



Syndication and Resource Mobilization

Xinao Group

HIGHLIGHTS

- US\$178 million IFC financing for Xinao Group's greenfield coal-based petrochemical facility to produce methanol in Inner Mongolia province for conversion into dimethyl ether (DME) at four other locations in China. The IFC A and B loan facility carried a final maturity of 10 years.
- Xinao Group, a Chinese company, was able to attract long-term financing from international banks and meet its financing objectives at competitive terms.
- Xinao Group and the participant banks were able to leverage on IFC's industry expertise, best practice environmental and social standards, and deal structuring skills.
- The entire financing benefited from IFC's tax-exempt status.
- IFC provided guidance and advice on the environmental standards for developing clean fuel alternatives.

THE COMPANY

The Xinao Group ("Xinao") is a leading private energy enterprise in China. Founded in 1989, Xinao operates businesses mainly in the fields of clean energy development and exploitation, with major operations in urban gas distribution, energy equipment, bio-chemical, energy chemical and property development. Xinao is comprised of more than 80 subsidiary companies and employs approximately 15,000 people.

In a drive to diversify its clean fuel sources, Xinao established Xinneng Energy Company Ltd. ("Xinneng Energy") to construct and operate greenfield petrochemical facilities with a total production capacity of 600,000 tons per year (tpy) of coal-based methanol, which would then be used to produce about 400,000 tpy of DME ("the Project"). The Project, which had an estimated total cost of US\$300 million, utilizes China's abundant and relatively low-cost good quality coal reserves in Inner Mongolia to produce methanol. The methanol will be transported from its main production center in the city of Erdos to multiple chemicals facilities located in the target regional markets to be converted into DME. Methanol and DME are environmentally friendly fuels that also have value as raw materials for various downstream applications.

FINANCING OBJECTIVES

This was Xinao's first major petrochemical project. IFC's comprehensive due diligence helped Xinao to confirm the technical and commercial viability of the Project, and Xinao incorporated numerous IFC recommendations into the concept and configuration.

As the Project's engineering and construction period is estimated to be 36 months, Xinao had a strong preference to raise long-term financing with a sufficient grace period and flexible repayment terms, which was not readily available in China at that time. In addition, Xinao sought to have international banks provide financing through the IFC B loan to gain visibility in the markets and position itself as an international player in the field of clean alternative energy development.

THE STRUCTURE

IFC provided a US\$40 million A loan and US\$10 million in equity for its own account. IFC also arranged a US\$128 million B Loan. Both the A and B loans had a 10 year final maturity including 3.5 years of grace.

The entire financing benefited from IFC's tax-exempt status and is exempt from withholding taxes.

The loans were secured by all the assets of Xinneng Energy, and supported by a project completion guarantee and cost overrun supports from the Xinao Group.

Xinao chose to work with IFC on this financing because of IFC's ability to (i) provide a complete financing package, (ii) advise on various complex project-related issues and (iii) make available the long-term flexible financing required for the project. In addition, IFC provided guidance and

advice on the technical, environmental and social standards for developing clean fuel alternatives and helped to improve the company's corporate governance.

OUTCOME

The US\$128 million B loan was offered through a general syndication to international banks. The B loan syndication was successful, with seven banks participating, and with an oversubscription of US\$15 million. Xinao decided to maintain the amount of the B Loan at US\$128 million, and to reduce the allocations of the Participants on a pro-rata basis.



US\$178,000,000
financing for the construction of a greenfield petrochemical facility
in Erdos, Inner Mongolia province, China, to produce methanol
for conversion into dimethyl ether (DME)

US\$10,000,000
equity investment

and

US\$40,000,000
term loan

provided for its own account by

International Finance Corporation

US\$128,000,000
term loan

provided through participations in the IFC Loan by

Lead Arrangers
Netherlands Development Finance Company (FMO)
BayernLB Paris Branch * KBC Finance Ireland * Korea Development Bank

Arrangers
Calyon * Kookmin Bank

Participant
Caja de Ahorros del Mediterráneo

arranged by



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