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China Zenith Chemical Group Limited
中國天化工集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 362)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF FURTHER
EQUITY INTERESTS IN RACING DRAGON GROUP LIMITED**

THE ACQUISITION

The Board is pleased to announce that on 18 March 2016, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares. Racing Dragon is the legal and beneficial owner of the entire equity interests in the WFOE. The total consideration for the Acquisition is HK\$142,970,000, which will be satisfied upon Completion, by way of (i) allotment and issue of 354,000,000 Consideration Shares to the Vendor (or its nominees) at an issue price of HK\$0.305 per Consideration Share and (ii) issue of the Promissory Note in the principal amount of HK\$35,000,000 by the Company in favour of the Vendor (or its nominees) upon Completion.

The Consideration Shares will be issued by the Company under the Specific Mandate. The Company will seek the grant of the Specific Mandate from the independent Shareholders at the SGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

LISTING RULES IMPLICATION

As at the date of this announcement, Racing Dragon is an indirect 67%-owned subsidiary of the Company, and the remaining 23% equity interests and 10% equity interests in Racing Dragon are held by the Vendor and an independent third party respectively. Therefore the Vendor is a substantial shareholder of Racing Dragon and a connected person of the Company at the subsidiary level. As such, the Share Purchase Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the Vendor is a connected person to the Company, the issue of Consideration Shares of the Company to it will be subject to the announcement, reporting and shareholders' approval requirements unless otherwise exempted under Chapter 14A of the Listing Rules.

Further, as one or more of the applicable percentage ratio(s) in respect of the Acquisition exceed 5% but none of the ratios exceeds 25%, the Acquisition also constitutes a discloseable transaction for the Company and is subject to announcement requirement under Chapter 14 of the Listing Rules.

The SGM will be convened for the independent Shareholders to consider and, if thought fit, approve (a) the Share Purchase Agreement, and the transactions contemplated thereunder; and (b) the Specific Mandate for the allotment and issue of the Consideration Shares. Given that none of the Shareholders has a material interest in the Acquisition and the Share Purchase Agreement, none of them would be required to abstain from voting in the SGM.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Ma Wing Yun, Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit has been established to advise the independent Shareholders on whether the terms of the Share Purchase Agreement are fair and reasonable and in the interests of the Shareholders as a whole. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the independent Shareholders on the terms of the Share Purchase Agreement and the transactions contemplated thereunder and the Specific Mandate.

A circular containing, among other things, (i) further details regarding the Share Purchase Agreement and the Acquisition; (ii) the recommendation from the Independent Board Committee and the advice of the independent financial adviser on the Acquisition; and (iii) notice of the SGM, will be despatched to the Shareholders on or before 13 April 2016.

Shareholders and potential investors should note that the Acquisition contemplated under the Share Purchase Agreement is subject to satisfaction of certain conditions precedent and it may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

(A) INTRODUCTION

The Board is pleased to announce that on 18 March 2016, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares. Racing Dragon is the legal and beneficial owner of the entire equity interests in the WFOE. The consideration for the Acquisition is HK\$142,970,000.

Principal terms of the Share Purchase Agreement are set out below.

(B) SHARE PURCHASE AGREEMENT

Date

18 March 2016 (after trading hours)

Parties

Vendor: Hope High Holdings Limited, a substantial shareholder of Racing Dragon, which is an indirect 67%-owned subsidiary of the Company. Accordingly, the Vendor is a connected person of the Company at subsidiary level under the Listing Rules.

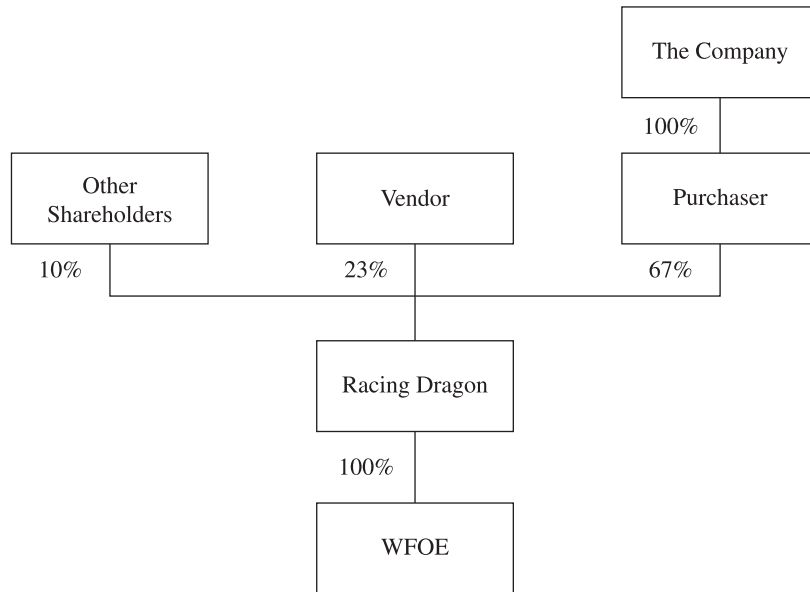
Purchaser: Dragon Boom Investments Limited, a wholly-owned subsidiary of the Company.

Assets to be acquired

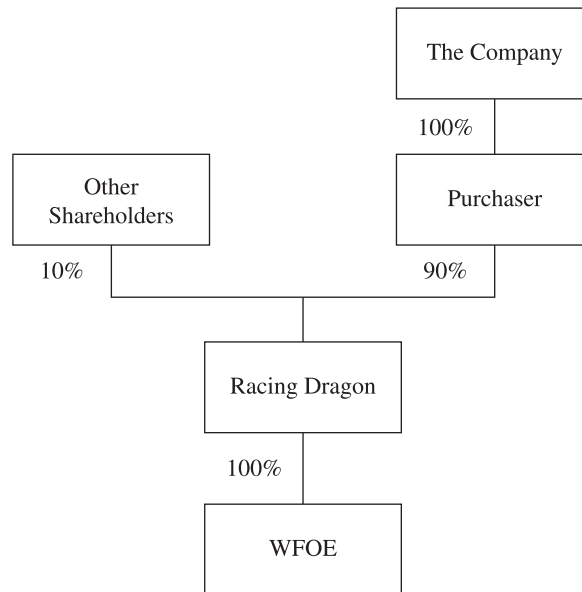
The Sale Shares and the only material asset of Racing Dragon is its holding in the equity interest of the WFOE.

Ownership Structure of the WFOE before and immediately after the Acquisition

Before the Acquisition



Immediately after the Acquisition



Consideration

The total consideration for the Acquisition is HK\$142,970,000, which will be satisfied upon Completion, by way of (i) allotment and issue of 354,000,000 Consideration Shares to the Vendor (or its nominees) at an issue price of HK\$0.305 per Consideration Share and (ii) issue of the Promissory Note by the Company in favour of the Vendor (or its nominees). The total consideration has been arrived at between the parties after arm's length negotiations after taken into account of the unaudited consolidated net assets value of the Racing Dragon Group of HK\$1,135 million as at 31 December 2015 which is prepared under HKFRS.

Save as to the consideration for the Acquisition payable by the Purchaser and the payment of the relevant portion of the registered capital by the Purchaser as stated above, the Company and/or the Purchaser have not made any commitment (capital or otherwise) to any of Racing Dragon and the WFOE.

The Directors (excluding the Directors who form part of the Independent Board Committee and whose opinion will be subject to the advice of the independent financial adviser) consider that the Consideration is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Consideration Shares

The Consideration Shares represent approximately 14.86% of the existing issued share capital of the Company as at the date of this announcement and approximately 12.94% of the enlarged issued share capital of the Company immediately after Completion. The issue price of HK\$0.305 per Consideration Share represents:

- a premium of approximately 7.02% to the closing price of HK\$0.285 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 25.00% to the average closing price of HK\$0.244 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- a premium of approximately 37.39% to the average closing price of HK\$0.222 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

The Consideration Shares will be issued by the Company under the Specific Mandate. The Company will seek the grant of the Specific Mandate from the independent Shareholders at the SGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares then in issue including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

Promissory Note

The principal terms of the Promissory Note are as follows:

Issuer	The Company
Principal amount	HK\$35 million
Issue date	Completion Date
Interest rate	Nil
Maturity	12 months after the issue date of the Promissory Note
Repayment	The Promissory Note may be prepaid in part or in full at any time before maturity at the discretion of the Company by giving the holder of the Promissory Note not less than five (5) Business Days' prior written notice and specifying in the notice the proposed date of prepayment and the prepayment amount. All outstanding principal not prepaid shall be repaid in full to the holder of the Promissory Note on the Maturity Date
Application for listing	No application will be made by the Company to the Listing Committee for the listing of the Promissory Note

The Directors (excluding the Directors who form part of the Independent Board Committee and whose opinion will be subject to the advice of the independent financial adviser) are of the view that the terms of the Promissory Note are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion of the Share Purchase Agreement is subject to, among other things, the following:

- (1) the obtaining of all consents which are necessary or desirable for the implementation of the transactions contemplated under this Share Purchase Agreement, including without limitation, approval of the shareholders of the Company, if required, in relation to the Share Purchase Agreement and the transactions contemplated hereunder and any other approvals or notifications required pursuant to the requirements of the Listing Rules;
- (2) the Listing Committee of the Stock Exchange granting the approval for listing of and permission to deal in the Consideration Shares and such approval not subsequently being revoked prior to Completion
- (3) there shall not be in effect on the Completion Date any law restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by the Share Purchase Agreement or which may have a material adverse effect on Racing Dragon or the WFOE;
- (4) all consents, in form and substance reasonably satisfactory to the Purchaser, to the performance by the Vendor of its obligations under the Share Purchase Agreement as are required under any law or arrangement (contractual or otherwise) having been obtained and remaining in full force and effect; and
- (5) none of the warranties in the Share Purchase Agreement being found to be, or no event occurring or matter arising which may render any of the warranties, untrue or inaccurate or misleading on and as at the Completion Date.

If the conditions have not been satisfied or waived on or before 20 May 2016 or such other date as the parties may agree in writing, the Share Purchase Agreement shall lapse and no party shall make any claim against the other in respect thereof, save for any antecedent breach.

Undertakings

- (1) The Vendor has undertaken to procure that all loans owing to the WFOE (if any) will be repaid in full to the WFOE before Completion so that there will be no outstanding loan due to the WFOE upon Completion; and
- (2) The Purchaser has undertaken to procure the Company to issue the Consideration Shares and the Promissory Note to the Vendor (or its nominees) upon Completion.

Completion

Subject to the various conditions precedent and terms of the Share Purchase Agreement having been fulfilled, Completion shall take place on Completion Date.

Upon Completion, each of Racing Dragon and the WFOE will remain an indirectly non wholly-owned subsidiary of the Company and the financial results of Racing Dragon and the WFOE will be consolidated into the consolidated financial statements of the Group in accordance with the Group's accounting policies.

(C) REASONS AND BENEFITS FOR THE ACQUISITION

The Group is principally engaged in the production and sale of coal related chemical products, bio-chemical products and the generation and supply of power and steam.

As Racing Dragon's majority shareholder, the Company has a vested interest in the prosperity of Racing Dragon Group. The Company believes that although there are short-term challenges for Racing Dragon Group, in the medium term there will be opportunities to create value in the business.

The net asset value of Racing Dragon Group, based on its unaudited consolidated accounts for the six months ended 31 December 2015, was HK\$11.35 million per Sale Share, which is a discount of approximately 45.23% to the Consideration per Sale Shares.

In light of the above, the Directors (excluding the Directors who form part of the Independent Board Committee and whose opinion will be subject to the advice of the independent financial adviser) consider that the terms of the Share Purchase Agreement are normal commercial terms, fair and reasonable and in the interests of the shareholders as a whole.

(D) INFORMATION OF THE COMPANY, THE PURCHASER, THE VENDOR, RACING DRAGON AND WFOE

(i) Information relating to the Company

The Company is principally engaged in the manufacture and sale of coal-related chemical products, bio-chemical products and generation and supply of power and steam. Coal-related chemical products comprise vinyl acetate products and polyvinyl-chloride products. Biochemical products include glucose and starch.

(ii) Information relating to the Purchaser

The Purchaser is incorporated in the BVI with limited liability and is an investment holding company.

(iii) Information relating to the Vendor

The Vendor is incorporated in the BVI with limited liability and is an investment holding company.

(iv) Information relating to Racing Dragon Group

Racing Dragon is incorporated in the BVI with limited liability and is wholly owned by the Vendor. Racing Dragon is not currently engaged in any business activities or operations.

The WFOE is a wholly foreign owned enterprise established by Racing Dragon in the PRC with limited liability. It is wholly owned by Racing Dragon. The WFOE is engaged in manufacture and sale of coal related chemical products.

The following is a summary of the audited consolidated financial results of Racing Dragon Group, prepared based on the HKFRS:

	For the year ended 30 June 2014 (HK\$)	For the year ended 30 June 2015 (HK\$)
Net loss before taxation and extraordinary items	<u>HK\$17 million</u>	<u>HK\$155 million</u>
Net loss after taxation and extraordinary items	<u>HK\$12 million</u>	<u>HK\$128 million</u>

As at 31 December 2015, the unaudited consolidated net assets value of Racing Dragon Group based on the HKFRS is in the sum of approximately HK\$1,135 million

(E) LISTING RULES IMPLICATION

As at the date of this announcement, Racing Dragon is an indirect 67%-owned subsidiary of the Company, and the remaining 23% equity interests and 10% equity interests in Racing Dragon are held by the Vendor and an independent third party respectively. Therefore the Vendor is a substantial shareholder of Racing Dragon and a connected person of the Company at the subsidiary level. As such, the Share Purchase Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As Vendor is a connected person to the Company, the issue of Consideration Shares of the Company to it will be subject to the announcement, reporting and shareholders' approval requirements unless otherwise exempted under Chapter 14A of the Listing Rules.

Further, as one or more of the applicable percentage ratio(s) in respect of the Acquisition exceed 5% but none of the ratios exceeds 25%, the Acquisition constitutes a discloseable transaction for the Company and is subject to announcement requirement under Chapter 14 of the Listing Rules.

The SGM will be convened for the independent Shareholders to consider and, if thought fit, approve (a) the Share Purchase Agreement, and the transactions contemplated thereunder; and (b) the Specific Mandate for the allotment and issue of the Consideration Shares. Given that none of the Shareholders has a material interest in the Acquisition and the Share Purchase Agreement, none of them would be required to abstain from voting in the SGM.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Ma Wing Yun, Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit has been established to advise the independent Shareholders on whether the terms of the Share Purchase Agreement are fair and reasonable and in the interests of the Shareholders as a whole. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the independent Shareholders on the terms of the Share Purchase Agreement and the transactions contemplated thereunder and the Specific Mandate.

A circular containing, among other things, (i) further details regarding the Share Purchase Agreement and the Acquisition; (ii) the recommendation from the Independent Board Committee and the advice of the independent financial adviser on the Acquisition; and (iii) notice of the SGM, will be despatched to the Shareholders on or before 13 April 2016.

Shareholders and potential investors should note that the Acquisition contemplated under the Share Purchase Agreement is subject to satisfaction of certain conditions precedent and it may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise:

“Acquisition”	the transactions contemplated under the Share Purchase Agreement, including without limitation, the acquisition of 23% of the issued share capital of Racing Dragon;
“Board”	the board of Directors;
“BVI”	the British Virgin Islands;
“Company”	China Zenith Chemical Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange;
“Completion”	completion of the Acquisition in accordance with the Share Purchase Agreement (including the completion of the allotment and issue of the Consideration Shares to the Vendor);
“Completion Date”	the day that is the 14 business days after the day on which the conditions of the Share Purchase Agreement have been satisfied or waived or such other day as the Purchaser may agree;
“Consideration”	the consideration payable by the Purchaser to the Vendor for the Acquisition
“Consideration Shares”	354,000,000 Shares to be allotted and issued at an issue price of HK\$0.305 each to the Vendor as settlement of the consideration under the Share Purchase Agreement
“Director(s)”	director(s) of the Company;
“Group”	the Company and its subsidiaries;

“HK\$”	Hong Kong Dollars;
“Independent Board Committee”	the independent board committee comprising all independent non-executive Directors established in connection with the Acquisition;
“Independent Third Party(ies)”	a party(ies) who is/are independent of and is/are not connected with any of the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates;
“Last Trading Day”	17 March 2016, being the last trading day prior to the signing of Share Purchase Agreement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“percentage ratios”	shall have the meaning ascribed to it in Rule 14.07 of the HKSE Listing Rule;
“PRC”	the People’s Republic of China;
“Promissory Note”	the promissory note to be issued by the Company in favour of the Vendor upon Completion to satisfy part of the Consideration
“Purchaser”	Dragon Boom Investments Limited (龍盛投資有限公司), a company incorporated in the BVI with limited liability and is a wholly owned subsidiary of the Company;
“Racing Dragon”	Racing Dragon Group Limited (爭龍集團有限公司), a company incorporated under the laws of the BVI with limited liability, and is wholly-owned by the Vendor;
“Racing Dragon Group”	Racing Dragon and its wholly-owned subsidiary, the WFOE
“Sale Shares”	23 shares with a par value of US\$1 each in the share capital of the Racing Dragon, representing 23% of the issued share capital of the Racing Dragon;
“SGM”	an extraordinary general meeting to be convened by the Company to consider and approve the Share Purchase Agreement and Specific Mandate;

“Share Purchase Agreement”	the share purchase agreement dated 18 March 2016 entered into between the Vendor and the Purchaser in relation to the sale and purchase of shares, representing 23% of the issued share capital of Racing Dragon;
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company
“Shareholders”	shareholders of the Company;
“Specific Mandate”	the specific mandate proposed to be granted to the Directors by the Shareholders to allot and issue the Consideration Shares at the SGM;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Vendor”	Hope High Holdings Limited, a company incorporated in the BVI with limited liability;
“WFOE”	黑河龍江化工有限公司 (Heihe LongJiang Chemical Co. Ltd.), a wholly foreign-owned enterprise established by Racing Dragon in the PRC; and
“%”	per cent.

By Order of the Board
China Zenith Chemical Group Limited
Law Tze Ping Eric
Executive Director

Hong Kong, 18 March 2016

As at the date of this announcement, Ms. Chan Yuk Foebe, Mr. Law Tze Ping Eric and Mr. Yu Defa 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.

This announcement will be available for viewing on the website of the Hong Kong Exchange and Clearing Limited (www.hkexnews.hk) and the Company's website at www.irasia.com/listco/hk/chinazenith.