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DONGGUANG CHEMICAL LIMITED

東光化工有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1702)

DISCLOSEABLE TRANSACTION DISPOSAL OF EQUITY INTERESTS IN XINJIANG XINJI

The Board wishes to announce that Dongguang Chemical entered into an Equity Transfer Agreement with Hangzhou Jinjiang, Xinjiang Lvyuan and Xinjiang Xinji on 12 September 2021, pursuant to which Hangzhou Jinjiang has conditionally agreed to acquire 51% of the entire equity interests in Xinjiang Xinji from Dongguang Chemical.

As the highest percentage ratio applicable for the Disposal is above 5% but below 25%, the transaction contemplated under the Equity Transfer Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting and announcement requirements, but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board wishes to announce that Dongguang Chemical entered into an Equity Transfer Agreement with Xinjiang Lvyuan, Hangzhou Jinjiang and Xinjiang Xinji on 12 September 2021, pursuant to which Hangzhou Jinjiang has conditionally agreed to acquire 51% of the entire equity interests in Xinjiang Xinji from Dongguang Chemical.

THE EQUITY TRANSFER AGREEMENT

- Date:** 12 September 2021
- Parties:**
- (1) Hangzhou Jinjiang, as purchaser
 - (2) Dongguang Chemical, as vendor
 - (3) Xinjiang Lvyuan, as an existing shareholder of Xinjiang Xinji
 - (4) Xinjiang Xinji, as the target company
- Assets to be disposed:** 51% of the entire equity interests in Xinjiang Xinji held by Dongguang Chemical
- Consideration for the Disposal:** RMB90 million
- The Consideration was determined after arm's length negotiations between Dongguang Chemical and Hangzhou Jinjiang, with reference to the total capital injection into Xinjiang Xinji by Dongguang Chemical of RMB90 million.
- The Consideration shall be paid by Hangzhou Jinjiang in the following manner:
- (a) on the date of Completion, RMB45 million shall be paid by Hangzhou Jinjiang in cash; and
 - (b) within three Business Days after the completion of (i) the transfer to, and the registration of, the Sale Interest under the name of Hangzhou Jinjiang; and (ii) the change of director, supervisor and amendment of the articles of association of Xinjiang Xinji, RMB45 million shall be paid by Hangzhou Jinjiang in cash.

Conditions:

Completion of the Equity Transfer Agreement is subject to the fulfillment of the following conditions precedent:

- (i) each of Dongguang Chemical and Hangzhou Jinjiang having obtained all necessary approvals or authorizations for the transfer of the Sale Interest to Hangzhou Jinjiang in accordance with the applicable laws and their respective articles of association.
- (ii) all necessary approval by the shareholders of Xinjiang Xinji for the transfer of the Sale Interest to Hangzhou Jinjiang (including but not limited to any waiver of pre-emptive rights by Xinjiang Lvyuan over the Sale Interest) having been obtained by Xinjiang Xinji.
- (iii) (if required) the Company having obtained the necessary consents and approvals (including shareholders and Board approval) in respect of the transactions contemplated under the Equity Transfer Agreement.

Dongguang Chemical may at its sole and absolute discretion and at any time waive in writing condition (ii). None of Dongguang Chemical or Hangzhou Jinjiang may waive condition (iii).

In the event that any of the above conditions are not fulfilled (or, as the case may be, waived by Dongguang Chemical) (other than condition precedent (iii) above which may not be waived by Dongguang Chemical and Hangzhou Jinjiang) before 5 p.m., on 30 September 2021 (or such other period as mutually agreed by Dongguang Chemical and Hangzhou Jinjiang), the Equity Transfer Agreement shall lapse and cease to have effect. Save as otherwise provided in the Equity Transfer Agreement, neither party shall have any obligations and liabilities towards each other except for any antecedent breaches of the provisions of the Equity Transfer Agreement.

Other principal terms:

- (i) Xinjiang Lvyuan voluntarily waives its pre-emptive rights over the Sale Interest.
- (ii) If Hangzhou Jinjiang fails to comply with its payment obligation for the Consideration, it shall pay Dongguang Chemical an amount equivalent to 0.05% of any payment overdue (calculated on daily basis) as compensation (“Hangzhou Jinjiang Compensation Fee”). If Hangzhou Jinjiang delays in making the final payment by more than five Business Days, Dongguang Chemical may request Hangzhou Jinjiang to transfer the Sale Interest back to Dongguang Chemical. Upon the completion of such transfer, Dongguang Chemical shall refund to Hangzhou Jinjiang any Consideration already received minus the Hangzhou Jinjiang Compensation Fee. If Dongguang Chemical delays in refunding the aforesaid amount, it shall pay Hangzhou Jinjiang an amount equivalent to 0.05% of any Consideration already received (calculated on a daily basis) as compensation.
- (iii) If Dongguang Chemical fails to comply with any terms and conditions of the Equity Transfer Agreement, it shall pay Hangzhou Jinjiang an amount equivalent to 0.05% of the Consideration (calculated on daily basis) as compensation.

COMPLETION

Subject to the fulfilment (and/or waiver as the case maybe) of all the conditions precedent mentioned above, Completion shall take place on the 7th Business Day thereafter.

Financial effect of the Disposal and the application of the fund from the Disposal

Upon Completion, Dongguang Chemical would cease to hold any equity interest in Xinjiang Xinji, and Xinjiang Xinji would cease to be an indirect non-wholly owned subsidiary of the Company, and its financial statements would cease to be consolidated into the Company’s financial statements.

It is estimated that the Group will record a gain of approximately RMB0.3 million from the Disposal. Such gain is calculated based on the difference between (i) the net proceeds of approximately RMB89.9 million; and (ii) the unaudited net asset value of the Xinjiang Xinji as at 30 June 2021 attributable to the Group (i.e. approximately RMB89.6 million). Shareholders should note that the actual amount of the gain on the Disposal can only be ascertained when the net asset of the Xinjiang Xinji and the incidental transaction costs are determined upon Completion. Therefore the actual amount of the gain on the Disposal will be subject to audit and may be different from the amount mentioned above.

The net proceeds from the Disposal is expected to be used for other future investments or business opportunities of the Group that may arise and as general working capital of the Group.

Financial information on Xinjiang Xinji

The following are the audited financial information on Xinjiang Xinji for the two years ended 31 December 2019 and 2020:

	For the year ended 31 December	
	2019	2020
	(RMB'000)	(RMB'000)
	(Note)	
Loss before tax	N/A	96
Loss after tax	N/A	96
Net assets value	N/A	9,904

Note: Xinjiang Xinji was established in the PRC in 2020. As at the date of this announcement, Xinjiang Xinji is an indirect non-wholly owned subsidiary of the Company and is owned as to (i) 51% by Dongguang Chemical; and (ii) 49% by Xinjiang Lv Yuan, and has not yet commenced business.

INFORMATION ON THE GROUP AND HANGZHOU JINJIANG AND THE REASON FOR, AND BENEFITS OF, THE DISPOSAL

The Group is one of the major coal-based urea producers in the PRC with annualised designed production capacity of approximately 1.1 million tonnes of urea. The Group is principally engaged in manufacturing and selling urea and other by-products such as methanol, liquid ammonia and carbon dioxide in the PRC.

Hangzhou Jinjiang is principally engaged in the investment of environmental protection energy, non-ferrous metals and chemical industries. To the best of the knowledge, information and belief of the Board and having made all reasonable enquiry, Hangzhou Jinjiang is ultimately owned as to approximately (i) 53.1% by Tou Zhenggang (鈞正剛); (ii) 32.5% by Wei Xuefeng (尉雪鳳); and (iii) 14.4% by Tou Baibing (鈞白冰). To the best of the knowledge, information and belief of the Board and having made all reasonable enquiry, Hangzhou Jinjiang and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Due to unavoidable delay of the construction of the new chemical production facilities mainly because of the uncertainty in obtaining project financing and the change in investors combination in Xinjiang Xinji, for risk management purposes and to improve efficiency of applying investment capital of the Group, the Board resolved to proceed with the Disposal so as to reallocate the resources to other future development and investment opportunities. The Directors believe that the terms of the Equity Transfer Agreement are fair and reasonable and the transaction contemplated under the Equity Transfer Agreement is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest percentage ratio applicable for the Disposal is above 5% but below 25%, the transaction contemplated under the Equity Transfer Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting and announcement requirements, but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Completion is subject to satisfaction of certain conditions precedent. As the Completion may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in doubt about their position, they should consult their professional advisers.

DEFINITIONS

In this announcement, unless the context otherwise required, the following terms and expressions have the following meanings when used herein.

“Board”	the board of directors
“Business Day”	a day on which banks in the PRC generally are open for business in the PRC
“Company”	Dongguang Chemical Limited 東光化工有限公司, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Equity Transfer Agreement in accordance with the terms thereof
“connected person(s)”	has the meaning given to it in the Listing Rules
“Consideration”	the consideration payable by Hangzhou Jinjiang to Dongguang Chemical pursuant to the Equity Transfer Agreement
“Disposal”	the disposal by Dongguang Chemical of the Sale Interest to Hangzhou Jinjiang subject to and upon the terms and conditions of the Equity Transfer Agreement

“Dongguang Chemical”	Hebei Dongguang Chemical Co., Ltd* (河北省東光化工有限責任公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
“Equity Transfer Agreement”	the conditional equity transfer agreement dated 12 September 2021 entered into among Dongguang Chemical as vendor, Hangzhou Jinjiang as purchaser, Xinjiang Lvyuan as shareholder of Xinjiang Xinji and Xinjiang Xinji in relation to the Disposal
“Hangzhou Jinjiang”	Hangzhou Jinjiang Group Co., Ltd.* (杭州錦江集團有限公司), a limited liability company established in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	the 51% of the entire equity interest in Xinjiang Xinji held by Dongguang Chemical
“Shares”	the ordinary share(s) of US\$0.0001 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning given to it in the Listing Rules
“US\$”	United States dollars, the lawful currency of the United States of America
“Xinjiang Lvyuan”	Xinjiang Lvyuan State-owned Capital Investment Operation Co., Ltd.* (新疆綠原國有資本投資運營有限公司), a limited liability company established in the PRC

“Xinjiang Xinji” Xinjiang Xinji Energy Chemical Co., Ltd.* (新疆新冀能源化工有限公司), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company

“%” Percentage

* denotes English translation of the name of a Chinese company, and is provided for identification purposes only.

By order of the Board
Dongguang Chemical Limited
東光化工有限公司
Wang Zhihe
Chairman

The PRC, 12 September 2021

As at the date of this announcement, the executive directors of the Company are Mr. Wang Zhihe, Mr. Sun Zushan and Mr. Xu Xijiang; the non-executive director of the Company is Ms. Chen Jimin; and the independent non-executive directors of the Company are Ms. Lin Xiuxiang, Mr. Liu Jincheng and Mr. Ng Sai Leung.