

# SINOSTAR PEC HOLDINGS LIMITED

(Company Registration No. 200609833N)

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- A. **PROPOSED ACQUISITION OF THE SALE ASSETS (AS DEFINED HEREIN) FROM DONGMING RUNCHANG PETROCHEMICAL CO., LTD. (东明润昌化工有限公司) (“DONGMING RUNCHANG”); AND**
- B. **PROPOSED DISPOSAL OF 51% OF THE EQUITY INTEREST AND REGISTERED CAPITAL OF DONGMING RUNCHANG TO HEZE LONG DING INVESTMENT LIMITED (菏泽龙鼎投资有限公司) (“HLDIL”).**
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## A. INTRODUCTION

- I. The board of directors (the “**Board**”) of Sinostar PEC Holdings Limited (the “**Company**”, together with its subsidiaries, referred to as the “**Group**”) wishes to announce that Dongming Hengchang Petrochemical Co., Ltd (东明恒昌化工有限公司) (“**Dongming Hengchang**”), a wholly owned subsidiary of the Company, has on 19 March 2014 entered into a conditional sale and purchase agreement (the “**Asset Sale Agreement**”) with Dongming Runchang to acquire certain gas fractionation processing installation and related assets used by Dongming Runchang in its business of the downstream production and supply of petrochemical products, in particular, processed liquefied petroleum gas (“**LPG**”) and propylene (the “**Petrochemical Business**”) (the “**Proposed Acquisition**”).

The assets proposed to be acquired from Dongming Runchang (collectively, the “**Sale Assets**”) comprise *inter alia* the gas fractionation processing installation and assets, equipment, storage tanks and other chattels in relation to the Petrochemical Business and the goodwill of Dongming Runchang in connection with the Petrochemical Business.

The Proposed Acquisition is an interested person transaction under Chapter 9 of the listing manual (the “**Listing Manual**”) of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”), which requires approval of the independent shareholders of the Company under Rule 906 of the Listing Manual. The Proposed Acquisition also constitutes a major transaction under Rule 1014 of the Listing Manual which requires approval of the shareholders of the Company.

- II. In addition, Dongming Hengchang has on 19 March 2014 also entered into a conditional sale and purchase agreement (the “**Share Sale Agreement**”) with HLDIL, a company incorporated in the People’s Republic of China (the “**PRC**”), for the sale and disposal by Dongming Hengchang of its entire legal and beneficial ownership of 51% of the equity interest and registered capital in Dongming Runchang (the “**Sale Equity**”), free from all charges, liens and other encumbrances to HLDIL and the assignment to HLDIL of an outstanding entrusted loan which had been extended by Dongming Hengchang to Dongming Runchang (the “**Proposed Disposal**”).

The Proposed Disposal constitutes a major transaction under Rule 1014 of the Listing Manual which requires approval of the shareholders of the Company.

## **B. BACKGROUND INFORMATION ON DONGMING RUNCHANG**

As at the date hereof, Dongming Runchang is a 51% subsidiary of the Group incorporated in the PRC, with Dongming Hengchang being the legal and beneficial owner of 51% of its equity interest and registered capital. The other 49% of the equity interest and registered capital of Dongming Runchang is legally and beneficially held by Dongming Runbang Petrochemical Co., Ltd (东明润邦化工有限公司) (“**Dongming Runbang**”). Dongming Runchang carries on the Petrochemical Business and the business of upstream refining, processing and selling of other oil derivatives such as gasoline, diesel, naphtha and asphalt (the “**Other Oil Derivatives Business**”).

Li Xiang Ping (“**Mr Li**”), a director and the non-executive chairman of the Company, is also a controlling shareholder of the Company. Mr Li has a deemed interest in all the 329,996,000 issued shares in the capital of the Company (representing 51.56% of the issued shares in the Company) held by the Company’s parent company, Intelligent People Holdings Limited (“**Intelligent People**”), by virtue of his 87.03% shareholding interest in Intelligent People. Further, Mr Li has a deemed interest in all the shares in Dongming Runchang by virtue of Dongming Hengchang, a wholly-owned subsidiary of the Company. Fan Deng Chao (“**Mr Fan**”), the chief executive director of the Company, is the holder of the remaining 12.97% shareholding interest in Intelligent People.

Apart from their indirect equity interests in Dongming Runchang held through the Company, Mr Li and Mr Fan respectively also hold indirect equity interests of 4.42% and 0.83% in Dongming Runbang, and 2.17% and 0.41% in Dongming Runchang, through various intermediary companies. A diagram setting out the shareholding interests of Mr Li and Mr Fan in Dongming Runchang is set out in Appendix A to this Announcement. In addition, Mr Li is the legal representative and board chairman of Shandong Dongming Petrochem Group Co., Ltd (山东东明石化集团有限公司) (“**Dongming Petrochem**”), the 100% immediate holding company of Dongming Runbang.

Accordingly, Dongming Runchang would, for the purposes of Chapter 9 of the Listing Manual and the Proposed Acquisition, be regarded as an “interested person” of the Company.

An outstanding entrusted loan has been extended by Dongming Hengchang to Dongming Runchang which as at 31 December 2013 (including accrued interests up to 31 December 2013) amounted to RMB300,813,333 (the “**Outstanding Loan**”).

## **C. VALUATION OF THE SALE ASSETS AND THE SALE EQUITY**

In connection with the Proposed Acquisition and the Proposed Disposal, the Company engaged an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Valuer**”), to assess and determine the market value of the Sale Assets and the market value of the identifiable tangible assets and liabilities of Dongming Runchang, assuming disposal of the Sale Assets pursuant to the Proposed Acquisition.

Based on valuation reports dated 17 February 2014 (the “**Sale Assets Valuation Report**”) and 4 March 2014 (the “**Sale Equity Valuation Report**”) issued by the Valuer, the market value of the Sale Assets as at 31 October 2013 was RMB89,581,000 and the market value of the identifiable tangible assets and liabilities of Dongming Runchang, assuming disposal of the Sale Assets pursuant to the Proposed Acquisition as at 31 October 2013 was RMB227,586,000.

The Sale Assets Valuation Report was prepared in accordance with the International Valuation Standards issued by the International Valuation Standards Committee and the Uniform Standards of Professional Appraisal Practice issued by the Appraisal Standard Board (USA).

The Sale Equity Valuation Report was prepared in accordance with the International Valuation Standards issued by the International Valuation Standards Council.

## **D. THE PROPOSED ACQUISITION**

### **1. SALIENT TERMS OF THE ASSET SALE AGREEMENT**

#### 1.1 Conditions Precedent

The Proposed Acquisition is conditional on *inter alia* the following:

- (a) Dongming Hengchang having received the requisite approval from its board of directors and its shareholder and the shareholders of the Company, at an extraordinary general meeting to be convened by the Company for the proposed disposal of the Sale Equity and acceptance of the assignment of the outstanding entrusted loan to HLDIL pursuant to the Share Sale Agreement (the “**Proposed Transaction**”);
- (b) Dongming Hengchang having received the requisite approval(s) (where required) from its board of directors and its shareholder and the independent shareholders of the Company under Chapters 9 and 10 of the Listing Manual, at an extraordinary general meeting (“**EGM**”) to be convened by the Company for the Proposed Acquisition;
- (c) all requisite regulatory approvals and corporate approvals, if necessary, for the transactions contemplated under the Asset Sale Agreement being obtained, and not withdrawn, suspended, amended or revoked, on or before the date of completion of the Proposed Acquisition (the “**Proposed Acquisition Completion Date**”), and if such consents or approvals are granted or obtained subject to any conditions, such conditions being reasonably acceptable to Dongming Hengchang;
- (d) no person having commenced or threatened to commence any proceedings or investigation for the purpose of prohibiting or otherwise challenging or interfering with the proposed disposal by Dongming Runchang;

- (e) all representations, warranties and undertakings provided by Dongming Runchang under the Asset Sale Agreement being complied with, true, accurate and correct as at the date of the Asset Sale Agreement and each day up to and including the Proposed Acquisition Completion Date;
- (f) no material adverse change (as determined by Dongming Hengchang in its reasonable discretion) in the prospects, operations or financial conditions of Dongming Runchang occurring on or before the Proposed Acquisition Completion Date;
- (g) Dongming Runchang having at its expense applied to the relevant authorities for and procured the transfer of all the licences and approvals necessary for Dongming Hengchang to carry on the Petrochemical Business;
- (h) the approval from the relevant bank facilitating the Outstanding Loan being obtained for the setting off of the Assets Purchase Consideration against an equivalent amount of the Outstanding Loan;
- (i) all accrued interest in respect of the entrusted loan extended by Dongming Hengchang to Dongming Runchang for the period from 1 January 2014 up to the Proposed Acquisition Completion Date (both dates inclusive) having been fully paid and settled by Dongming Runchang; and
- (j) the completion of the Proposed Acquisition being effected simultaneously with the completion of the Proposed Disposal.

If any of the conditions above are not fulfilled or not waived by Dongming Hengchang by 30 June 2014, the Asset Sale Agreement shall *ipso facto* cease and determine and none of the parties shall have any claim against the other for costs, damages, compensation or otherwise.

#### 1.2 Assets Purchase Consideration

The purchase consideration payable by Dongming Hengchang for the Sale Assets shall be the sum of RMB89,581,000 (the “**Assets Purchase Consideration**”) being an amount representing the value of the Sale Assets as disclosed in the Sale Assets Valuation Report.

The Assets Purchase Consideration shall be satisfied and deemed fully paid by Dongming Hengchang instructing the relevant bank facilitating the Outstanding Loan that the Assets Purchase Consideration has been set off against an equivalent amount of the Outstanding Loan owed to Dongming Hengchang, thereby reducing the Outstanding Loan by such amount. No further payment will be required to be made by Dongming Hengchang for the Sale Assets.

#### 1.3 Relevant Employees

Dongming Runchang shall by notice in writing terminate the employment of such of its employees involved in the Petrochemical Business as are notified by Dongming Runchang to Dongming Hengchang in writing within 14 business days from the date of the Asset Sale

Agreement (or such other date that Dongming Runchang and Dongming Hengchang may mutually agree) (the “**Relevant Employees**”), with effect from the close of business on the Proposed Acquisition Completion Date. Dongming Hengchang shall make a written offer of employment to the Relevant Employees, on such terms and conditions not different from the Relevant Employees’ terms of employment with Dongming Runchang. Dongming Runchang shall use its best endeavours to persuade the Relevant Employees to accept Dongming Hengchang’s offer.

#### 1.4 New Lease Agreement

As at the date hereof, the businesses carried out by Dongming Runchang, namely the Petrochemical Business and the Other Oil Derivatives Business, are operated from a single plot of leasehold land situated at Central Zone 1, Shandong Province, Dongming County Caiyuanjizheng Economic Zone, 274500 PRC (the “**Property**”) leased by Dongming Runchang from Dongming Runbang. The Petrochemical Business is operated from, and the gas fractionation processing installation and assets, equipment, storage tanks and other chattels comprised in the Sale Assets are situated on, such portion of the aforesaid Property that is located at the central factory zone at 1, Shandong Province, Dongming County Caiyuanjizheng Economic Zone, 274500 PRC (the “**Specified Property**”), whilst the Other Oil Derivatives Business is operated from the other parts of the Property.

It is agreed that on or prior to completion of the Proposed Acquisition, Dongming Runchang shall procure the termination of the existing lease between itself and Dongming Runbang in relation to the Property, and the entry into:

- (i) a new lease between Dongming Runchang and Dongming Runbang in relation to the Specified Property, on terms and conditions acceptable to Dongming Hengchang (the “**New Lease Agreement**”); and
- (ii) a new lease between Dongming Runchang and Dongming Runbang in relation to the rest of the Property excluding the Specified Property, on which Dongming Runchang’s the other business is operated from.

Dongming Hengchang shall on completion of the Proposed Acquisition be substituted in place of Dongming Runchang as party under the New Lease Agreement with effect from the Proposed Acquisition Completion Date, and Dongming Runchang shall procure Dongming Runbang and all such other party or parties do all such acts and things to effect the novation and transfer of the New Lease Agreement to Dongming Hengchang.

## 2. THE PROPOSED ACQUISITION AS AN INTERESTED PERSON TRANSACTION

As stated in Section B of this Announcement, Dongming Runchang is regarded as an interested person of the Company for purposes of Chapter 9 of the Listing Manual and the Proposed Acquisition. Therefore, the Proposed Acquisition, being between Dongming Runchang and Dongming Hengchang, a wholly owned subsidiary of the Company, constitutes an interested person transaction under Chapter 9 of the Listing Manual.

The Assets Purchase Consideration represents approximately 16.1% of the latest audited consolidated net tangible assets of the Group of RMB557,788,000 as at 31 December 2012 (the “**2012 Group NTA**”), as disclosed in the audited consolidated financial statements of the Group for the financial year ended 31 December 2012 (“**FY2012**”).

The Assets Purchase Consideration represents approximately 16.8% of the latest unaudited consolidated net tangible assets of the Group of RMB532,852,000 as at 31 December 2013 (the “**2013 Group NTA**”), as disclosed in the unaudited consolidated financial statements of the Group for the financial year ended 31 December 2013 (“**FY2013**”) announced by the Company on 28 February 2014.

As the value of the Proposed Acquisition is more than 5% of the 2012 Group NTA and the 2013 Group NTA, for purposes of Chapter 9 of the Listing Manual, approval of the independent shareholders of the Company is required for this transaction.

The Company shall in due course issue a circular to shareholders setting out details of the Proposed Acquisition and such other information as prescribed under Chapter 9 of the Listing Manual. The Proposed Acquisition is conditional, *inter alia*, on the Company obtaining approval of its shareholders (other than Mr Li and Mr Fan and their respective associates, who will abstain from voting) at the EGM to be convened.

### **3. OTHER INTERESTED PERSON TRANSACTIONS FOR CURRENT FINANCIAL YEAR**

The total value of all interested transactions entered into by the Group with Dongming Runchang (excluding all transactions which are less than S\$100,000) for the current financial year up to the date of this announcement is approximately RMB95,135,417.

Such transactions comprised of purchases by Dongming Hengchang of raw LPG and propylene from Dongming Runchang and sale by Dongming Hengchang of recycled propylene and recycled LPG to Dongming Runchang.

The total value of all interested person transactions entered into by the Group including transactions with Dongming Runchang (excluding all transactions which are less than S\$100,000) for the current financial year up to the date of this announcement is approximately RMB1,292,594,983.

Such transactions comprised of the following:

- (a) purchases by Dongming Hengchang of raw LPG and propylene from Dongming Runchang and sale by Dongming Hengchang of recycled propylene and recycled LPG to Dongming Runchang as aforesaid;
- (b) acquisitions by the Group of heavy oil and raw LPG from Dongming Zhongyou Fuel and Petrochemical Company Limited (东明中油燃料石化有限公司) (“**Dongming Zhongyou**”);
- (c) consignments sale by the Group of diesel, gasoline, naphtha and asphalt through Dongming Petroleum Distribution Co., Ltd.(东明石油经销有限公司);

- (d) sales by the Group of LPG and steam gas to Shandong Dongming Petrochem Group Hengji Chemical Company Limited (山东东明石化集团恒基化工有限公司) (“**Dongming Hengji**”);
- (e) payment by the Group for utilities supplied by Dongming Runbang;
- (f) sales by the Group of steam gas to Dongming Runbang;
- (g) payment by the Group of oil processing fees to Dongming Zhongyou; and
- (h) sales by the Group of steam gas to Shandong Dongming Petrochem Group Huize Co., Ltd. (山东东明石化集团汇泽有限公司).

Save as disclosed above, there are no other interested person transactions since the beginning of the current financial year up to the date of this announcement.

#### 4. **AUDIT COMMITTEE STATEMENT**

The Company has appointed Tata Capital Markets Pte Ltd as the independent financial adviser (“**IFA**”) to the directors of the Company who are independent for the purposes of the Proposed Acquisition as an interested person transaction. The Audit Committee of the Company will obtain an opinion from the IFA before forming its view, which will be set out in the circular to be dispatched to shareholders in due course.

#### 5. **RELATIVE FIGURES UNDER CHAPTER 10 OF THE LISTING MANUAL**

##### 5.1 General

Under Chapter 10 of the Listing Manual, a transaction will be classified as a “major transaction” if any of the relative figures calculated on the bases set out in Rule 1006 of the Listing Manual exceeds 20% and if so, shareholders’ approval must be obtained for the “major transaction”.

##### 5.2 Relative Figures under Rule 1006 of the Listing Manual

The relative figures computed on the applicable bases set out in Rule 1006 of the Listing Manual in respect of the Proposed Acquisition and based on the unaudited consolidated financial statements of the Group for FY2013 announced by the Company on 28 February 2014, are set out below.

Rule 1006(a) – the net asset value of the assets to be disposed of, compared with the Group’s net asset value	Not applicable as the transaction is an acquisition.
Rule 1006(b) – the net profits attributable to the assets acquired or disposed, compared with Group’s net losses	(49.9%) <sup>1</sup>

Rule 1006(c) – the aggregate value of the consideration given or received, compared with the Company’s market capitalisation based on the total number of issued shares excluding treasury shares	38.5%
Rule 1006(d) – the number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable as no equity securities are to be issued by the Company as consideration.
Rule 1006(e) – the aggregate volume or amount of proved and probable reserves to be disposed of, compared with the Group’s proved and probable reserves	Not applicable as the Company is not a mineral, oil and gas company.

Note:

1. The relative figure is negative as the net profits attributable to the Sale Assets being acquired by Dongming Hengchang for FY2013 is RMB29,853,000 whilst the Group incurred a net loss of RMB59,871,000 for FY2013.

### 5.3 Major Transaction

As the relative figures computed on the bases set out in Rule 1006(c) exceeds 20%, the Proposed Acquisition constitutes a major transaction as defined in Chapter 10 of the Listing Manual. Accordingly the Proposed Acquisition is subject to the approval by shareholders of the Company in a general meeting.

## **E. THE PROPOSED DISPOSAL**

### **1. THE PURCHASER**

HLDIL was introduced to the Company through business contacts. HLDIL is specially engaged in the investment and management of petrochemical business projects. It is a company wholly owned by two (2) individuals Li Yunlong(李云龙) (“**Mr Li YL**”) and Niu De Yong (牛德永) (“**Mr Niu**”), both of whom are businessmen based in the PRC.

Mr Li YL was previously engaged in real estate development for many years and in recent years entered the petrochemical industry through the setting up of HLDIL with Mr Niu. Mr Niu has been running businesses engaged in the trading of oil products and the construction and operation of sales terminals of refined oil for nearly a decade. He retails refined oil through his private gas station business in Shandong Province.



HLDIL is located at Heze Municipality, Shandong Province, where enterprises in the oil and petrochemical industry are gathered together. Its registered address is at No. 2111 Huanghe Road, Heze Municipality Development Zone, Shandong Province and has the registered capital of RMB100,000,000.

The Company understands that HLDIL is keen to acquire Dongming Hengchang's stake in Dongming Runchang in order to secure a stable supply of gasoline and diesel for the gas station business operated by Mr Niu so that a complete production, supply and sales chain of gasoline and diesel can be formed.

## 2. SALIENT TERMS OF THE SHARE SALE AGREEMENT

### 2.1 Conditions Precedent

The Proposed Disposal is conditional on *inter alia* the following:

- (a) completion of a legal, financial and business due diligence exercise by HLDIL on Dongming Runchang and its business, and the results of such due diligence exercise being satisfactory to HLDIL in its sole and absolute discretion;
- (b) completion, on or before the Proposed Disposal Completion Date, of the Proposed Acquisition;
- (c) Dongming Hengchang having received the requisite approval from its board of directors and its shareholder and the shareholders of the Company, at an EGM to be convened by the Company for the Proposed Acquisition and the Proposed Disposal;
- (d) all requisite regulatory approvals and corporate approvals, if necessary, for the transactions contemplated under the Share Sale Agreement being obtained, and not withdrawn, suspended, amended or revoked, on or before the date of completion of the Proposed Disposal (the "**Proposed Disposal Completion Date**"), and if such consents or approvals are granted or obtained subject to any conditions, such conditions being reasonably acceptable to HLDIL;
- (e) the execution of a deed of assignment for the assignment of the Outstanding Loan (less the Assets Purchase Consideration) (the "**Remaining Outstanding Loan**") to HLDIL; and
- (f) all accrued interest in respect of the entrusted loan extended by Dongming Hengchang to Dongming Runchang for the period from 1 January 2014 up to the Proposed Disposal Completion Date (both dates inclusive) having been fully paid and settled by Dongming Runchang.

If any of the conditions above are not fulfilled or not waived by HLDIL by 30 June 2014, the Share Sale Agreement shall *ipso facto* cease and determine and none of the parties shall have any claim against the others for costs, damages, compensation or otherwise.

## 2.2 Shares Purchase Consideration

- I. The purchase consideration for the Sale Equity and the assignment of the Remaining Outstanding Loan (the “**Shares Purchase Consideration**”) shall be RMB327,301,193 being an amount equivalent to the value of the Sale Equity of RMB116,068,860 (being 51% of the valuation disclosed in the Sale Equity Valuation Report) and the cash amount equivalent to the Remaining Outstanding Loan of RMB211,232,333.
- II. The Shares Purchase Consideration shall be paid by HLDIL to Dongming Hengchang in the following manner:
  - (a) a deposit of the sum of RMB1,160,688 being an amount equivalent to one per centum (1%) of the purchase consideration for the Sale Equity (the “**Deposit**”), subject to paragraph III below, which shall be non-refundable and shall be paid by HLDIL to Dongming Hengchang within seven (7) business days of signing of the Share Sale Agreement and which on completion shall be applied towards an equivalent amount of the Shares Purchase Consideration; and
  - (b) the balance of the Shares Purchase Consideration of RMB326,140,505 shall be payable in cash by HLDIL to Dongming Hengchang on completion of the Proposed Disposal.
- III. The Deposit shall be refundable by Dongming Hengchang to HLDIL in the event that completion is not proceeded with, by sole reason of Dongming Hengchang unilaterally deciding not to proceed with completion notwithstanding the absence of any breach or potential breach by HLDIL of its obligations under the Share Sale Agreement.
- IV. If completion does not take place, the Deposit shall be forfeited and be for the account of Dongming Hengchang.

## 3. RELATIVE FIGURES UNDER CHAPTER 10 OF THE LISTING MANUAL

### 3.1 General

Under Chapter 10 of the Listing Manual, a transaction will be classified as a “major transaction” if any of the relative figures calculated on the bases set out in Rule 1006 of the Listing Manual exceeds 20% and if so, shareholders’ approval must be obtained for the “major transaction”.

### 3.2 Relative Figures under Rule 1006 of the Listing Manual

The relative figures computed on the applicable bases set out in Rule 1006 of the Listing Manual in respect of the Proposed Disposal and based on the unaudited consolidated financial statements of the Group for FY2013 announced by the Company on 28 February 2014, are set out below.

Rule 1006(a) – the net asset value of the assets to be disposed of, compared with the Group’s net asset value	21.8%
Rule 1006(b) – the net losses attributable to the assets to be disposed, compared with Group’s net losses	99.9%
Rule 1006(c) – the aggregate value of the consideration given or received, compared with the Company’s market capitalisation based on the total number of issued shares excluding treasury shares	49.9%
Rule 1006(d) – the number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable as the transaction is a disposal.
Rule 1006(e) – the aggregate volume or amount of proved and probable reserves to be disposed of, compared with the Group’s proved and probable reserves	Not applicable as the Company is not a mineral, oil and gas company.

### 3.3 Major Transaction

As the relative figures computed on the bases set out in Rule 1006(a), Rule 1006(b) and Rule 1006(c) exceeds 20%, the Proposed Disposal constitutes a major transaction as defined in Chapter 10 of the Listing Manual. Accordingly the Proposed Disposal is subject to the approval by shareholders of the Company in a general meeting.

## 4. USE OF PROCEEDS FROM THE PROPOSED DISPOSAL

The Company expects to receive net proceeds of approximately RMB115,318,860 (after deducting estimated expenses of approximately RMB750,000) from the Proposed Disposal. The Company intends to utilise the net proceeds to fund future business expansions, investments and acquisitions when suitable opportunities arise and general working capital requirements of the Group.

Pending the deployment of the unutilised proceeds for the purposes mentioned above, such proceeds may be deposited with banks and/or financial institutions, invested in short term money markets and/or marketable securities, or used for any other purpose on a

short term basis, as the directors of the Company may deem appropriate in the interests in the Group.

#### **F. INTER-CONDITIONALITY OF THE PROPOSED ACQUISITION AND THE PROPOSED DISPOSAL AND EXPECTED COMPLETION**

It is a condition precedent under the Asset Sale Agreement that completion of the Proposed Acquisition is to be effected simultaneously with the completion of the Proposed Disposal. Likewise, completion of the Proposed Acquisition is a condition precedent under the Share Sale Agreement. Accordingly, if the Proposed Acquisition is not proceeded with, the Proposed Disposal will not proceed and vice versa.

Completion of the Proposed Acquisition and the Proposed Disposal is expected to take place within seven (7) business days after fulfilment of the conditions precedent referred to in paragraphs 1.1 (a), (b), (c), (d), (h) and (j) of Section D of this Announcement, or such other date as may be agreed between Dongming Hengchang and Dongming Runchang in writing and within seven (7) business days after fulfilment of the conditions precedent referred to in paragraphs 2.1(b), (c), (d) and (e) of Section E of this Announcement, or such other date as may be agreed by between HLDIL and Dongming Hengchang in writing.

#### **G. RATIONALE FOR THE PROPOSED ACQUISITION AND PROPOSED DISPOSAL**

The Group is engaged in the Petrochemical Business and the Other Oil Derivatives Business.

The Petrochemical Business involves the downstream production and supply of petrochemicals which are chemical substances derived from petroleum or natural gas. Petrochemicals are used as intermediates in the manufacture of a wide spectrum of end products including synthetic rubber, synthetic fibres (such as nylon and polyester), plastics, fertilisers, paints, detergents, and pesticides. The major commercial petrochemicals and their derivatives produced and sold by the Group include processed LPG, propylene and polypropylene.

The Other Oil Derivatives Business involves the upstream conversion of heavy oil into raw LPG and other oil derivatives such as gasoline, diesel, naphtha and asphalt.

The sale and purchase of gasoline and diesel in the PRC is subjected to price regulatory control by the authorities in the PRC. Unlike the Other Oil Derivatives Business, the Petrochemical Business is not subjected to price regulatory control by the authorities in the PRC and is usually more profitable.

As such, the Group intends to streamline its business operations with a view to focus on the Petrochemical Business which has been its core business prior to venturing into the Other Oil Derivatives Business in 2011. The Directors believe that this would enhance the Group's profitability and financial performance.

Whilst Dongming Runchang has been loss making in the last three (3) financial years, Dongming Runchang's Petrochemical Business in the last three (3) financial years has

been profitable. The table below sets out the profits/loss and revenue breakdown of Dongming Runchang's Petrochemical Business and Other Oil Derivatives Business for the last three (3) financial years respectively:

	FY2011		FY2012		FY2013	
	Profits/ Loss (RMB)	Revenue (RMB)	Profits/ Loss (RMB)	Revenue (RMB)	Profits/ Loss (RMB)	Revenue (RMB)
Petrochemical Business	27,892,519	631,117,189	27,730,176	875,054,340	29,853,007	1,168,729,930
Other Oil Derivatives Business	(52,389,280)	3,025,769,501	(181,100,325)	4,415,184,113	(112,302,621)	4,939,725,020

In light of the foregoing, The Directors believe that the Proposed Acquisition, together with the Proposed Disposal, would further the Group's objective in streamlining its business operations to increase its focus on the Petrochemical Business which they believe is a more viable and financially meaningful business segment. The Proposed Disposal, together the Proposed Acquisition, allows the Group an opportunity improve its profitability through the disposal of its interests in its loss-making subsidiary, Dongming Runchang, whilst acquiring the Sale Assets for the Group's Petrochemical Business. As such, the Directors believe the Proposed Acquisition and Proposed Disposal to be in the interest of the Company.

#### **H. NET PROFITS ATTRIBUTABLE TO THE SALE ASSETS AND THE SALE EQUITY**

Based on the unaudited financial statements of the Group for FY2013, the net profits attributable to the Sale Assets being acquired by Dongming Hengchang for FY2013 is RMB29,853,000.

Based on the unaudited financial statements of the Group for FY2013, the net loss attributable to the Sale Equity for FY2013 is RMB30,534,000.

The net book value of the Sale Equity as stated in the unaudited consolidated financial statements of the Group as at 31 December 2013 is RMB116,355,000 and the disposal of the Sale Equity and the assignment of the Remaining Outstanding Loan by Dongming Hengchang to HLDIL will result in a loss on disposal of RMB286,000.

#### **I. FINANCIAL EFFECTS**

The financial effects of the Proposed Acquisition and the Proposed Disposal on the Group set out below are purely for illustrative purposes only and do not reflect the future financial position of the Company or the Group after the completion of the Proposed Acquisition and the Proposed Disposal.

The pro forma financial effects have been prepared based on the unaudited consolidated financial statements of the Group for FY2013, being the end of the most recently completed financial year, which were announced by the Company on 28 February 2014.

## 1. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

### (a) Net asset value per share

Had the Proposed Acquisition been effected on 31 December 2013, the Proposed Acquisition would have had the following financial effects on the Group's net tangible assets ("**NTA**") per share as at 31 December 2013:

For FY2013	Before Proposed Acquisition	After Proposed Acquisition
Net tangible assets (RMB'000)	532,852	532,852
Number of shares ('000)	640,000	640,000
Net tangible assets per share (RMB cents)	83.26	83.26

### (b) Earnings per share ("**EPS**")

Had the Proposed Acquisition been effected on 1 January 2013, the Proposed Acquisition would have had the following financial effects on the Group's EPS for FY2013:

For FY2013	Before Proposed Acquisition	After Proposed Acquisition
Group profit/loss after tax (RMB'000)	(24,936)	(10,308)
Weighted average number of shares ('000)	640,000	640,000
Earnings (loss) per share (RMB cents)	(3.90)	(1.61)

## 2. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

### (a) Net asset value per share

Had the Proposed Disposal been effected on 31 December 2013, the Proposed Disposal would have had the following financial effects on the Group's NTA per share as at 31 December 2013:

For FY2013	Before Proposed Disposal	After Proposed Disposal
Net tangible assets (RMB'000)	532,852	531,816
Number of shares ('000)	640,000	640,000
Net tangible assets per share (RMB cents)	83.26	83.10

### (b) EPS

Had the Proposed Disposal been effected on 1 January 2013, the Proposed Disposal would have had the following financial effects on the Group's EPS for FY2013:

For FY2013	Before Proposed Disposal	After Proposed Disposal
Group profit/loss after tax (RMB'000)	(24,936)	(1,091)
Weighted average number of shares ('000)	640,000	640,000
Earnings (loss) per share (RMB cents)	(3.90)	(0.17)

**3. FINANCIAL EFFECTS TAKING INTO ACCOUNT BOTH THE PROPOSED ACQUISITION AND THE PROPOSED DISPOSAL**

As the Proposed Acquisition and the Proposed Disposal are inter-conditional, set out below are the illustrative financial effects on the Group taking into account both the Proposed Acquisition and the Proposed Disposal:

(a) Net asset value per share

Had the Proposed Acquisition and the Proposed Disposal been effected on 31 December 2013, the Proposed Acquisition and the Proposed Disposal would have had the following financial effects on the Group's NTA per share as at 31 December 2013:

For FY2013	Before Proposed Acquisition and Proposed Disposal	After Proposed Acquisition and Proposed Disposal
Net tangible assets (RMB'000)	532,852	531,816
Number of shares ('000)	640,000	640,000
Net tangible assets per share (RMB cents)	83.26	83.10

(b) EPS

Had the Proposed Acquisition and the Proposed Disposal been effected on 1 January 2013, the Proposed Acquisition and the Proposed Disposal would have had the following financial effects on the Group's EPS for FY2013:

For FY2013	Before Proposed Acquisition and Proposed Disposal	After Proposed Acquisition and Proposed Disposal
Group profit/loss after tax (RMB'000)	(24,936)	28,762
Weighted average number of shares ('000)	640,000	640,000
Earnings (loss) per share (RMB cents)	(3.90)	4.49



**J. SERVICE AGREEMENTS**

No new directors are proposed to be appointed to the Board in connection with the Proposed Acquisition or the Proposed Disposal. As such, no service agreements will be entered into with any new director of the Company in connection with the transactions.

**K. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN THE PROPOSED ACQUISITION AND THE PROPOSED DISPOSAL**

Save as disclosed in Section B of this Announcement, to the best knowledge of the Directors, none of the other Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition and the Proposed Disposal.

**L. CIRCULAR TO SHAREHOLDERS**

A circular to shareholders setting out further information on the Proposed Acquisition and the Proposed Disposal, together with the notice of EGM to be convened, will be dispatched to shareholders in due course.

**M. DOCUMENTS FOR INSPECTION**

Copies of the Asset Sale Agreement, Share Sale Agreement, the Sale Assets Valuation Report and the Sale Equity Valuation Report are available for inspection during normal business hours at the registered office of the Company at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542 for a period of three (3) months from the date of this Announcement.

BY ORDER OF THE BOARD

FAN DENGCHAO  
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

APPENDIX A

