang to adjust the proposed purchase prices of low pressure steam to a price that is equal to or lower than the average price stipulated by Jiaxing Commodities Price Bureau. If the price of low pressure steam which Jiaxing Rewang offers to Sanjiang Chemical and/or Sanjiang New Material is no less favourable than the average price stipulated by Jiaxing Commodities Price Bureau, the finance department of the Group will arrange for the approval of the prices offered by Jiaxing Rewang by each of the head of the finance department of the Group and the general manager of the Group.

The purchase price payable by Sanjiang Chemical and/or Sanjiang New Material in respect of purchase contemplated under the Supply Agreement shall be tallied on the 25th day of each calendar month together with an extra 6% of the tallied usage amount of such low pressure steam by Sanjiang Chemical and/or Sanjiang New Material billed to Sanjiang Chemical and/or Sanjiang New Material to cover the loss in transmission and be payable by Sanjiang Chemical and/or Sanjiang New Material by the end of that calendar month.

During the transmission of steam through pipelines there is inevitably a certain amount of steam loss over distance which happens as a result of heat loss from the pipelines, which causes steam to condense thereby reducing the steam volume. As a result the

volume of steam supplied to the Group as shown by the steam meter, not having taken into account the amount of steam loss through transmission, would be smaller than the volume of steam actually supplied from the source. To cover such loss in transmission and in accordance with general market practice, an extra 6% of the tallied usage amount as shown by the steam meter will be charged, the percentage of which was determined with reference to the fees for loss in transmission charged by Jiaxing Rewang to independent third parties and the distance between the steam meter and Sanjiang Chemical or Sanjiang New Material (as the case may be). Under the Supply Agreement, Jiaxing Rewang is responsible for the management and maintenance of the steam meter. Where either party is in doubt as to the accuracy of the reading of the steam meter, either party may appoint a competent party to check and verify the meter reading.

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

The considerations payable shall not exceed RMB25,900,000, RMB25,900,000 and RMB25,900,000 respectively during the approximately three years ending 31 December 2021. The basis of the consideration was set after arm's length negotiations between each party taking into account the actual transaction amount during the period from 1 January 2018 to 31 December 2018 of RMB16,940,000.

## **REASONS FOR THE TRANSACTION**

Jiaxing Rewang is a limited company established in the PRC principally engaged in the businesses of supply and trading of steam.

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 Supply Agreement will enable the Group to extend its business relationships between the Group and Jiaxing Rewang and further bring synergies to the parties. In addition, as the production base of the Group is situated close to that of Jiaxing Rewang, transport cost of steam from Jiaxing Rewang to the Group can be reduced. Moreover, Jiaxing Rewang has been supplying steam to the Group since the year ended 31 December 2007 and the quality of goods provided by Jiaxing Rewang has been considered by the Group to be satisfactory. Further, as the Group has an existing transmission network for steam in place for transmission of steam from Jiaxing Rewang, the Group can procure supply of steam from Jiaxing Rewang without incurring additional fixed cost. In view of the geographical proximity and to secure a constant and stable supply of steam for its production purposes at fair commercial terms and reasonable price, the Group entered into the Supply Agreements.

The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of the Supply Agreement are fair and reasonable and on normal commercial terms and that the entering into of the Supply Agreement is in the interests of the Company and its Shareholders as a whole.

## **LISTING RULES IMPLICATION**

Jiaying Rewang is owned as to 50% by Jiahua Energy Chemical Co and 50% by local government or local government related bodies.

Jiahua Energy Chemical Co. is owned as to approximately 40.44% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. As both Mr. Guan and Ms. Han are executive Directors of the Company, Jiaying Rewang is therefore an associate of Mr. Guan and Ms. Han and is thus a connected person of the Company and the transactions contemplated under the Supply Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable ratios in respect of the consideration under the Supply Agreement are less than 5%, the Supply Agreement and the transactions contemplated thereunder are therefore subject to reporting and announcement 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 the Supply Agreement and they therefore abstained from voting on the board resolutions of the Company approving the Supply Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in the Supply Agreement and none of them were required to abstain from voting on the board resolutions of the Company in respect of the Supply Agreement.

## **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, 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;
“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;
“Jiaxing Rewang”	嘉興興港熱網有限公司 (Jiaxing Xinggang Rewang Co., Ltd.*), a limited liability company established in the PRC on 28 March 2002 and is owned as to 50% by Jiahua Energy Chemical Co and 50% by local government or local government related bodies
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macau Special Administrative Region of the PRC;
“MPa”	a metric unit of pressure;
“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 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;

“Supply Agreement” the low pressure steam supply agreement entered into between Sanjiang Chemical, Sanjiang New Material and Jiaying Rewang dated 1 February 2019; and

“%” per cent.

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

The PRC, 1 February 2019

*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.*