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**SINO DRAGON NEW ENERGY HOLDINGS LIMITED**  
**中國龍新能源控股有限公司 \***

*( Incorporated in the Cayman Islands with limited liability )*

*( Stock Code: 0395 )*

**ANNOUNCEMENT**

**AND**

**RESUMPTION OF TRADING**

This announcement is made by Sino Dragon New Energy Holdings Limited (the “**Company**”) pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**BACKGROUND**

Reference is made to the Company’s circular (the “**Circular**”) dated 31 August 2011 in relation to the acquisition of Haney Holdings Limited (the “**Target Company**”) by the Company. The Target Company directly holds the entire interest of World Target Investment Development Limited (“**World Target**”) which in turns holds the entire interest in 匯泰管理諮詢(威海)有限公司 (World Target Investment Management Consulting (Weihai) Co., Ltd.\*) (“**Weihai Company**”), a company established in the People’s Republic of China (the “**PRC**”). Completion of the acquisition of the Target Company took place on 11 November 2011.

As disclosed in the Circular, by way of an exclusive management consultancy service agreement dated 21 May 2011 entered into among Weihai Company, 威海富海華液體化工有限公司 (Weihai Fuhaihua Fluid Chemical Co., Ltd.\*) (“**Fuhaihua Company**”) and shareholders of Fuhaihua Company and a power of attorney executed by the shareholders of Fuhaihua Company, Weihai Company will be entitled to enjoy 100% economic benefit arising from Fuhaihua Company. The financial results of Fuhaihua Company will be consolidated into the accounts of the Company upon the completion date of the acquisition of the Target Company.

**SUMMARY OF THE CLAIMS**

**1. LEGAL CLAIM I**

On 14 November 2011, the Company was informed by 威海港集團有限公司 (Weihai Harbour Group Co., Ltd.\*) (“**Weihai Harbour**”) by fax that there was an issue regarding the 49% equity interest in Fuhaihua Company. The Company instructed its PRC legal counsel to search for more

details regarding the issue. Upon conducting searches with the courts in Weihai City, it was discovered that a PRC individual (the “**Plaintiff**”), who was one of the former shareholders of Fuhaihua Company holding 70% equity interest in Fuhaihua Company and sold his entire equity interest in Fuhaihua Company to 威海深港投資諮詢有限公司 (Weihai Shenzhen Hong Kong Investment Consulting Company Limited\*) (“**Weihai Shenzhen**”) in March 2008, initiated a monetary civil claim against Weihai Shenzhen, the entity currently holding 49% equity interest in Fuhaihua Company (the “**Legal Claim I**”).

It was mentioned in the statement of claim in the Legal Claim I that on 3 March 2008, the Plaintiff entered into a loan agreement with Weihai Shenzhen pursuant to which the Plaintiff agreed to lend RMB25,000,000 to Weihai Shenzhen for acquiring the 70% equity interest in Fuhaihua Company from the Plaintiff. It was agreed that the repayment date would be 2 years from the date of the agreement. As alleged by the Plaintiff, Weihai Shenzhen did not repay the loan amount to the Plaintiff. The claim amount against Weihai Shenzhen was approximately RMB25,000,000 (equivalent to approximately HK\$30,500,000). The Company has been notified by Weihai Shenzhen that it has appointed its legal counsel to defend the case. As at the date of this announcement, the date of hearing has not been fixed and no judgment has been made for the Legal Claim I.

Weihai Shenzhen acquired 70% equity interest in Fuhaihua Company from the Plaintiff in March 2008. The remaining 30% equity interest was held by a PRC individual. In June 2008, the PRC individual entered into an agreement to sell his 30% equity interest in Fuhaihua Company to Weihai Shenzhen. Weihai Shenzhen entered into a written agreement on the same day to sell 26% equity interest to Mr. Zhang Liwu and 25% equity interest to Mr. Cheng Minghua. Upon completion of the transfer and as disclosed in the Circular, Fuhaihua Company is currently held as to 49% by Weihai Shenzhen, 26% by Mr. Zhang Liwu (who holds the interest on trust for Mr. Wang Xiao Ping Peter (“**Mr. Peter Wang**”), the vendor in the acquisition of the Target Company) and 25% by Mr. Cheng Minghua. As advised by the Company’s PRC legal counsel, the transfer of 49% equity interest in Fuhaihua Company from the Plaintiff to Weihai Shenzhen and the transfer of 26% equity interest to Mr. Zhang Liwu and 25% to Mr. Chang Minghua had been approved by the PRC governmental authorities in June 2008 and that a new business licence had been issued in June 2008.

To the knowledge of the directors (the “**Directors**”) of the Company and as informed by the PRC legal counsel to Weihai Shenzhen, at the time when the Plaintiff sold his 70% equity interest in Fuhaihua Company to Weihai Shenzhen at a consideration of RMB25,000,000, it was agreed that the Plaintiff would not receive the consideration of RMB25,000,000 on completion but Weihai Shenzhen would settle the consideration no later than 3 March 2010. The payment of RMB25,000,000 was not paid to the Plaintiff by Weihai Shenzhen in accordance with their agreement despite various demands from the Plaintiff.

The Plaintiff initiated the Legal Claim I at 山東省威海市中級人民法院 (Shandong Weihai City Intermediate Court\*) (“**Weihai Intermediate Court**”) on 8 June 2011. The Plaintiff further applied to Weihai Intermediate Court to freeze the assets of Weihai Shenzhen on 10 June 2011. On 13 June 2011, it was ordered by Weihai Intermediate Court that the 49% equity interest (the “**Frozen Interest**”) in Fuhaihua Company held by Weihai Shenzhen was frozen. Without the court’s approval, the Frozen Interest cannot be transferred, registered for change of ownership or disposed. The court order does not specify the time limit as to the freezing order.

As advised by the PRC legal counsel to Weihai Shenzhen, the other shareholders of Fuhaihua Company are not involved in the Legal Claim I.

The Company conducted legal due diligence in relation to the Target Company, Fuhaihua Company, Weihai Company and World Target in May 2011. Prior to completion date, the PRC legal counsel to the Company inquired with the representative of Fuhaihua Company again if there were any material facts or issues that were required to be disclosed to the Company and the answer was negative. No company search was conducted again prior to the completion date and as such, the Company was not aware of the Legal Claim I until November 2011.

To the knowledge of the Directors and after making reasonable enquiry, the Plaintiff does not have any relationship with Weihai Harbour, Mr. Zhang Liwu and Mr. Cheng Minghua, Mr. Peter Wang, the Target Company, World Target and Weihai Company.

In the event that Weihai Shenzhen loses in this civil claim, Weihai Shenzhen will need to settle the claim amount and damages (if required) pursuant to court order. Since the Legal Claim I is a monetary civil claim between Weihai Shenzhen and the Plaintiff, Weihai Shenzhen needs to settle the claim amount and damages (if required) itself if it loses.

In the event that Weihai Shenzhen does not settle the claim amount and damages (if required), there is a possibility that it may be ordered by Weihai Intermediate Court to dispose of its 49% equity interest in Fuhaihua Company in order to settle the claim amount and damages (if required). If Weihai Shenzhen is ordered to dispose of its 49% equity interest in Fuhaihua Company, the Company may not be able to have control over the 49% equity interest in Fuhaihua Company.

To the knowledge of the Directors, Weihai Shenzhen has not taken any legal actions against the freezing order from Weihai Intermediate Court.

As disclosed in the Circular, the registration of the charge of the entire equity interest in Fuhaihua Company in favour of Weihai Company is one of the conditions precedent for the acquisition of the Target Company. The Directors have no intention and are not prepared to waive the above condition.

The registration of the charge of 51% equity interest in Fuhaihua Company was completed in October 2011 and the registration of charge of 49% equity interest was pending. As such, Mr. Peter Wang undertook to complete the registration of charge of 49% equity interest within 30 days from the date of completion, i.e. no later than 11 December 2011. The Company did not waive any of the conditions precedent as set out in the share transfer agreement (the “**Share Transfer Agreement**”) dated 20 July 2011, details of which have been disclosed in the Circular. The completion of the registration of charge of 49% equity interest becomes a condition subsequent.

## **2. LEGAL CLAIM II**

Weihai Harbour also notified the Company that it had filed an arbitration notice to 威海仲裁委員會 (Weihai Arbitration Committee\*) on 14 November 2011 and alleged that there was material breach of the terms of 合作框架協議書 (Co-Operation Framework Agreement\*) and 土地使用權轉讓協議 (Land Use Right Transfer Agreement\*) by Fuhaihua Company. Both agreements were entered into between 威海市港務管理局 (Weihai City Port Management Bureau\*) (the “**Port Bureau**”), the predecessor of Weihai Harbour, and Fuhaihua Company on 25 August 2005 (the “**Legal Claim II**”).

It was alleged that Fuhaihua Company did not comply with the obligations under the Co-Operation Framework Agreement and Land Use Right Transfer Agreement to construct the

relevant oil and petrochemicals storage facilities in accordance with the time frame as set out in the Co-Operation Framework Agreement and that there was material delay in the construction plan. In addition, it was alleged that Fuhaihua Company has not settled balance of the consideration for the transfer of land in the amount of RMB8,000,000.

Weihai Harbour demanded in the arbitration notice to: (1) release and discharge the obligations of both parties under the Co-Operation Framework Agreement and Land Use Right Transfer Agreement, (2) return the land use rights relating to 3 parcels of land with a total area of approximately 213 mu (the “**Frozen Land**”) obtained by Fuhaihua Company under the Land Use Right Transfer Agreement and are now owned by Fuhaihua Company, (3) damages in the sum of approximately RMB3,468,000 (equivalent to approximately HK\$4,231,000) and (4) the costs involved in the arbitration.

Weihai Harbour applied to Weihai Intermediate Court to freeze the Frozen Land. On 28 November 2011, it was ordered by Weihai Intermediate Court that the Frozen Land was frozen. Without the court’s approval, the Frozen Land cannot be transferred, registration for change of ownership or disposed.

The Company has been notified that Fuhaihua Company has appointed its PRC legal counsel to defend the case. As advised by the PRC legal counsel to Fuhaihua Company, Weihai Harbour has applied to Weihai Arbitration Committee twice to extend the date of arbitration hearing. As at the date of this announcement, the date of arbitration hearing has not been fixed and no judgment has been made for the above arbitration.

According to the Land Use Right Transfer Agreement, it was agreed that the Port Bureau agreed to transfer approximately 200 mu land (i.e. the Frozen Land) to Fuhaihua Company at the aggregate transfer price of RMB22,000,000. Fuhaihua Company undertook that oil tanks for storage of fuel oil and petrochemicals facilities would be constructed on the Frozen Land.

Set out below are the information relating to the Frozen Land:

Land	Approximate area ( <i>square meters (m<sup>2</sup>)</i> )	Planned Use	Expiry Date of Land Use Right	Current Status
(1)	51,013.0 m <sup>2</sup>	Ports	30 April 2044	Construction of oil tanks and administration office and staff quarters and construction not yet completed
(2)	86,115.1 m <sup>2</sup>	Ports	30 April 2044	
(3)	5,397.0 m <sup>2</sup>	Ports	30 April 2044	

The total area of the Frozen Land which is now owned by Fuhaihua Company is approximately 142,525 m<sup>2</sup>. Total amount of land cost paid for the Frozen Land up to the date of this announcement was RMB15,000,000. As advised by the PRC legal counsel to Fuhaihua Company, though the Frozen Land is subject to frozen order, there is no impact to the daily operations of Fuhaihua Company and facilities and buildings that have been constructed on the Frozen Land. Construction works that are under progress can still be conducted even though the Frozen Land is subject to freezing order. It is expected that there will not be any material impact to Fuhaihua Company’s plan to commence the storage facility in April 2012 as disclosed in the Circular. As advised by Fuhaihua Company, in view of the extremely cold weather conditions, construction works are temporarily suspended and expected to be resumed in March 2012 when the weather becomes suitable for outdoor construction works.

As advised by the PRC legal counsel to Fuhaihua Company, the Frozen Land cannot be transferred, registration for change of ownership or disposed. In the event that Weihai Harbour succeeds in the arbitration, the oil and petrochemicals storage facilities that have been constructed on the Frozen Land will not be required to be demolished as the construction projects have been duly approved by relevant PRC government authorities and are not illegal constructions. Also, as approved by Weihai City Government, the Frozen Land can only be used for oil and petrochemicals storage only. Even if the Frozen Land is to be returned to Weihai Harbour, Weihai Harbour can utilize these oil and petrochemical storage facilities to operate by themselves.

The Port Bureau and Fuhaihua Company entered into the Co-Operation Framework Agreement and set out major terms of co-operation for the development of fuel oil and petrochemicals facilities and construction of port facilities. It was agreed that so long as there is pier with berth capacity of not less than 50,000 deadweight tons, the Frozen Land would not be transferred to third parties. Also, within 3 months from the date of the Land Use Right Transfer Agreement, the application for construction of oil tanks should be finished and within 12 months from the date of finishing the application, Fuhaihua Company should finish construction of oil tanks with storage capacity of not less than 300,000 cubic meters and put into operation. The Port Bureau is responsible to provide port facilities and relevant infrastructure including roads, water, electricity etc.

## **ALLEGATIONS AGAINST SHAREHOLDERS OF FUHAIHUA COMPANY**

In addition to the Legal Claim I and the Legal Claim II, there was also a complain that the other two individual shareholders holding in aggregate 51% equity interest in Fuhaihua Company are suspected to have misappropriated the capital of Fuhaihua Company and are now under investigation by the Public Security Bureau of Weihai City. It was also alleged that some of Fuhaihua Company's senior management have committed serious financial crime (the "**Allegations**").

As advised by the PRC legal counsel to Fuhaihua Company, the two individual shareholders are not suspected of misappropriating the capital of Fuhaihua Company and are only invited to have interviews. The company secretary of the Company visited Public Security Bureau of Weihai City on 4 January 2012 and was informed by the officers of Public Security Bureau of Weihai City that they are investigating Mr. Peter Wang as he is suspected of being involved in misappropriation of funds of Fuhaihua Company. Mr. Peter Wang is currently being detained by Public Security Bureau of Weihai City for investigation.

As at the date of this announcement, none of the senior management of Fuhaihua Company (including Mr. Peter Wang) has been charged with any offence of financial crime.

It was also alleged that Fuhaihua Company has liquidity problem and failed to pay staff salaries for months. The construction of oil tanks for storage of petrochemicals has been suspended. The company secretary of the Company visited the office of Fuhaihua Company and to her knowledge, there is no liquidity problem and the failure to pay staff salaries for months is without any valid basis. The construction of oil tanks for storage of petrochemicals has been temporarily suspended as a result of extreme cold weather conditions which are not suitable for outdoor construction works.

The Directors consider that the above Allegations are without valid basis.

## **EXCLUSIVE MANAGEMENT CONSULTANCY SERVICE AGREEMENT**

As disclosed in the Circular, Weihai Company, the shareholders of Fuhaihua Company and Fuhaihua Company entered into an exclusive management consultancy service agreement (the “**Service Agreement**”) on 21 May 2011 pursuant to which Fuhaihua Company has granted a 10-year exclusive right (which can be extended for 10 years each time) to Weihai Company to provide exclusive management consultancy services to Fuhaihua Company for managing the business of Fuhaihua Company.

Pursuant to the terms of the Service Agreement, Weihai Company agrees to provide business and project management services, project consultancy services, financial management, arrangement and employment of staff, business development and control of asset services. Mr. Peter Wang is the sole director of Weihai Company and is responsible for the management of Weihai Company. Mr. Peter Wang was also the general manager of Fuhaihua Company and was responsible for managing the daily operation of Fuhaihua Company.

## **IMPACT TO THE COMPANY**

As the Frozen Interest is subject to a frozen order, the registration of the charge of 49% equity interest in favour of Weihai Company cannot be processed by the governmental authorities in the PRC for the time being. As advised by the Company’s PRC legal counsel, the charge of 49% equity interest in Fuhaihua Company will not be valid until it can be successfully registered with the government authorities in the PRC. As such, Weihai Company is only entitled to control 51% equity interest of Fuhaihua Company as at the date of this announcement.

The Company has been advised by its PRC legal counsel that though the Frozen Land is subject to a frozen order, Fuhaihua Company can still continue its business and daily operations. Staff of Fuhaihua Company can still have access to the Frozen Land.

As advised by Fuhaihua Company’s PRC legal counsel, in the event that Fuhaihua Company loses in this arbitration, the Co-Operation Framework Agreement and the Land Use Right Transfer Agreement may be terminated and the Frozen Land must be returned to Weihai Harbour. Weihai Harbour must return the consideration paid by Fuhaihua Company pursuant to the Land Use Right Transfer Agreement to unwind the transaction.

In the event that the Co-Operation Framework Agreement is terminated, Fuhaihua Company would not be allowed to operate the wholesale and storage of petrochemicals, which is its principal business.

Currently, Fuhaihua Company has completed the construction of approximately 300,000 cubic meters oil tanks. The relevant ancillary facilities are still under construction. At present, Fuhaihua Company has not formally commenced business operation and no revenue has been generated from its business operations up to the date of this announcement.

## **COMPANY’S MEASURES TO PROTECT INTEREST**

The Company considers that Mr. Peter Wang failed to disclose to the Company in writing prior to the completion that there was material adverse change in the condition of Fuhaihua Company which constituted a material breach of the warranties of the vendor under the Share Transfer Agreement.

Taking into account of Mr. Peter Wang's failure to fulfil the undertaking to complete the registration of the share charge over the 49% equity interest in Fuhaihua Company, the breach of warranties and the possible impact of the Legal Claim II, the Company's Directors considered it to be appropriate to cancel the Acquisition in order to protect the Company and its shareholders' interest as a whole. The Company has no intention to inject further funds to the Target Company and continue the construction works. The Company is currently seeking legal advice regarding the procedures for cancellation of the Acquisition.

The Company will not consider adjusting the consideration or change the payment schedule as agreed under the Share Transfer Agreement as a result of the Legal Claim I and the Legal Claim II. No assessment on provisions for the Legal Claim II has been made for the year ended 31 December 2011.

On 11 November 2011 (i.e. the completion date), the Company granted a cash advance of HK\$5,000,000 to the Target Company. The Company will demand for the refund of HK\$5,000,000 cash advance that had been paid to the Target Company up to the date of this announcement and the return of 129,606,099 Consideration Shares that had been issued to Mr. Peter Wang.

The Company will make further announcement(s) to inform the shareholders of further developments to the above legal claims as and when appropriate.

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.**

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 20 December 2011 pending for the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 16 January 2012.

By Order of the Board  
**SINO DRAGON NEW ENERGY HOLDINGS LIMITED**  
**Yang Xin Min**  
*Chairman*

Hong Kong, 13 January 2012

*As at the date of this announcement, the Directors of the Company are Mr. Yang Xin Min, Ms. Huang Yue Qin, Mr. Zhou Quan, Mr. Li Fu Ping and Mr. Fang Guo Hong as Executive Directors, Mr. Wang Jia Wei as Non-Executive Director and Dr. Cheng Faat Ting Gary, Prof. Ji Chang Ming and Mr. Poon Lai Yin Michael as Independent Non-Executive Directors.*

*For the purpose of this announcement, the exchange rate between HK\$ and RMB is equivalent to HK\$1.22=RMB1.00.*

*\* for identification purposes only*