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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)

CONTINUING CONNECTED TRANSACTIONS

The Board announces that on 17 March 2016, Tsaker Dongying entered into the New Assets Leasing Agreement with Dongao Chemicals, pursuant to which Dongao Chemicals agreed to lease to Tsaker Dongying the Assets in relation to the production of, among other things, PNT, ONT, MNT, OT and NMP for a term of three years commencing on 17 March 2016 and expiring on 16 March 2019.

As at the date of this announcement, Dongao Chemicals was a wholly-owned subsidiary of Huage Holdings, which in turn was held as to 71.44% by Mr. Ge Yi and 28.56% by Mr. Ge Jianhua, who is the father of Mr. Ge Yi. Mr. Ge Yi is an executive Director, the Chairman, chief executive officer and one of the controlling shareholders of the Company, and together with Mr. Ge Jianhua, they indirectly owned 100% of the equity interests in Dongao Chemicals. Dongao Chemicals 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 transactions contemplated under the New Assets Leasing Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As the Property Leasing Agreement (a) was entered into between a member of the Group and Huage Holdings, which wholly-owned Dongao Chemicals as at the date of this announcement; and (b) are of similar nature that both the Property Leasing Agreement and the New Assets Leasing Agreement relate to the leasing of properties from Huage Holdings and its subsidiary to the Group, the Property Leasing Agreement and the New Assets Leasing Agreement are related. If the transactions contemplated under the Property Leasing Agreement and the New Assets Leasing Agreement are aggregated in accordance with Rules 14A.81 to 14A.83 of the Listing Rules, each of the applicable percentage ratios (other than profits ratio) for the aggregated transactions is more than 0.1% but less than 5% on an annual basis, such aggregated transactions are only subject to the reporting, annual review and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Reference is made to the Prospectus.

The Board announces that on 17 March 2016 (after trading hours), Tsaker Dongying entered into the New Assets Leasing Agreement with Dongao Chemicals, pursuant to which Dongao Chemicals agreed to lease to Tsaker Dongying the Assets in relation to the production of, among other things, PNT, ONT, MNT, OT and NMP for a term of three years commencing on 17 March 2016 and expiring on 16 March 2019.

NEW ASSETS LEASING AGREEMENT

Date: 17 March 2016

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

Term: Three years from 17 March 2016 to 16 March 2019

Rental: RMB22,700,000 per annum (equivalent to approximately HK\$27,024,000)

Other major terms:

1. Tsaker Dongying has the right of priority to renew the New Assets Leasing Agreement under the same or similar conditions at the expiry of the term by way of giving notice to Dongao Chemicals two months before the expiration of the term.
2. Tsaker Dongying shall pay Dongao Chemicals rental fee quarterly in the following manner:
 - a. RMB5,675,000 shall be payable by Tsaker Dongying to Dongao Chemicals within seven days from the date of completion of delivery by Dongao Chemicals of the Additional Assets for use by Tsaker Dongying; and
 - b. RMB5,675,000 shall be payable by Tsaker Dongying to Dongao Chemicals on the last business day of every three months during the term of the New Assets Leasing Agreement.
3. Tsaker Dongying shall have 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.
4. Tsaker Dongying shall have right of first refusal to acquire the whole or part of the Assets at the market price to be determined with reference to an asset valuation by a certified asset valuer in the event that Dongao Chemicals opts to sell such assets to a third party.

Annual caps

The annual cap for the current rental fee of the Former Assets for the year ended 15 January 2016 and each of the two years ending 15 January 2018 is RMB16,200,000 (equivalent to approximately HK\$19,286,000).

For the purpose of the Continuing Connected Transactions, the annual cap for the rental fee of the New Assets Leasing Agreement for each of the three years ending 16 March 2019 will be RMB22,700,000 (equivalent to approximately HK\$27,024,000), which is determined with reference to the prevailing market rental of the Assets as at 31 January 2016 advised by an independent valuer.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, in order to maintain stable supply of PNT and to enter into the markets of ONT, MNT, OT and NMP, the Group has leased the Former Assets from Dongao Chemicals since January 2015 by way of entering into the Former Assets Leasing Agreement and has commenced the production of these products since February 2015. As further disclosed in the Prospectus, the Group expects to expand its production capacities of ONT, MNT and PNT by leasing the Additional Assets with capacity of 40,000 tonnes of mononitrotoluene from Dongao Chemicals. Pursuant to the Former Assets Leasing Agreement, the Group has the right of first refusal on leasing of the Additional Assets, and a further agreement in such connection shall be entered into between the parties at then prevailing market rental to be determined with reference to an asset valuation by a certified asset valuer. As stated in the Prospectus, part of the net proceeds of the Global Offering (as defined in the Prospectus) would be used to pay for the rent for the leasing of the Former Assets, and the Additional Assets, if necessary. Thus, in light of the expansion of production capacity of the Group, the Directors are of the view that entering into the New Assets Leasing Agreement would enable the Group to continue its production using the Assets, while expanding its production capacity.

The terms of the New Assets Leasing Agreement (together with the annual caps) were determined after arm's length negotiations between the parties and after making reference to prevailing market rental of the Assets as advised by an independent valuer.

The Directors (including the independent non-executive Directors) are of the view that the Continuing Connected Transactions are entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mr. Ge Yi is considered to have material interests in the Continuing Connected Transactions by virtue of his directorship and interests in Dongao Chemicals, and therefore he has abstained from voting on the board resolutions approving the Continuing Connected Transactions.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Donggao Chemicals was a wholly-owned subsidiary of Huage Holdings, which in turn was held as to 71.44% by Mr. Ge Yi and 28.56% by Mr. Ge Jianhua, who is the father of Mr. Ge Yi. Mr. Ge Yi is an executive Director, the Chairman, chief executive officer and one of the controlling shareholders of the Company, and together with Mr. Ge Jianhua, they indirectly owned 100% of the equity interests in Donggao Chemicals. Donggao Chemicals 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 transactions contemplated under the New Assets Leasing Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As the Property Leasing Agreement (a) was entered into between a member of the Group and Huage Holdings, which wholly-owned Donggao Chemicals as at the date of this announcement; and (b) are of similar nature that both the Property Leasing Agreement and the New Assets Leasing Agreement relate to the leasing of properties from Huage Holdings and its subsidiary to the Group, the Property Leasing Agreement and the New Assets Leasing Agreement are related. If the transactions contemplated under the Property Leasing Agreement and the New Assets Leasing Agreement are aggregated in accordance with Rules 14A.81 to 14A.83 of the Listing Rules, each of the applicable percentage ratios (other than profits ratio) for the aggregated transactions is more than 0.1% but less than 5% on an annual basis, such aggregated transactions are only subject to the reporting, annual review and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL

The Group is principally engaged in the production of a number of fine chemicals that function as critical dye and pigment intermediates in the PRC.

Donggao Chemicals is principally engaged in the production of mononitrotoluene (consisting of PNT, ONT and MNT) as well as OT and NMP.

DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Additional Assets”	the additional equipment and facilities in relation to the production of, among others, PNT, ONT and MNT with an annual designed production capacity of 40,000 tonnes of mononitrotoluene) of Donggao Chemicals for its production capacity expansion installed and constructed at the production plant forming part of the Former Assets

“Assets”	collectively, the Additional Assets and the Former Assets
“Board”	the board of Directors
“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
“Continuing Connected Transactions”	the continuing connected transactions constituted by the transactions contemplated under the New Assets Leasing Agreement
“Directors”	the directors of the Company
“Dongao Chemicals”	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
“Former 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 40,000 tonnes of mononitrotoluene; and (ii) NMP with an annual designed production capacity of 6,000 tonnes) which is leased from Dongao Chemicals under the Former Assets Leasing Agreement and the New Assets Leasing Agreement and operated by Tsaker Dongying and located in Dongying, Shandong Province, the PRC
“Former Assets Leasing Agreement”	the assets leasing agreement dated 15 January 2015 and a supplemental agreement dated 8 April 2015 entered into between Tsaker Dongying and Dongao Chemicals, pursuant to which Dongao Chemicals agreed to lease to Tsaker Dongying the Former Assets, which was terminated upon entering into the New Assets Leasing Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the 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 71.44% and 28.56% respectively by Mr. Ge Yi, an executive Director, the Chairman, chief executive officer and one of the controlling shareholders of the Company, and Mr. Ge Jianhua, the father of Mr. Ge Yi, as at the date of this announcement

“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 Dongao Chemicals, pursuant to which Dongao Chemicals 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
“Property Leasing Agreement”	the property leasing agreement dated 8 June 2015 entered into between Tsaker Beijing and Huage Holdings, pursuant to which Huage Holdings agreed to lease to Tsaker Beijing certain portion of the premises situated at 6th Floor, Building A, Jiahua International Center, No. 14 Jiqingli, Chaoyang District, Beijing, the PRC with a gross floor area of approximately 473 square metres
“Prospectus”	the prospectus of the Company dated 23 June 2015 which included, among others, particulars relating to the Property Leasing Agreement and the Former Assets Leasing Agreement
“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)
“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
“Tsaker Beijing”	Tsaker Technology (Beijing) Co., Ltd.* (彩客科技(北京)有限公司), a company established under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company
“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, 17 March 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 identification purpose only*

For ease of reference, sums in RMB in this announcement are translated at the rate HK\$1.0 = RMB0.84. This does not mean that HK\$ could be converted into RMB, or vice versa, based on such exchange rate.