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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)

**CLARIFICATION ANNOUNCEMENT
AND
RESUMPTION OF TRADING**

This announcement is made by Tsaker Chemical Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board (the “**Board**”) of directors (the “**Directors**”) of the Company wishes to inform the shareholders of the Company (the “**Shareholders**”) and potential investors that the Company was recently made aware by a market investor of an email (the “**Email**”) sent to the investor by research@yodali.com which contains allegations against the Group (the “**Allegations**”) and suggested the investor to sell the shares of the Company as soon as possible. The Company has no information regarding the identity of the sender of the Email or whether the Email has been sent to other persons. The Board vigorously denies the Allegations and wishes to clarify that the Allegations are inaccurate, misleading and unfounded. The Company does not rule out the possibility that the Email was sent to attempt to undermine investors’ confidence in the Group’s business, financial condition and reputation. The Company reserves its right to take legal actions for the damages done to the Group by the Allegations in the Email.

This announcement is made to refute and/or clarify the Allegations and to rebut the attempt to undermine the confidence of Shareholders and potential investors in the Group’s business, financial condition and reputation.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. Shareholders and potential investors should also read this announcement carefully.

REFUTATION AND/OR CLARIFICATION OF THE ALLEGATIONS

The Company has carefully considered the contents of the Email. Set out below are the Company's responses to the Allegations:

Allegation 1: Suspicious accounting treatment to boost profits in view of the doubling of the Group's net profit albeit only 24% increase in revenue, in each case for the six months ended 30 June 2018 as compared with that in the corresponding period of 2017

The Company's response

The Company considers that this Allegation is untrue and misleading. The growth rate of revenue is not necessarily commensurate with that of net profit as illustrated below.

Set out below are the financial figures of the Group's business segments for the six months ended 30 June 2017 and 30 June 2018:

For the six months ended 30 June 2018	Sales volume (tonnes)	Revenue (RMB'000)	Cost of sales (RMB'000)	Gross profit (RMB'000)	Gross profit margin
Dye intermediates	21,002	488,942	306,267	182,675	37.4%
Pigment intermediates	4,187	131,139	86,094	45,045	34.3%
Agricultural chemical intermediates	9,582	119,711	95,493	24,218	20.2%
Battery materials	44	902	880	22	2.4%
Environmental technology consultancy service	/	13,940	9,181	4,759	34.1%
Total	34,815	754,634	497,915	256,719	34.0%
For the six months ended 30 June 2017	Sales volume (tonnes)	Revenue (RMB'000)	Cost of sales (RMB'000)	Gross profit (RMB'000)	Gross profit margin
Dye intermediates	18,577	303,593	224,057	79,536	26.2%
Pigment intermediates	3,481	100,782	65,153	35,629	35.4%
Agricultural chemical intermediates	20,663	202,271	161,437	40,834	20.2%
Battery materials	24	555	401	154	27.7%
Environmental technology consultancy service	/	/	/	/	/
Total	42,745	607,201	451,048	156,153	25.7%

(1) Revenue and profit in relation to dye intermediates, pigment intermediates and agricultural chemical intermediates

The Group is principally engaged in the manufacture and sales of dye intermediates, pigment intermediates and agricultural chemical intermediates. For the six months ended 30 June 2018, the Group's total revenue, gross profit and net profit increased by 24.3%, 64.4% and 111.3% respectively as compared to that in the corresponding period of 2017, which was largely due to an increase in the price and sales volume of the Company's core dye intermediate, DSD Acid. The increase in the price at the beginning of 2018 was due to the rebound in international crude oil prices since the end of 2017, which drove up the prices of chemical raw materials and in turn, the higher production costs drove up the price of dye intermediates in the market. The stricter inspection of environmental standards by the related authorities has also impacted the production of dye intermediates of the Company's competitors, thereby lowering its market supply and driving up its prices. Following a decrease in the production of dye intermediates by the Company's competitors, the Company has greater flexibility in terms of negotiating the prices of dye intermediates. The price of dye intermediates and hence its gross profit margin has increased considerably in the first half of 2018 as compared with those of the corresponding period in 2017. Set out below are the percentage increase in average export price of DSD Acid of the Group:

Average export price for June 2017 compared with that for December 2016	34.1%
Average export price for December 2017 compared with that for June 2017	17.3%
Average export price for June 2018 compared with that for December 2017	24.3%
Average export price for June 2018 compared with that for June 2017	45.8%

As a result of the increase in price and sales volume, for the six months ended 30 June 2018, the revenue and gross profit of dye intermediates of the Group accounted for 64.8% and 71.2% of the Group's total revenue and gross profit respectively, whereas for the corresponding period of 2017, the revenue and gross profit of dye intermediates only accounted for 50.0% and 50.9% of the Group's total revenue and gross profit respectively. Due to the higher gross profit margin of dye intermediates and its greater percentage over the Group's total revenue for the six months ended 30 June 2018, the Group's overall gross profit margin for the same period has also increased.

The increase in international crude oil prices also drove up the price of pigment intermediates and the Group increased the production capacity of one of the pigment intermediates, DMAS. Hence, for the six months ended 30 June 2018, the increase in the revenue and gross profit of pigment intermediates was mainly due to increased sales volume and price.

Stricter inspection and supervision of environmental standards by the authorities resulted in downstream customers halting or reducing their production, as a result of which, the revenue and gross profit of agricultural chemical intermediates of the Group for the six months ended 30 June 2018 decreased and accounted for 15.9% and 9.4% of the Group's total revenue and gross profit respectively, as compared with the revenue and gross profit of agricultural chemical intermediates for the corresponding period in 2017 being accounted for 33.3% and 26.1% of the Group's total revenue and gross profit respectively. The decrease in market demand led to a significant drop in the sales volume of agricultural chemical intermediates. However, since the increase of international crude oil prices has caused the increase of the chemical raw materials prices, the sales prices of agricultural chemical intermediates increased during the six months ended 30 June 2018 and the gross profit margin of the agricultural chemical intermediates remained the same as that for the corresponding period of 2017. The drop in revenue of agricultural chemical intermediates was mainly caused by the drop in sales volume.

(2) Sales expenses and administrative expenses

Sales and administrative expenses of the Group did not significantly increase for the six months ended 30 June 2018. For sales expenses, although the total sales volume of the Group for the six months ended 30 June 2018 was 7,930 tonnes less than that for the corresponding period of 2017, the sales volume of dye intermediates and pigment intermediates have increased by 2,425 tonnes and 706 tonnes respectively. All agricultural chemical intermediates were sold in China. The sales expense incurred for domestic sales was lower than that incurred for the export sales of dye intermediates and pigment intermediates, thereby overall resulting in a similar sales expense incurred by the Group for the six months ended 30 June 2018 compared to the corresponding period of 2017.

The overall production and operation of the Group remained stable for the six months ended 30 June 2018 and save for the increase in production capacity of DMAS, there was no significant increase in the scale of production line of other products of the Group. There was only a slight increase of 7.4% in administrative expenses due to the increase of labour costs and research and development costs for the six months ended 30 June 2018 as compared with that in the corresponding period of 2017.

In summary, the Group's overall operations maintained a steady increase for the six months ended 30 June 2018. Owing to the overall increase in the Group's revenue as attributed by the increase in the price and sales volume of dye intermediates and pigment intermediates, the higher profit margin of dye intermediates and sales expenses and administrative expenses remaining relatively stable, the growth rate in the Group's gross profit and net profit was much greater than that of the Group's revenue.

Allegation 2: Violation of labour laws by the Group in relation to the provision of social insurance and labour security and the number of employees of the Group being significantly less than that of companies in the same industry with comparable production capacity

The Company's response

In the Allegation, Shandong Tsaker Dongao Chemicals Co., Limited* (山東彩客東奧化學有限公司) (“**Tsaker Dongao**”), an indirect wholly-owned subsidiary of the Company, and Jiangsu Huaihe Chemicals Co., Ltd.* (江蘇淮河化工有限公司) (“**Jiangsu Huaihe**”), a company incorporated in the People’s Republic of China (according to information available in the public domain), were quoted as comparables.

Based on the grounds set out below and with reference to certain information available in the public domain on Jiangsu Huaihe, the Company is of the view that this Allegation is untrue, misleading and unfounded and made without due consideration of the underlying facts and based on selective information by comparing the number of employees (179) of Tsaker Dongao participating in the social insurance with the number of employees (702) of Jiangsu Huaihe participating in the social insurance, which is inappropriate and misleading. With an efficient management model and production processes, the Company is of the view that the Group is able to achieve its present scale of production and operation with the current scale of labour.

- (1) Tsaker Dongao is principally engaged in the production of mononitrotoluene (which consists of 2-nitrotoluene, 3-nitrotoluene and 4-nitrotoluene) and ortho-toluidine. Besides the production of mononitrotoluene and ortho-toluidine, Jiangsu Huaihe is also engaged in the production of other products. Set out below are the annual production capacity of the products of Tsaker Dongao and Jiangsu Huaihe:

Products	Annual production capacity of Tsaker Dongao	Annual production capacity of Jiangsu Huaihe^(Note)
Mononitrotoluene	80,000 tonnes (comprising 48,000 tonnes, 4,000 tonnes and 28,000 tonnes for 2-nitrotoluene, 3-nitrotoluene and 4-nitrotoluene respectively)	80,000 tonnes (comprising 44,800 tonnes, 3,200 tonnes and 32,000 tonnes for 2-nitrotoluene, 3-nitrotoluene and 4-nitrotoluene respectively)
Ortho-toluidine	6,000 tonnes	20,000 tonnes
Other products	N/A	oleum (100,000 tonnes), sulfuric acid (80,000 tonnes), ammonia (40,000 tonnes), nitric acid (200,000 tonnes), 4-toluidine (10,000 tonnes), 3-toluidine (2,000 tonnes), sodium nitrate (1,500 tonnes) and magnesium nitrate (300 tonnes)

Note: The relevant figures are obtained from the website of the Safety Production Supervision and Administration Bureau of Jiangsu (江蘇省安全生產監督管理局).

While the annual production capacity of mononitrotoluene of Tsaker Dongao and Jiangsu Huaihe is comparable, the annual production capacity of ortho-toluidine of Tsaker Dongao is much less than that of Jiangsu Huaihe. In addition, Jiangsu Huaihe also produces other products with a total annual production capacity of 433,800 tonnes. In view of the above, it is deduced that Jiangsu Huaihe's operational and production scale are significantly greater than those of Tsaker Dongao and therefore, Jiangsu Huaihe requires a larger amount of labour for its production.

- (2) The revenue of Jiangsu Huaihe for the year ended 31 December 2017 was approximately RMB900 million (as obtained from the website of the China Beijing Equity Exchange), while the revenue of Tsaker Dongao was approximately RMB414 million for the year ended 31 December 2017 based on its unaudited financial information. It follows that as compared with Tsaker Dongao, a much larger labour force would have to be employed to support the greater production scale of Jiangsu Huaihe.

In view of the above, this Allegation based on comparison of the sizes of labour force of Tsaker Dongao and Jiangsu Huaihe participating in the social insurance without further analysis or making reference to other facts is inappropriate and misleading. The Company emphasizes that the Group is in compliance with relevant labour laws in relation to the provision of social insurance and labour security and this Allegation against the Company is an obvious unfounded accusation attempted to undermine the Group's reputation.

Allegation 3: The research and development (“R&D”) costs of approximately RMB8.3 million incurred by the Group for the year ended 31 December 2017 is insufficient to support the Group's technology-leading position

The Company's response

The Company considers the Allegation to be mere irresponsible speculation with no factual basis. The amount of R&D costs incurred by the Group depends on the business and unique needs of the Group and does not necessarily determine whether the Group maintains its technology-leading position.

Over the course of the Group's development, its continuous and tireless efforts in R&D have benefited the Group to achieving its technology-leading position. As disclosed in the Company's prospectus dated 23 June 2015, between the years 2012 and 2014, 7 patents which were considered material to the business of the Group were registered. Thereon, building on what has been developed, the Group does not only actively develop more advance production technologies, but also constantly upgrades existing technologies and products to maintain its leading technological position in the industry. Further, the amount of R&D costs incurred by the Group is not necessarily directly correlated with whether the Group is able to maintain its technology-leading position. Based on the Group's strong technological foundations, the level of R&D costs incurred by the Group is kept at a reasonable level, which is a result of the Group's commitment to continuous development and innovation.

The chemical industry is also different from the traditional manufacturing industry. The Company believes that the technological advantages of the chemical industry depends largely on the discovery and application of technological know-how. Acquisition of technological discovery is contingent and is not necessarily correlated with the amount of R&D costs. To allege that a relatively low level of R&D costs incurred by the Group means that it cannot support its technology-leading position is simply untrue and without grounds.

CONCLUSION

Based on the refutations and/or clarifications stated above, the Board is of the view that the Allegations are inaccurate, misleading and unfounded. The Company reserves its right to take legal actions for the damages done to the Group by the Allegations in the Email.

The Board confirms that all the consolidated financial statements of the Group for each of the 6 years ended 31 December 2012, 2013, 2014, 2015, 2016 and 2017 have been audited by the current auditor of the Company which has issued unqualified audit opinions of the Group's consolidated financial statements throughout all those years. As at the date of this announcement, the auditor of the Company confirms that it has not withdrawn or revised its unqualified audit opinions in their auditor's reports in respect of the Group's audited consolidated financial statements for the said years.

The Board is not aware of any significant event which has occurred since the publication of the Company's 2018 interim report and will give rise to a material adverse effect on the production, sales and operation of the Group.

Members of the audit committee of the Company (the "**Audit Committee**") have reviewed the Allegations in the Email, the responses set out in this announcement and discussed in detail among themselves and with the management of the Company. On this basis, the Audit Committee agrees with the Company's responses to the Allegations as set out in this announcement and stands by the Group's audited consolidated financial statements for the year ended 31 December 2017 and unaudited consolidated financial statements for the six months ended 30 June 2018. Members of the Audit Committee have also communicated with the auditor of the Company.

Subject to market conditions, the Company shall exercise the power of the Company to repurchase its own shares. The timing, quantity or price of any share repurchase will be at the discretion of the management of the Company until the expiry of the repurchase mandate, but in any case, subject to the availability of the repurchase mandate. In the future years, the Company will continue to pay dividends according to its dividend policy.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was halted with effect from 9:51 a.m. on Monday, 3 December 2018 pending release of this announcement. The Company has applied to the Stock Exchange for resumption of trading in its shares on the Stock Exchange with effect from 9:00 a.m. on Friday, 7 December 2018.

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

Beijing, 6 December 2018

As at the date of this announcement, the Board comprises Mr. Ge Yi 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*