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Tsaker Chemical Group Limited

彩客化學集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1986)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
ACQUISITION OF THE ENTIRE EQUITY INTERESTS
IN THE TARGET COMPANY; AND
(2) APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER**

DISCLOSEABLE AND CONNECTED TRANSACTION

On 4 May 2016 (after trading hours), Tsaker Dongying and Huage Holdings entered into the Agreement, pursuant to which Tsaker Dongying has conditionally agreed to acquire and Huage Holdings has conditionally agreed to sell the entire equity interests in the Target Company at the Consideration of RMB17,361,000 (equivalent to approximately HK\$20,668,000).

LISTING RULES IMPLICATIONS

As certain of the applicable percentage ratios for the Acquisition under the Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Acquisition is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Huage Holdings was held as to approximately 71.44% by Mr. Ge Yi and approximately 28.56% of the equity interests by Mr. Ge Jianhua, who is the father of Mr. Ge Yi. Mr. Ge Yi is an executive Director, the Chairman, the chief executive officer and one of the controlling shareholders of the Company, and together with Mr. Ge Jianhua, they own 100% of the equity interests in Huage Holdings. Huage Holdings is an associate of Mr. Ge Yi and therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction for the Company, and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek the Independent Shareholders' approval for the Acquisition at the EGM.

APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

The Company has established the Independent Board Committee to advise the Independent Shareholders in connection with the Agreement and the transactions contemplated thereunder. The Independent Board Committee has approved the appointment of Quam Capital as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Agreement and the transactions contemplated thereunder.

A circular containing, among others, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Quam Capital to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder; and (iv) the notice of EGM, will be despatched to the Shareholders on or about 25 May 2016.

DISCLOSEABLE AND CONNECTED TRANSACTION

On 4 May 2016 (after trading hours), Tsaker Dongying and Huage Holdings entered into the Agreement, pursuant to which Tsaker Dongying has conditionally agreed to acquire and Huage Holdings has conditionally agreed to sell the entire equity interests in the Target Company at the Consideration of RMB17,361,000 (equivalent to approximately HK\$20,668,000).

Details of the Agreement and the transactions contemplated thereunder are set out below:

THE AGREEMENT

Date: 4 May 2016

Parties: (1) Tsaker Dongying, a wholly-owned subsidiary of the Company; and
(2) Huage Holdings

As at the date of this announcement, Huage Holdings was held as to approximately 71.44% by Mr. Ge Yi and approximately 28.56% of the equity interests by Mr. Ge Jianhua, who is the father of Mr. Ge Yi.

Subject matter

Pursuant to the Agreement, Tsaker Dongying agreed to acquire and Huage Holdings agreed to sell the entire equity interests in the Target Company, subject to the terms contained therein.

The Target Company is a limited liability company established in the PRC. The Target Company is wholly-owned by Huage Holdings.

Consideration and payment method

The Consideration is RMB17,361,000 (equivalent to approximately HK\$20,668,000) and shall be payable to Huage Holdings by Tsaker Dongying in the following manner:

1. RMB5,208,300 (equivalent to approximately HK\$6,200,000), being 30% of the Consideration, shall be payable within 30 days from signing of the Agreement as a deposit and part payment (the “**Deposit**”) of the Consideration; and
2. the remaining balance of RMB12,152,700 (equivalent to approximately HK\$14,468,000), being 70% of the Consideration, shall be payable within 30 days from the Completion Date.

The Consideration shall be paid by Tsaker Dongying by transferring the amount payable to a bank account designated by Huage Holdings.

As set out in the Prospectus and the New Assets Leasing Agreement, Tasker Dongying has an option to purchase the whole or part of the Assets from Dongao Chemicals at a prevailing market price to be negotiated and determined with reference to an asset valuation by a certified asset valuer. The Consideration was determined after arm’s length negotiation between Tsaker Dongying and Huage Holdings with reference to the appraised net asset value of the Target Company of approximately RMB17,361,000 (equivalent to approximately HK\$20,668,000) as at 29 February 2016, as appraised by an independent valuer.

In the event that the registration of the transfer of the entire equity interests in the Target Company from Huage Holdings to Tsaker Dongying is not completed within 60 PRC Business Days from the date of fulfilment of all conditions precedent as stated in the Agreement (or by any date as mutually agreed between Huage Holdings and Tsaker Dongying in writing),

- (i) Tsaker Dongying shall have a right to terminate the Agreement by giving a written notice to Huage Holdings;
- (ii) the Deposit (without interest) shall be returned to Tsaker Dongying in full amount within 15 PRC Business Days from the date of termination; and
- (iii) no party to the Agreement shall have any claim against or liability to the other party, save in respect of any antecedent breaches of the Agreement.

In addition, in the event that the Agreement is terminated pursuant to the Agreement, the Deposit or the Consideration (if applicable) shall be returned to Tsaker Dongying in full amount (without interest) within 15 PRC Business Days from the date of termination.

The Consideration shall be funded by internal resources of the Group. The Directors (excluding the independent non-executive Directors) believe that the terms of the Agreement and the Acquisition, including the Consideration, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon the following conditions having been fulfilled or waived (as the case may be):

- a. the information regarding Huage Holdings and the Target Company disclosed to Tsaker Dongying during the due diligence exercise is true, accurate, not misleading, and the results of the due diligence are satisfactory to Tsaker Dongying;
- b. there are no material changes in the major business of the Target Company;
- c. there are no material adverse changes in the status and structure of the assets of the Target Company; there are no events that would adversely affect the financial position, prospects and assets of the Target Company; there are no circumstances that would lead to the discontinuation of operation of the Target Company; no pledge, mortgage or other encumbrances are created over the equity interests of the Target Company;
- d. all relevant representations and warranties of each of the parties to the Agreement have been given;
- e. the passing of board resolutions and shareholders' resolutions of the Target Company to approve the Agreement and the transactions contemplated thereunder;
- f. the passing of resolution(s) at the EGM in accordance with the Listing Rules and all other applicable laws and regulations to approve the Agreement and the transactions contemplated thereunder, if necessary; and
- g. Tsaker Dongying and the Group having obtained all necessary consents and approvals for the Acquisition, if necessary.

Pursuant to the Agreement, conditions numbered (f) and (g) may not be waived. Unless mutually agreed between Huage Holdings and Tsaker Dongying, all of the above conditions in full shall be fulfilled within 60 PRC Business Days from the date of signing of the Agreement (except when parties to the Agreement mutually agreed otherwise).

Completion

Completion shall take place on the Completion Date.

INFORMATION ON THE COMPANY AND THE TARGET COMPANY

The Company is an investment holding company. The Group is principally engaged in the production of a number of fine chemicals function as critical dye, pigment intermediates and agriculture chemicals intermediates.

The Target Company is principally engaged in the leasing of its assets to the Group under the New Assets Leasing Agreement for the production of mononitrotoluene (consisting of PNT, ONT and MNT) as well as OT and NMP. The Target Company was established on 15 March 2004. Huage Holdings acquired the entire equity interests in the Target Company from an independent third party on 11 September 2014 at a consideration of approximately RMB24.6 million (equivalent to approximately HK\$29.3 million). According to the unaudited consolidated accounts of the Target Company, the net asset value of the Target Company was approximately RMB17.5 million (equivalent to approximately HK\$20.8 million) as at 31 December 2015. The net loss of the Target Company before and after taxation and extraordinary items for the year ended 31 December 2015 was approximately RMB5.7 million (equivalent to approximately HK\$6.8 million) and RMB5.6 million (equivalent to approximately HK\$6.7 million) respectively. The net loss of the Target Company before and after taxation and extraordinary items for the year ended 31 December 2014 was approximately RMB5.6 million (equivalent to approximately HK\$6.7 million) and RMB8.4 million (equivalent to approximately HK\$10.0 million) respectively. As at the date of this announcement, (i) the annual designed production capacity of PNT, ONT and MNT of the Assets amounted to an aggregate of 80,000 tonnes of mononitrotoluene (which was fully utilised); and (ii) the annual production capacity of NMP, amounted to 6,000 tonnes.

Prior to Completion, the Target Company was wholly-owned by Huage Holdings. Upon Completion, the Target Company will become an indirectly wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the consolidated financial statements of the Company.

As at the date of this announcement, approximately RMB175 million (equivalent to approximately HK\$208 million) (the “**Loan**”) were owed by the Target Company to Huage Holdings. Pursuant to the Agreement, the repayment of the Loan by the Target Company is at the discretion of the Company, but any repayment of the Loan shall be subject to the following conditions (i) when there is sufficient working capital for the operation of the Group for the upcoming 12 months thereof; (ii) the repayment of the Loan would not lead to net current liabilities of the Company on a consolidated basis; and (iii) the repayment of the Loan would be made in accordance with the Listing Rules, if applicable. The Loan is unsecured and carries no interest rate. Upon Completion, the Loan would constitute a continuing connected transaction for the Company. Given (i) the Loan is conducted on normal commercial terms or better; and (ii) it would not be secured by the assets of the Group, the Loan will be fully exempted from announcement, reporting and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As disclosed in the Prospectus, the Group was then principally engaged in the production of DSD Acid, DMSS and DATA as well as other fine chemicals in small amount. The Group commenced the production of PNT, ONT, MNT, OT and NMP in February 2015. As the production of PNT, ONT, MNT and OT was then at an initial stage, the Directors were of the view that the production of such products should be conducted through the Dongao Arrangement, rather than acquiring the entire equity interests in the Target Company, without an initial capital expenditure and investment in order to reduce the risk on capital expenditure commitment at such initial stage.

As further disclosed in the Prospectus, the Directors were then of the view that the Dongao Arrangement and the production of PNT would enable the Group to have stable source of PNT for its production of DSD Acid, which enabled the Group to capture the advantage of vertical integration and also to enter into the markets of ONT/OT, MNT and NMP, without significant capital commitment. It was considered that the Dongao Arrangement provided flexibility to the Group in terms of its working capital, and reduced the Group's risk of capital commitment and operational risk of entering into new markets of ONT/OT, MNT and NMP.

As at the date of this announcement and as disclosed in the CCT Announcement, the Group has leased the former assets from the Target Company since January 2015 by entering into the former assets leasing agreement with the Target Company, and subsequently leased the Assets (in light of the expansion of production capacity of the Group) since March 2016 by entering into the New Assets Leasing Agreement with the Target Company, for the production of PNT, ONT, MNT, OT and NMP. Since entering into the Dongao Arrangement, the Group has become more familiar with the production techniques of mononitrotoluene, whereby the production thereof has ramped up and normalised within the expectations of the Group. The utilisation rate of the production plants at the Assets has increased correspondingly in accordance with the production level. The Directors are of the view of the Group is able to increase its market share in the mononitrotoluene industry with an increase in production capacity as well as production efficiency. As at the date of this announcement, (i) the annual designed production capacity of PNT, ONT and MNT of the Assets amounted to an aggregate of 80,000 tonnes of mononitrotoluene (which was fully utilised); and (ii) the annual production capacity of NMP, amounted to 6,000 tonnes. Based on the information available, the Directors believe the Group is currently one of the largest mononitrotoluene producers in the world in terms of production capacity. As such, given the sales performance, profitability and production volume of mononitrotoluene were better than the Group's expectation, the Directors consider the Group has successfully entered into the mononitrotoluene market and enjoys a significant presence in the agricultural chemical intermediate industry, especially herbicides (as ONT/OT are mainly consumed in the agricultural industry).

As disclosed in the CCT Announcement, the Group has been expanding its production capacities of ONT, MNT and PNT. The Directors are of the view that the Assets are crucial to the operation of the Group. Based on the operational results and financial performance for the production of ONT/OT, MNT and NMP since the commencement of the Dongao Arrangement, the Directors are of the view that the production of ONT/OT, MNT and NMP at the Assets has matured in all material aspects, and the ONT/OT, MNT and NMP markets have good prospects. The Directors remain optimistic that the production and sale of mononitrotoluene would deliver good financial return to the Group in the medium

to long term. The capital expenditure to build out and ramp up the Assets has been spent while ongoing maintenance cost is expected to be minimal and can be supported sufficiently by the Group's operating cash flow.

The Directors consider that the Dongao Arrangement was entered into taking account the then prevailing circumstances at the time, having considered all the facts and development that took place since the Dongao Arrangement as explained above, the Directors now believe that the Acquisition will result in the Group owning and operating the Assets directly which is a more common and normal way for production based industrial companies.

Upon Completion, as the Target Company will become an indirectly wholly-owned subsidiary of the Company,

- (i) the Company will have absolute ownership of the Assets, which is strategic and critical to the operation;
- (ii) the Assets will become assets of the Group and the transactions contemplated under the New Assets Leasing Agreement shall no longer constitute continuing connected transactions for the Company under the Listing Rules;
- (iii) it is considered that the Acquisition would enable the Group to continue its production using the Assets, while expanding its production capacity and enhancing cost efficiency without paying rental fee regarding the Assets upon Completion; and
- (iv) ownership of the Assets upon Completion would increase the asset base of the Group and enable the Group to conduct further asset-based financing.

Taking into account of the above factors, the Directors (excluding the independent non-executive Directors) believe the terms of the Agreement are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Mr. Ge Yi is considered to have material interests in the Acquisition by virtue of his interests in the Target Company, and therefore he has abstained from voting on the Board resolutions approving the Acquisition. Save as disclosed above, no other Directors have abstained from voting on the said Board resolutions.

LISTING RULES IMPLICATIONS

As certain of the applicable percentage ratios for the Acquisition under the Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Acquisition is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Huage Holdings was held as to approximately 71.44% by Mr. Ge Yi and approximately 28.56% of the equity interests by Mr. Ge Jianhua, who is the father of Mr. Ge Yi. Mr. Ge Yi is an executive Director, the Chairman, the chief executive officer and one of the controlling shareholders of the Company, and together with Mr. Ge Jianhua, they own 100% of the equity interests in Huage Holdings. Huage Holdings is an associate of Mr. Ge Yi and therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction for the Company, and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek the Independent Shareholders' approval for the Acquisition at the EGM.

APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

The Company has established the Independent Board Committee to advise the Independent Shareholders in connection with the Agreement and the transactions contemplated thereunder. The Independent Board Committee has approved the appointment of Quam Capital as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Agreement and the transactions contemplated thereunder.

GENERAL

The EGM will be convened to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder. A circular containing, among others, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Quam Capital to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder; and (iv) the notice of EGM, will be despatched to the Shareholders on or about 25 May 2016.

As at the date of this announcement, Mr. Ge Yi, an executive Director, the Chairman, the chief executive officer and one of the controlling shareholders of the Company, was interested in 341,644,500 Shares, representing approximately 68.18% of the issued share capital of the Company. Mr. Ge Yi was considered to have material interests in the Acquisition by virtue of his interests in the Target Company, and he and his associates will abstain from voting on the resolutions approving the Acquisition in the EGM.

DEFINITIONS

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

“Acquisition”	the conditional acquisition of the entire equity interests in the Target Company by Tsaker Dongying at a consideration of RMB17,361,000 (equivalent to approximately HK\$20,668,000)
“Agreement”	the agreement dated 4 May 2016 and entered into between Tsaker Dongying and Huage Holdings in relation to the Acquisition
“Assets”	the assets (including all the existing assets including factory premises, land, equipment and facilities in relation to the production of, among others, (i) PNT, ONT and MNT with an aggregate annual designed production capacity of 80,000 tonnes of mononitrotoluene; and (ii) NMP with an annual designed production capacity of 6,000 tonnes) which has been leased from Target Company under the New Assets Leasing Agreement and operated by Tsaker Dongying and located in Dongying, Shandong Province, the PRC
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CCT Announcement”	the announcement of the Company dated 17 March 2016 regarding the continuing connected transactions contemplated under the New Assets Leasing Agreement
“Company”	Tsaker Chemical Group Limited (彩客化學集團有限公司*), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Agreement, which shall take place on the Completion Date
“Completion Date”	the date on which (i) all the conditions precedent to the Acquisition have been fulfilled or waived (if applicable); and (ii) the registration of the transfer of the entire equity interests in the Target Company was completed
“connected person”	has the meaning ascribed to it under the Listing Rules

“Consideration”	RMB17,361,000 (equivalent to approximately HK\$20,668,000), being the consideration for the Acquisition
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“DATA”	2,5-Dianilinoterephthalic acid, which is used as an intermediate of quinacridone pigments
“Director(s)”	the director(s) of the Company
“DMSS”	Dimethyl 1,4-Cylohexanedione-2,5-dicarboxylate, is used for the production of quinacridone pigments and photosensitive polymer
“Dongao Arrangement”	leasing of the former assets or the Assets (if applicable) of the Target Company by the Group
“DSD Acid”	4,4’-Diaminostilbene-2,2’-disulfonic acid, which is used as an intermediate of dyes, fluorescent whitening agents and pesticides
“EGM”	an extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Huage Holdings”	Huage Holdings Group Co., Ltd. (華戈控股集團有限公司), a company established under the laws of the PRC and was held as to approximately 71.44% and 28.56% of the equity interests respectively by (i) Mr. Ge Yi, an executive Director, the Chairman, the chief executive officer and one of the controlling shareholders of the Company, and (ii) Mr. Ge Jianhua, the father of Mr. Ge Yi, as at the date of this announcement
“Independent Board Committee”	the independent board committee, comprising all independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders, other than the Shareholders who have a material interest in the transactions contemplated under the Agreement (i.e. Shareholders other than Mr. Ge Yi and his associates)

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MNT”	3-nitrotoluene or meta-nitrotoluene, which is used as agricultural chemical intermediates, pharmaceutical intermediates, and dye and pigment intermediates
“New Assets Leasing Agreement”	the new assets leasing agreement dated 17 March 2016 entered into between Tsaker Dongying and the Target Company, pursuant to which the Target Company agreed to lease to Tsaker Dongying the Assets
“NMP”	N-methyl-2-pyrrolidone, which is used in the clean energy industry, including lithium battery manufacturing, high polymer material industry and pharmaceutical industry, etc.
“ONT”	2-nitrotoluene or ortho-nitrotoluene, which is used as the raw materials for intermediates for agricultural chemicals, in particular herbicides, pharmaceutical intermediates, dye and pigment intermediates, etc.
“OT”	ortho-toluidine, a downstream product of ONT, primarily applied as intermediate for agricultural chemicals, especially herbicides
“PNT”	4-nitrotoluene or para-nitrotoluene, which is used as the raw materials for dye intermediates and pigment intermediates, including DSD Acid
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan)
“PRC Business Day(s)”	any day(s) (excluding Saturday(s), Sunday(s) and statutory holiday(s)) in the PRC
“Prospectus”	the prospectus of the Company dated 23 June 2015
“Quam Capital”	Quam Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	ordinary shares of US\$0.01 each in the issued share capital of the Company

“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Shengli Oil Field Dongao Chemicals Co., Ltd. (勝利油田東奧化工有限責任公司), a company established under the laws of the PRC and a directly wholly-owned subsidiary of Huage Holdings as at the date of this announcement
“Tsaker Dongying”	Tsaker Chemical (Dongying) Co., Ltd. (彩客化學(東營)有限公司), a company established under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company
“%”	per cent.

By Order of the Board
Tsaker Chemical Group Limited
Ge Yi
Chairman

Beijing, the PRC, 4 May 2016

As at the date of this announcement, the Board comprises Mr. Ge Yi, Mr. Duan Weidong, Ms. Dong Zhongmei and Ms. Jin Ping as executive Directors, Mr. Xiao Yongzheng and Mr. Fontaine Alain Vincent as non-executive Directors and Mr. Ho Kenneth Kai Chung, Mr. Zhu Lin and Mr. Yu Miao as independent non-executive Directors.

For ease of reference, sums in RMB in this announcement are translated at the rate HK\$1.00 = RMB0.84. This does not mean that HK\$ could be converted into RMB, or vice versa, based on such exchange rate.

* *For identification purpose only*