

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 — STEAM AND
MISCELLANEOUS MATERIALS SUPPLY AGREEMENT**

CONTINUING CONNECTED TRANSACTION

The Board announces that, on 8 May 2019, Sanjiang Ho Jia (“the Company”), a wholly-owned subsidiary of the Company, entered into the Steam and Miscellaneous Materials Supply Agreement with Jiahua Energy Chemical Co for a period of approximately two years from 8 May 2019 to 31 December 2020 to regulate the supplier and customer relationships of the transactions contemplated under the Steam and Miscellaneous Materials Supply Agreement.

LISTING RULES IMPLICATIONS

The transactions contemplated under the Steam and Miscellaneous Materials Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the relevant applicable percentage ratios in respect of the aggregate amount of the transactions contemplated under the Steam and Miscellaneous Materials Supply Agreement are more than 0.1% and less than 5%, these transactions 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.

INTRODUCTION

The Board announces that, on 8 May 2019, Sanjiang Ho Jia, a wholly-owned subsidiary of the Company, entered into the Steam and Miscellaneous Materials Supply Agreement with Jiahua Energy Chemical Co for a period of approximately two years from 8 May 2019 to 31 December 2020 to regulate the supplier and customer relationships of the transactions contemplated under the Steam and Miscellaneous Materials Supply Agreement.

CONTINUING CONNECTED TRANSACTION:

1. Steam and Miscellaneous Materials Supply Agreement

Date: 8 May 2019

Parties: (1) Jiahua Energy Chemical Co, a connected person (as defined under the Listing Rules); and

(2) Sanjiang Ho Jia, a wholly-owned subsidiary of the Company.

Subject matter

Jiahua Energy Chemical Co agreed to supply low pressure steam (0.8Mpa and 1.3Mpa), medium pressure steam (3.4Mpa) and miscellaneous materials to Sanjiang Ho Jia on an ongoing basis for a period of approximately two years from 8 May 2019 to 31 December 2020.

Other principal terms of the Steam and Miscellaneous Materials Supply Agreement

The purchase prices of low and medium pressure steam shall be the weighted average prices offered by Jiahua Energy Chemical Co to its independent purchaser(s) for such low and medium pressure steam of comparable quality during the same month of supply. After arm's length negotiation between Jiahua Energy Chemical Co and Sanjiang Ho Jia, the following measures have been determined to ensure the prices of low and medium pressure steam offered by Jiahua Energy Chemical Co to Sanjiang Ho Jia are no less favourable than the prices of such steam of comparable quality to other independent purchaser(s):

Purchase price of low pressure steam (0.8Mpa)

- a) Jiahua Energy Chemical Co shall set the prices regarding low pressure steam products (0.8Mpa) in accordance with the quarterly released notices regarding price recommendation issued by Jiaying Economy Development Bureau (嘉興港區經濟發展局) (the “**Bureau Price**”), which is operated by Jiaying Commodities Price Bureau (嘉興市物價局), a local government information provider for price references. Jiahua Energy Chemical Co would follow the Bureau Price when setting its own prices to its customers, including Sanjiang Ho Jia and

independent third parties. The finance department of Sanjiang Ho Jia will obtain the Bureau Price and the monthly average price of low pressure steam stipulated by Jiaxing Commodities Price Bureau (the “**Recommended Price**”) and compare the same with the low pressure steam price that Jiahua Energy Chemical Co charges Sanjiang Ho Jia. By comparing the Recommended Price and the Bureau Price with low pressure steam prices that Jiahua Energy Chemical Co charges Sanjiang Ho Jia, Sanjiang Ho Jia ensures the purchase price being offered to Sanjiang Ho Jia by Jiahua Energy Chemical Co should not be less favourable than the price offered to independent third parties by Jiahua Energy Chemical Co; and

- b) in the event that the prices of low pressure steam Jiahua Energy Chemical Co charges Sanjiang Ho Jia are 2% higher (i.e. a level of deviation that Sanjiang Ho Jia considers material) than the latest Recommended Price, Sanjiang Ho Jia will negotiate with Jiahua Energy Chemical Co to adjust the proposed purchase prices of low pressure steam to price that is equal to or lower than the Recommended Price. On the other hand, if the price of low pressure steam which Jiahua Energy Chemical Co offers to Sanjiang Ho Jia is no less favourable than the Recommended Price, the finance department of Sanjiang Ho Jia will arrange for the approval of the prices offered by Jiahua Energy Chemical Co by each of the head of the finance department of Sanjiang Ho Jia and the general manager of Sanjiang Ho Jia.

As the information provided by Jiaxing Economy Development Bureau is specifically issued and addressed to Jiahua Energy Chemical Co (as well as all chemical companies located at Zhapu area of Jiaxing City, the PRC, that purchase similar low pressure steam (0.8Mpa) for their production), the Directors believe Jiahua Energy Chemical Co would follow the information provided by Jiaxing Economy Development Bureau when setting its own prices. Thus, the Directors are of the view that the prices offered by Jiahua Energy Chemical Co to independent third parties should be similar to those offered to Sanjiang Ho Jia. If it is found that the prices charged by Jiahua Energy Chemical Co to Sanjiang Ho Jia are less favourable than those charged by Jiahua Energy Chemical Co to independent third parties, Jiahua Energy Chemical Co would refund the price difference to Sanjiang Ho Jia on a quarterly basis.

Purchase prices of low (1.3Mpa) and medium pressure steam

- a) the finance department of Sanjiang Ho Jia will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co to its independent purchasers that purchase low and medium pressure steam of comparable quality; and (ii) all supply contracts regarding low and medium pressure steam of comparable quality entered into between Jiahua Energy Chemical Co and other independent purchasers on a quarterly basis, to ascertain the completeness of the calculation

(to be provided by Jiahua Energy Chemical Co) as to the weighted average purchase prices of low and medium pressure steam since the purchase prices of low and medium pressure steam payable by Sanjiang Ho Jia is agreed to be the weighted average price of such steam of comparable quality offered by Jiahua Energy Chemical Co to its independent purchasers during the same month of supply; and

- b) in the event that the prices of low and medium pressure steam that Jiahua Energy Chemical Co charges Sanjiang Ho Jia are higher than the weighted average purchase prices of such steam of comparable quality offered by Jiahua Energy Chemical Co to its independent purchasers (in other words the prices of low and medium pressure steam that Jiahua Energy Chemical Co charges Sanjiang Ho Jia are less favourable than those charged by Jiahua Energy Chemical Co to independent third parties) during the same month of supply, Sanjiang Ho Jia will negotiate with Jiahua Energy Chemical Co to adjust the proposed purchase prices of low and medium pressure steam to a price that is equal to or lower than the weighted average purchase prices it offers to those independent purchasers. If the prices of low and medium pressure steam Jiahua Energy Chemical Co offers to Sanjiang Ho Jia is no less favourable than the weighted average of the purchase prices it offers to independent purchasers, the finance department of Sanjiang Ho Jia will arrange for the approval of the prices offered by Jiahua Energy Chemical Co by each of the head of the finance department of Sanjiang Ho Jia and the general manager of Sanjiang Ho Jia.

Given (i) there are no public information regarding sale price of low and medium pressure steam in the Zhapu area of Jiaying City, the PRC; and (ii) Jiahua Energy Chemical Co is the only company that provides such low and medium pressure steam in the Zhapu area of Jiaying City, the PRC, Sanjiang Ho Jia is not able to obtain a quotation from any independent third party in the same area regarding sale of low and medium pressure steam and there are no other available source to compare price. As such, the Directors are of the view that the prices offered by Jiahua Energy Chemical Co to independent third parties are fair representation of normal commercial terms for price checking purposes. If it is found that the prices charged by Jiahua Energy Chemical Co to Sanjiang Ho Jia are less favourable than those charged by Jiahua Energy Chemical Co to independent third parties, Jiahua Energy Chemical Co would refund the price difference to Sanjiang Ho Jia on a quarterly basis.

The purchase prices payable by Sanjiang Ho Jia in respect of purchases contemplated under the Steam and Miscellaneous Materials Supply Agreement shall include an extra 2% of the tallied usage amount of low pressure steam (0.8Mpa) by Sanjiang Ho Jia billed to Sanjiang Ho Jia to cover the loss in transmission.

During the transmission of low pressure steam (0.8Mpa) 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 such low pressure steam supplied to Sanjiang Ho Jia 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 2% 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 Jiahua Energy Chemical Co to independent third parties and the distance between Jiahua Energy Chemical Co and the steam meter which is located at the production site of Sanjiang Ho Jia.

Purchase price of miscellaneous materials

The purchase price of miscellaneous materials (including but not limited to desalinated water) offered by Jiahua Energy Chemical Co to Sanjiang Ho Jia shall be the weighted average prices of supplying miscellaneous materials of comparable nature and quality to other independent third party(ies) by Jiahua Energy Chemical Co during the same month of supply. The following measures, which would be employed by Sanjiang Ho Jia and Jiahua Energy Chemical Co, are determined after arm's length negotiation between Sanjiang Ho Jia and Jiahua Energy Chemical Co to ensure that the prices of miscellaneous materials which Jiahua Energy Chemical Co offers to Sanjiang Ho Jia are no less favourable than the weighted average purchase prices Jiahua Energy Chemical Co offers to independent purchaser(s):

- (a) the finance department of Sanjiang Ho Jia will obtain (i) all monthly invoices issued by Jiahua Energy Chemical Co to its independent purchaser(s) that require miscellaneous materials of comparable nature and quality; and (ii) all supply contracts for miscellaneous materials of comparable nature and quality entered into between Jiahua Energy Chemical Co and its independent purchaser(s) on a quarterly basis, to ascertain the completeness of the calculation (to be provided by Jiahua Energy Chemical Co) for the weighted average purchase price of miscellaneous materials since the purchase price of miscellaneous materials payable by Sanjiang Ho Jia is agreed to be the weighted average price of the relevant product of comparable nature and quality offered by Jiahua Energy Chemical Co to its independent purchaser(s) during the same month of supply; and

- (b) in the event that the prices of miscellaneous materials prices that Jiahua Energy Chemical Co charges Sanjiang Ho Jia are higher than the weighted average purchase prices offered by Jiahua Energy Chemical Co to its independent purchaser(s) for the relevant product of comparable nature and quality during the same month of supply, Sanjiang Ho Jia will negotiate with Jiahua Energy Chemical Co to adjust the proposed purchase prices to prices that are equal to or lower than the weighted average purchase prices it offers to those independent purchaser(s). If the prices of miscellaneous materials which Jiahua Energy Chemical Co offers to Sanjiang Ho Jia are no less favourable than the weighted average purchase prices Jiahua Energy Chemical Co offers to independent purchaser(s), the finance department of Sanjiang Ho Jia will arrange for the approval of the prices offered by Jiahua Energy Chemical Co by each of the head of the finance department of Sanjiang Ho Jia and the general manager of Sanjiang Ho Jia.

The purchase prices payable by Sanjiang Ho Jia in respect of purchases under the Steam and Miscellaneous Materials Supply Agreements shall be tallied on the 25th day of each calendar month and be due and payable by Sanjiang Ho Jia on or before the 10th calendar day of the following month.

ANNUAL CAPS

Set out below are the proposed annual caps for a period of approximately two years ending 31 December 2020:

Nature of transaction	Proposed cap amount	
	For the year ending	
	31 December	
	2019	2020
	RMB	RMB
	(million)	(million)
Purchase of low and medium pressure steam and miscellaneous materials by Sanjiang Ho Jia from Jiahua Energy Chemical Co	6	6

Basis for the proposed caps for the period of approximately two years ending 31 December 2020

The proposed caps for the Steam and Miscellaneous Materials Supply Agreements for the period of approximately two years ending 31 December 2020 are based on:

- 1) the expected future usage and growth of the production capacities of polypropylene (“PP”) of Sanjiang Ho Jia for the period of approximately two years ending 31 December 2020.

- 2) the expected amount of purchases to be made by Sanjiang Ho Jia from Jiahua Energy Chemical Co for low and medium pressure steam and miscellaneous materials for the period of approximately two years ending 31 December 2020;
- 3) the estimated market prices of coal (which in turn affects the market price of steam) for the period of approximately two years ending 31 December 2020.

REASONS FOR THE TRANSACTIONS

Sanjiang Ho Jia is principally engaged in the manufacturing and supplying of polypropylene. Jiahua Energy Chemical Co is a limited company established in the PRC and is principally engaged in the businesses of production and trading of desalinated water, steam, chlorine gas and sulfuric acid.

Low pressure steam is used by Sanjiang Ho Jia in the process of vapourisation, whereas medium pressure steam is used for heating reactants in the production of polypropylene.

Given Jiahua Energy Chemical Co is the only company that provides low (0.8Mpa and 1.3Mpa) and medium pressure steam in the Zhapu area of Jiaying City, the PRC, which is the same economic development zone which Sanjiang Ho Jia locates, it is impractical for Sanjiang Ho Jia to source steam from another area as both steam pressure and steam heat would be lost substantially during the transmission of steam through long-distant pipelines. In addition, as the production base of Sanjiang Ho Jia is situated close to that of Jiahua Energy Chemical Co, transport cost of steam and miscellaneous materials from Jiahua Energy Chemical Co to Sanjiang Ho Jia can be reduced. Moreover, Jiahua Energy Chemical Co have been supplying steam to the Group since the year ended 31 December 2007 and the quality of goods and services provided by them have been considered by the Group to be satisfactory. Based on past operational convenience and benefits brought to the Group and extended business relationships between the Group and Jiahua Energy Chemical Co, such continuing relationships are expected to bring synergies to the parties.

CONNECTED PERSON

Jiahua Energy Chemical Co is a limited company established in the PRC and is principally engaged in the business of production and trading of desalinated water, steam, chlorine gas and sulphuric acid. It is owned as to approximately 42.04% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han, being executive Directors. Jiahua Energy Chemical Co is an associate of Mr. Guan and Ms. Han and is thus a Connected Person of the Company.

LISTING RULES IMPLICATION

The transactions contemplated under the Steam and Miscellaneous Materials Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the relevant applicable percentage ratios in respect of the aggregate amount of the transactions contemplated under the Steam and

Miscellaneous Materials Supply Agreement are more than 0.1% and less than 5%, these transactions 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:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	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, together with all its subsidiaries
“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
“low pressure steam”	for the purpose of this announcement, refers to low pressure steam with a pressure of approximately 1.3 MPa or below
“medium pressure steam”	for the purpose of this announcement, refers to medium pressure steam with a pressure of approximately 3.5 MPa

“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
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Steam and Miscellaneous Materials Supply Agreement”	the steam and miscellaneous materials supply agreement entered into between Sanjiang Ho Jia and Jiahua Energy Chemical Co dated 8 May 2019
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sanjiang Ho Jia” or “the Company”	嘉興市三江浩嘉高分子材料科技有限公司 (Jiaxing City Sanjiang Ho Jia High Polymer Material Technology Co., Ltd.*), a company established in the PRC with limited liability on 30 December 2018, which is an indirect wholly-owned subsidiary of the Company
“%”	per cent.

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

The PRC, 8 May 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 inconsistency 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.*