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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)

INSIDE INFORMATION MAJOR TRANSACTION

MEMORANDUM OF UNDERSTANDING IN RELATION TO THE PROPOSED ACQUISITION OF 75% EQUITY INTEREST IN YNNOVATE SANZHENG (YINGKOU) FINE CHEMICALS CO., LTD.

MEMORANDUM OF UNDERSTANDING IN RELATION TO THE PROPOSED ACQUISITION

The Board is pleased to announce that on 10 February 2017 (after trading hours), the Company entered into a legally binding MOU with the Seller and the Target Company, pursuant to which the Company intends to (or through its designated subsidiary to) purchase, and the Seller intends to sell or procure to sell, the Sale Interest, pursuant to the terms and conditions agreed by the parties to the MOU. Subject to adjustment as stated in the section headed “*Adjustment to the Consideration*” below and the terms of the Formal Agreement, the Consideration will be RMB567 million, which comprises (a) RMB280 million in cash; and (b) RMB287 million to be settled by the issue of Consideration Shares.

LISTING RULES IMPLICATION

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Proposed Acquisition is expected to be higher than 25% but less than 100%, the Proposed Acquisition will constitute a major transaction for the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting, announcement and Shareholders’ approval requirements under the Listing Rules.

Further announcement(s) will be made when the Formal Agreement is executed in compliance with the Listing Rules. A circular containing, among other things, further details on the Proposed Acquisition will be despatched to the Shareholders as soon as practicable thereafter in accordance with the requirements of the Listing Rules.

Shareholders and potential investors should note that completion of the Proposed Acquisition is subject to the parties entering into the Formal Agreement and the fulfillment of the conditions precedent thereunder. As such, the Proposed Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

This announcement is made by the Company pursuant to Rule 13.09(2) of Listing Rules and Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong).

MEMORANDUM OF UNDERSTANDING IN RELATION TO THE PROPOSED ACQUISITION

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Date: 10 February 2017 (after trading hours)

Parties: (1) the Company;
(2) the Seller; and
(3) the Target Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Seller, the Target Company and the ultimate beneficial owners of the Target Company is a third party independent of the Company and its connected persons.

Subject matter to be acquired

Pursuant to the MOU, the Company intends to (or through its designated subsidiary to) purchase, and the Seller intends to sell or procure to sell, the Sale Interest, pursuant to the terms and conditions agreed by the parties to the MOU.

Consideration

Pursuant to the MOU, subject to adjustment as stated in the section headed “*Adjustment to the Consideration*” below and the terms of the Formal Agreement, the Consideration will be RMB567 million, which comprises the following:

- (a) RMB280 million in cash, which will be payable by the Company within 5 business days after the date on which the conditions precedent as described in the section headed “*Conditions precedent*” below are fulfilled; and
- (b) RMB287 million to be settled by the issue and allotment of Shares to the Seller by the Company (the “**Consideration Shares**”) within 15 business days after the date on which the conditions precedent as described in the section headed “*Conditions precedent*” below are fulfilled, including completion of the necessary registration of the change of shareholders and directors (if required) of the Target Company. Issue price per Consideration Share (the “**Consideration Share Issue Price**”) will be determined as follows:–

Basis price per Share (to be determined in the Formal Agreement) X 90%

Accordingly, the number of Consideration Shares to be issued and allotted for the purpose of the Proposed Acquisition will be determined as follows:–

RMB287 million ÷ Consideration Share Issue Price X exchange rate (the central parity rate of the exchange rate of RMB to Hong Kong dollars as announced by the People’s Bank of China on the date of payment)

The Consideration Shares will be subject to the following lock-up mechanism: at the end of each financial year during the Performance Guarantee Period, one third of the Consideration Shares will be released from the lock-up after the issuance of the audited financial report of the Target Company or special review audit opinion by qualified auditors, but before any Company’s Annual Performance Compensation (if any) is paid in accordance with the mechanism as detailed in the section headed “*Adjustment to the Consideration*” below.

The Company agreed and has undertaken that, subject to the requirements of and compliance with applicable laws and regulations (including but not limited to the Listing Rules and the Takeovers Code), during the Performance Guarantee Period, unless an event occurred which affects the legal subsistence or continuous operations of the Target Company, in the event that the Company is delisted, the Company shall repurchase all of the Consideration Shares allotted and issued to the Seller in connection with the Proposed Acquisition at the Consideration Share Issue Price.

Adjustment to the Consideration

Pursuant to the MOU, the Company will be entitled to request for the adjustment of the valuation of the Target Company, the Consideration and the payment method, in case there exist any potential or existing material impacts or issues that affect the value of the Sale Interest and material assets of the Target

Company, financial or tax positions of the Target Company, legal subsistence of the Target Company and/or the conducting of regular business activities of the Target Company and safety and environmental conditions of the Target Company. The adjustment to be made would be subject to further negotiation and decision then reached by the Company and the Seller.

Performance guarantee and performance award

Pursuant to the MOU, the Seller has undertaken that the audited actual net profits excluding non-recurring gains or losses of the Target Company for each year during the Performance Guarantee Period (the “**Actual Annual Net Profits**”) shall be not less than the amount of RMB 84 million (the “**Guaranteed Annual Net Profits**”), with an allowed adjustment amount of not higher than RMB 4 million (the “**Allowed Floating Amount**”).

For each year during the Performance Guarantee Period, in the event that the Actual Annual Net Profits of the Target Company is lower than the Guaranteed Annual Net Profits less the Allowed Floating Amount, the Seller shall pay compensation to the Company (the “**Company’s Annual Performance Compensation**”) in the following manner:–

(a) The amount of the Company’s Annual Performance Compensation will be determined as follows:–

(Guaranteed Annual Net Profits-Allowed Floating Amount-Actual Annual Net Profits) ÷ (the aggregate sum of the Guaranteed Annual Net Profits for the Performance Guarantee Period – the aggregate sum of the Allowed Floating Amount for the Performance Guarantee Period) X Consideration

(b) Subject to the requirements of and compliance with applicable laws and regulations (including but not limited to the Listing Rules and the Takeovers Code), the Company’s Annual Performance Compensation shall be settled by the Company repurchasing the Consideration Shares issued and allotted to the Seller at the lowest price possible under applicable laws and regulations (including but not limited to the Listing Rules and the Takeovers Code), but the Consideration Shares to be repurchased for this purpose cannot be more than one third of the total number of the Consideration Shares issued and allotted to the Seller (the “**Compensation Shares**”). The number of Compensation Shares will be determined as follows:–

Company’s Annual Performance Compensation ÷ Consideration Share Issue Price

In case of distribution by the Company by way of capitalization issue or bonus issue during the relevant year of the Performance Guarantee Period, the number of Compensation Shares for that year shall be determined as follows:–

Company’s Annual Performance Compensation ÷ [Consideration Share Issue Price X (1 + ratio of capitalization issue or bonus issue)]

A sum equals to any dividends and bonuses previously paid to the Seller in respect of the Consideration Shares shall also be paid by the Seller to the Company.

For each year during the Performance Guarantee Period, in the event that the Actual Annual Net Profits of the Target Company is higher than the sum of the Guaranteed Annual Net Profits and the Allowed Floating Amount, the Company shall pay performance awards in cash to the Seller and the management of the Target Company (the “**Seller’s Annual Performance Awards**”), which shall be the sum of the following amounts and shall be capped at RMB 30 million per year:–

- (a) Actual Annual Net Profits – (Guaranteed Annual Net Profits + Allowed Floating Amount) X 30%;
- (b) government subsidies and incentive awards received by the Target Company in the relevant year X 40%; and
- (c) non-recurring profits (other than the amount mentioned in item (b) above (if any)) X 30%.

The precise allocation of the Seller’s Annual Performance Awards between the Seller and the management of the Target Company shall be further negotiated and determined by the Seller and the Company.

Basis of the Consideration

The Consideration (including the adjustment) was determined based on normal commercial terms and after arm’s length negotiations between the Company and the Seller. The Consideration in the amount of RMB567 million was determined with reference to 75% of the Guaranteed Annual Net Profits for the financial year ending 31 December 2017 multiplied by the P/E ratio of 9 times. The P/E ratio of 9 times was determined after arm’s length negotiations between the Company and the Seller with reference to the P/E ratios of companies whose principal activities are similar to those of the Target Company.

After taking into account the above factors, the Directors consider that the Consideration is fair and reasonable.

The basis of determining the Consideration Share Issue Price will be disclosed in the further announcement to be published by the Company after the Formal Agreement is executed in accordance with the Listing Rules. The Consideration Share Issue Price will be determined based on normal commercial terms and after arm’s length negotiations between the Company and the Seller, with reference to the prevailing market prices of the Shares and the current market conditions.

Management of the Target Company

Pursuant to the MOU, during the Performance Guarantee Period, the Seller and the existing management of the Target Company will be principally responsible for the operation and management of the Target Company. Prior written consent of the Company shall be obtained before the commencement or execution of significant matters in the business operations of the Target Company (including but not limited to changes to the registered capital, changes to the shareholding structure, material changes to the business and operational activities, external investment or financing decisions, purchase of material

assets such as immovable property, entering into of material contracts including irregular commercial arrangements or contracts which may restrict the operation of the Target Company, and any other matters which may materially affect the subsistence, operation and financial conditions of the Target Company).

Conditions precedent

Completion of the Proposed Acquisition is subject to the following conditions being satisfied:–

- (a) the passing of ordinary resolutions by the Shareholders at the extraordinary general meeting to be convened by the Company approving the Formal Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares to the Seller;
- (b) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange; and
- (c) the Seller obtaining and providing to the Company E&A Investment Limited's waiver of its right of first refusal (if any) in respect of the Sale Interest.

Additional conditions precedent (if any) and the relevant long-stop date for satisfaction of the same will be agreed by the Seller and the Company under the Formal Agreement.

Non-competition undertaking

Pursuant to the MOU, the Seller has undertaken that he and his spouse, his children and their spouses, and his grandchildren shall not directly or indirectly engage in businesses and activities which may be or are potentially in competition with the businesses of the Target Company commencing from the date of the MOU and to the expiry of the period of 10 years from the date on which the Seller disposes of all his interest in any Shares. If the Formal Agreement is not entered into or completion of the Proposed Acquisition does not take place pursuant to the Formal Agreement, the Seller will not be restricted by this undertaking.

Exclusivity and the Formal Agreement

During the Exclusivity Period, the Seller and the Target Company shall not, without the prior written consent of the Company, directly or indirectly enter into or be involved in any discussions, negotiation or agreement with any person (other than the Company) for or in relation to the sale, transfer or disposal of the Sale Interest (in whole or in part). The Seller and the Company will further negotiate with a view to entering into the Formal Agreement in relation to the Proposed Acquisition and its detailed arrangements. Unless otherwise agreed between the Seller and the Company, the terms and conditions under the Formal Agreement shall be consistent with the principles of the MOU.

Due diligence investigation

The Company and its professional advisers will be entitled to conduct due diligence investigation on the Target Company. In case factors which may materially affect the Proposed Acquisition are found or become known during the due diligence investigation, the Company will be entitled (but not obliged) to negotiate with the Seller and the Target Company on reasonable resolutions to be implemented by the Seller and the Target Company.

Termination of the MOU

The MOU may be terminated upon the occurrence of any of the following events:–

- (a) the Company and the Seller agree to terminate the MOU in writing;
- (b) the parties to the MOU (and other relevant parties (if any)) enter into the Formal Agreement in relation to the Proposed Acquisition, in that case the MOU will automatically be terminated on the date of the Formal Agreement;
- (c) the parties to the MOU (and other relevant parties (if any)) have not entered into the Formal Agreement in relation to the Proposed Acquisition on expiry of the Exclusivity Period, and the Company and the Seller have not reached any agreement to extend the Exclusivity Period, in that case the MOU will automatically be terminated on the date on which the Exclusivity Period expires;
- (d) in the event that any party to the MOU has found or it has come to the notice of any party to the MOU that a material circumstance exists which affects or may affect the Proposed Acquisition, and if such issue cannot be resolved within a reasonable period (including in case where the Seller and/or the Target Company cannot or cannot fully implement the resolutions and address the issues found or become known during the due diligence investigation, such that the material circumstance which may affect the Proposed Acquisition persists), any party to the MOU may terminate the negotiation of the Proposed Acquisition and terminate the MOU forthwith in writing;
- (e) if there is a breach of the MOU by any party, and such default has not been remedied within 3 days after the date on which written notice of such default has been given by the non-defaulting party to the defaulting party, the non-defaulting party may terminate the negotiation of the Proposed Acquisition and terminate the MOU forthwith in writing; or
- (f) in the event that any party to the MOU cannot perform its obligations under the MOU or cannot achieve the objectives of the Proposed Acquisition due to an event of force majeure (including an objective circumstance which is unforeseeable, unavoidable and cannot be overcome by the parties, including acts of nature (including but not limited to earthquake, hurricane, tsunami, storm and serious epidemic) and social events (including but not limited to war, strike, governmental act and change in law or policy)) which lasts for 60 consecutive days, the parties to the MOU may agree to terminate the MOU.

ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

The Consideration Shares will be allotted and issued under a specific mandate to be sought from the Shareholders in an extraordinary general meeting to be convened by the Company approving the Formal Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares to the Seller. The Consideration Shares, when allotted and issued, will rank pari passu in all respects with the existing Shares in issue on the date of allotment and issue of the Consideration Shares.

Subject to the execution of the Formal Agreement, application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Consideration Shares.

INFORMATION OF THE GROUP AND THE TARGET COMPANY

The Company is an investment holding company, and its subsidiaries were involved in the principal activities of manufacture and sale of pigment intermediates, dye intermediates, mononitrotoluene (comprising para-nitrotoluene, ortho-nitrotoluene and meta-nitrotoluene) as well as ortho-toluidine and others.

The Target Company is a Sino-foreign joint venture company established in Yingkou City, Liaoning Province of the PRC, and its principal activities are (i) to design, develop and produce cyanuric chloride and its derivatives, sodium cyanide and its derivatives, chlorine and its derivatives, industrial sulfuric acid-related products and triallyl cyanurate-related products; (ii) to provide after-sale services in relation to the abovementioned products; (iii) to sell products and equipment manufactured by the Target Company; and (iv) to research on and develop solid waste reuse and recycle.

Based on the PRC audited accounts of the Target Company prepared in accordance with the generally accepted accounting principles in the PRC, the audited net assets value of the Target Company as at 31 December 2016 was RMB428,173,000, and the audited net profits of the Target Company for the year ended 31 December 2016 and 31 December 2015 were as follows:–

	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Net profits before taxation	RMB93,567,000	RMB3,697,000
Net profits after taxation	RMB80,087,000	RMB8,503,000

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Target Company produces and sells fine chemicals, including but not limited to cyanuric chloride, sodium cyanide and industrial sulfuric acid-related products. Through the Proposed Acquisition, the Group is expected to benefit from vertical integration. With its chain of production strengthened, the Group's position as the world's leading fine chemical manufacturer will be enhanced.

Cyanuric chloride, one major product manufactured by the Target Company, has wide applications including for use to manufacture agricultural chemicals intermediates (e.g. herbicides and pesticides). The capacity to produce such chemicals, compounded with the Group's current expertise in producing ONT/OT agricultural chemicals intermediates, will generate synergies, broaden the Group's revenue channels and strengthen its strategic position in the agricultural chemicals intermediates segment by enlarging its market presence. Furthermore, through acquiring the capacity to produce cyanuric chloride, which, same as DSD Acid (currently one of the main products of the Group), is the essential raw material of optical brightening agents, the Group may have better control of the costs of the raw materials, thereby increasing its competitiveness in the market.

Through enriching the Group's product portfolio and enhancement of the Group's market position as aforementioned, the Proposed Acquisition may create value for Shareholders by bringing about long term business development and higher financial return to the Group.

Based on the factors mentioned above, the Directors believe that the terms, including the Consideration, of the MOU and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Group intends to finance the Proposed Acquisition by way of equity financing, bank loans and internal resources.

LISTING RULES IMPLICATION

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Proposed Acquisition is expected to be higher than 25% but less than 100%, the Proposed Acquisition will constitute a major transaction for the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

Further announcement(s) will be made when the Formal Agreement is executed in compliance with the Listing Rules. A circular containing, among other things, further details on the Proposed Acquisition will be despatched to the Shareholders as soon as practicable thereafter in accordance with the requirements of the Listing Rules.

Shareholders and potential investors should note that completion of the Proposed Acquisition is subject to the parties entering into the Formal Agreement and the fulfillment of the conditions precedent thereunder. As such, the Proposed Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

The following terms have the following meanings in this announcement unless the context otherwise requires:

“Actual Annual Net Profits”	has the meaning as defined under the section headed “ <i>Memorandum of understanding in relation to the Proposed Acquisition – Performance guarantee and performance award</i> ”
“Allowed Floating Amount”	has the meaning as defined under the section headed “ <i>Memorandum of understanding in relation to the Proposed Acquisition – Performance guarantee and performance award</i> ”
“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 (Stock Code: 1986)
“Company’s Annual Performance Compensation”	has the meaning as defined under the section headed “ <i>Memorandum of understanding in relation to the Proposed Acquisition – Performance guarantee and performance award</i> ”
“Compensation Shares”	has the meaning as defined under the section headed “ <i>Memorandum of understanding in relation to the Proposed Acquisition – Performance guarantee and performance award</i> ”
“Consideration”	the consideration of the Proposed Acquisition
“Consideration Share Issue Price”	has the meaning as defined under the section headed “ <i>Memorandum of understanding in relation to the Proposed Acquisition – Consideration</i> ”
“Consideration Shares”	has the meaning as defined under the section headed “ <i>Memorandum of understanding in relation to the Proposed Acquisition – Consideration</i> ”
“Director(s)”	the director(s) of the Company
“Exclusivity Period”	an exclusivity period of 6 months commencing from the date of the MOU
“Formal Agreement”	the formal sale and purchase agreement which may be entered into in relation to the Proposed Acquisition

“Group”	the Company and its subsidiaries
“Guaranteed Annual Net Profits”	has the meaning as defined under the section headed “ <i>Memorandum of understanding in relation to the Proposed Acquisition – Performance guarantee and performance award</i> ”
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the memorandum of understanding dated 10 February 2017 entered into amongst the Company, the Seller and the Target Company in relation to the Proposed Acquisition
“Performance Guarantee Period”	the years of 2017, 2018 and 2019
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan)
“Proposed Acquisition”	the proposed acquisition of the Sale Interest by the Company (or its designated subsidiary) in accordance with the terms of the MOU or the Formal Agreement (if signed)
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	75% equity interest in the Target Company held by the Seller as at the date of this announcement
“Seller”	Mr. Liu Zhixun (劉至尋)
“Seller’s Annual Performance Awards”	has the meaning as defined under the section headed “ <i>Memorandum of understanding in relation to the Proposed Acquisition – Performance guarantee and performance award</i> ”
“Share(s)”	ordinary share(s) of nominal value US\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs

“Target Company”	Ynnovate Sanzheng (Yingkou) Fine Chemicals Co., Ltd.* (營創三征(營口)精細化工有限公司), a Sino-foreign joint venture company established in Yingkou City, Liaoning Province of the PRC and its registered capital was RMB168 million, 75% of which was held by the Seller and 25% was held by E&A Investment Limited as at the date of this announcement
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

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

Beijing, the PRC, 10 February 2017

As at the date of this announcement, the Board comprises Mr. Ge Yi, Ms. Duan Weihua, Ms. Jin Ping and Mr. Bai Kun 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*