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XINYANG MAOJIAN GROUP LIMITED

信陽毛尖集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 362)

SUPPLEMENTAL ANNOUNCEMENT RELATING TO THE DISCLOSEABLE TRANSACTION ON DISPOSAL OF 40% EQUITY INTERESTS IN A SUBSIDIARY

Reference is made to the announcement (the “**Announcement**”) of Xinyang Maojian Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 4 September 2020 in relation to the disposal of 40% equity interests in a subsidiary. Terms used herein shall have the same meanings as those defined in the Announcement unless the context requires otherwise.

In addition to the information provided in the Announcement, the Board wishes to provide further supplemental information as follows:

BASIS OF CONSIDERATION

Further to the information as provided under the paragraph headed “Consideration and payment terms” of the Announcement, the Board also considered the following factors in relation to the consideration of the Disposal:

- (1) the profitability of the Target Company was on a downward trend, given the continuous high market prices of the raw coal during the past few years;
- (2) the Disposal would allow the Group to generate additional cash inflow and improve its liquidity, which will enhance the Group’s ability to invest in other future potential investment opportunities;

- (3) given that the P/E ratio of the Disposal (calculated by dividing the consideration of the Disposal by the average profit after tax of the Target Company for the three years ended 30 June 2020) was approximately 9.25, which is relatively high when compared to other listed companies in similar industries, the Disposal was made at a premium already; and
- (4) given that for the year ended 30 June 2020, the Target Company had purchased approximately 100,000 tonnes of raw coal, the total cost savings made as a result of the Change in Business Strategy (as defined below) are estimated to be approximately RMB6,600,000 per year going forward.

Despite that the estimated total cost savings based on figures from the year ended 30 June 2020 will not outweigh the net loss on the Disposal (being approximately HK\$38,000,000), in view of the fact that, (i) the total cost savings will increase the profitability of the heat and electricity supply business in the long run; (ii) Mr. Lv will contribute to the operations of the Target Company as explained in the paragraph headed “Reasons for and benefits of the Disposal” below in this announcement; and (iii) it has been very difficult raising additional funds under the current economic situation, the Directors therefore considered the basis of consideration and the consideration of RMB70 million in relation to the Disposal to be fair and reasonable.

USE OF PROCEEDS FROM THE DISPOSAL

Pursuant to the Equity Transfer Agreement, the completion date of the Disposal shall take place when the Transactions have been completed. As at the date of this announcement, the Disposal has not been completed, and the Company had received RMB25 million from the Purchaser.

Further to the information in relation to the use of proceeds from the Disposal as provided under the paragraph headed “Financial effects and use of proceeds from the Disposal” of the Announcement, the Company would like to clarify that under the current payment structure in relation to the purchase of raw coal, the Group would make a part payment to the relevant suppliers at the time of its purchase of raw coal, and then make a further payment, including a premium as a result of the delay in payment, after September of every year for the remaining cost of raw coal purchased from the previous year, thereby incurring trade payables on an ongoing basis. Further, the trade payables would be settled from the revenue received from its provision of heat supplying services as a result of the raw coal purchased from the previous year.

As such, the consideration received and to be received from the Purchaser provides an injection of liquidity into the general working capital of the Target Company, allowing it to reduce the amount of trade payables incurred as a result of the purchase of raw coal from the previous year. The Disposal therefore allows the Group to use the revenue to be received from its provision of heat supplying services during the year ending 30 June 2021 to purchase raw coal in the summer season and/or enhance the Group’s ability to invest in other future potential investment opportunities instead.

As at the date of this announcement, the Company had used approximately RMB7 million received from the Purchaser for settlement of its trade payables incurred as a result of the purchase of raw coal from the previous year.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The heat and electricity supply business, in which the Target Company is the operating subsidiary, is one of the core businesses of the Group. As at the date of this announcement, it is the Board's intention that the heat and electricity supply business will continue to remain as one of the core businesses of the Group and the Board has no intention to further dispose the Group's remaining interest in the Target Company.

The Group plans to increase the profitability of the heat and electricity supply business by purchasing raw coal during the summer season, which will be at a lower cost, instead of during the peak season of the heat supplying period (i.e. from October to February), which has been the Group's usual practice (the **"Change in Business Strategy"**). Nonetheless, in order to do so, the Group had to increase its current general working capital, which will be provided through the Disposal.

In light of the above, the increase in profitability of the Target Company as a result of the decrease in coal costs and the increase in the Group's general working capital would thereby enhance the Group's ability to invest in other future potential investment opportunities. As at the date of this announcement, although the Group has not identified any suitable potential investment opportunities, the Group will continue to seek for appropriate business opportunities in order to broaden the sources of revenue of the Group.

In addition, further to the reasons as provided under the paragraph headed "Reasons for and benefits of the Disposal" of the Announcement, the Company is of the view that the arrangement pursuant to the Equity Transfer Agreement is fair and reasonable and in the interests of the Company and its shareholders as a whole because (i) the injection of liquidity into the general working capital of the Target Company indirectly allows the Group to purchase raw coal during the low season instead of the peak season; (ii) the injection of liquidity into the Target Company through equity transfer via a shareholder's loan extended to the Target Company, to which the Target Company is obligated to repay the loan (being the amount of general working capital extended to the Target Company) to the Group irrespective of the future profitability of the Target Company, as opposed to the subscription for new equity by the Purchaser of the Target Company, to which the subscription proceeds will remain with the Target Company, protects the interests of the Company and its shareholders; and (iii) the appointment of Mr. Lv as a director of the Target Company is beneficial to the operations of the Target Company because Mr. Lv is well-connected in Mudanjiang and will therefore assist in the expansion and profitability of the operations of the Target Company in Mudanjiang.

Completion is subject to fulfilment, and/or waiver (as the case may be), of certain conditions precedent stated in the Equity Transfer Agreement, and the Disposal may or may not proceed. Shareholders and prospective investors are reminded to exercise caution when dealing in the Shares.

By order of the Board
Xinyang Maojian Group Limited
Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong, 19 October 2020

As at the date of this announcement, Ms. Chan Yuk Foebe, Mr. Gao Ran, Mr. Law Tze Ping Eric, Mr. Yu Defa and Mr. Chen Lei are the executive Directors and Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit are the independent non-executive Directors.