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China Zenith Chemical Group Limited

中國天化工集團有限公司

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

(Stock Code: 362)

CONNECTED TRANSACTION

ISSUE OF NEW SHARES TO A CONNECTED PERSON UNDER SPECIFIC MANDATE

SUBSCRIPTION

The Board is pleased to announce that on 5 October 2018 (after trading hours), the Company and Mr. Sha entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Sha has conditionally agreed to subscribe for, 220,000,000 Subscription Shares at the Subscription Price.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Subscription Shares.

The Subscription Shares represent approximately (i) 19.8% of the issued share capital of the Company as at the date of this announcement; and (ii) 16.5% of the issued share capital of the Company as enlarged by the Subscription Shares. The Subscription Shares will be allotted and issued pursuant to the Specific Mandate.

The gross proceeds from the issue of the Subscription Shares will be HK\$69,300,000 and the net proceeds will be approximately HK\$68,800,000. The Company intends to use the net proceeds from the issue of the Subscription Shares in repayment of bank loans and bonds payable.

LISTING RULES IMPLICATION

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the SGM.

Reference is made to the Company's circular dated 23 July 2018 that the Company considers Mr. Sha to be a connected person as he through Virtue Ever will be a substantial shareholder of the Company when the 220,000,000 new Shares as consideration shares are allotted and issued in full to Dragon Wise pursuant to the terms of the share transfer agreement dated 5 January 2018 entered into between Prosper Path, a wholly-owned subsidiary of the Company, and Dragon Wise in relation to the acquisition of the entire share capital of Xinyang Maojian International (as amended and supplemented by the Supplemental Agreement dated 11 June 2018 entered into between Prosper Path and Dragon Wise). Hence, the Subscription constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

The SGM will be convened to obtain the Independent Shareholders' approval for the Subscription Agreement, and the transaction contemplated thereunder, including the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Mr. Sha.

The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, save for Mr. Sha and his associates, no Shareholder has a material interest in the Subscription. As such, no Shareholder other than Mr. Sha and his associate will abstain from voting on the resolution(s) for approving the Subscription to be proposed at the SGM.

The Independent Board Committee comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, further details of the Subscription Agreement and the transactions contemplated thereunder, a letter of advice from the Independent Board Committee to the Independent Shareholders, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder is expected to be despatched by the Company to the Shareholders on or before 29 October 2018.

The Board is pleased to announce that on 5 October 2018 (after trading hours), the Company and Mr. Sha entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Sha has conditionally agreed to subscribe for, 220,000,000 Subscription Shares at the Subscription Price.

Principal terms of the Subscription Agreement are set out below.

THE SUBSCRIPTION AGREEMENT

Date : 5 October 2018

Parties : (i) the Company; and
(ii) Mr. Sha

Background of Mr. Sha is set out in the section headed “Information on the Subscriber” below in this announcement.

Issue of the Subscription Shares to Mr. Sha

Pursuant to the Subscription Agreement, the Company will allot and issue, and Mr. Sha will subscribe for, 220,000,000 Subscription Shares at the Subscription Price.

The amount of 220,000,000 Subscription Shares represents (i) 19.8% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.5% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares (i.e. 1,330,427,319 Shares). The aggregate nominal value of the Subscription Shares to be issued to Mr. Sha is HK\$22,000,000.

The Subscription Shares to be issued to Mr. Sha pursuant to the Subscription Agreement, when fully paid, will rank *pari passu* in all respects with the Shares in issue as at the date of the Subscription Agreement, including the right to rank in full for all distributions declared, made or paid by the Company at any time after the date of the Subscription Agreement.

The Subscription Price

The Subscription Price (i.e. HK\$0.315 per Subscription Share) represents:

- (i) a discount of approximately 1.59% to the closing price of HK\$0.320 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 2.54% to the average closing price of approximately HK\$0.323 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 3.81% to the average closing price of approximately HK\$0.327 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 8.10% to the average closing price of approximately HK\$0.341 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day.

The Subscription Price was arrived at after arm's length negotiations between the Company and Mr. Sha with reference to the Placing Price per Placing Share under the Placing Agreement, details of which were announced by the Company on 19 September 2018.

The Directors consider that the Subscription Price is fair and reasonable, having taken into account the Placing Price of HK\$0.315 per Placing Share under the Lapsed Placing which was determined with reference to, among other things, the then prevailing market price of the Shares and was negotiated on an arm's length basis between the Company and the Placing Agent, and the lapse of the Lapsed Placing which was due to the uncertainties of the financial market.

Subscription monies

Based on the Subscription Price and 220,000,000 Subscription Shares to be subscribed by Mr. Sha, the total subscription monies payable by Mr. Sha to the Company pursuant to the Subscription Agreement amount to HK\$69,300,000, which will be settled by cash.

Conditions precedent to the Subscription Agreement

Completion of the transactions contemplated in the Subscription Agreement is conditional upon fulfilment of the following conditions:

- (i) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Subscription Shares (and such listing and permission not subsequently revoked prior to completion of the Subscription Agreement);
- (ii) the passing of resolution(s) by the Independent Shareholders to approve the Subscription Agreement and the transactions contemplated under the Subscription Agreement;
- (iii) the Company obtaining all necessary written consents and approvals (if any) from the relevant authorities in respect of the transactions contemplated under the Subscription Agreement, if applicable; and
- (iv) the representations and warranties of the Company and Mr. Sha being true and accurate and not misleading at all times from the date of the Subscription Agreement up to and including the date of completion of the Subscription Agreement.

In the event that the conditions precedent above are not waived (as to Condition (iv) above only) or fulfilled by 5:00 p.m. on the Long Stop Date (or such later date as may be agreed by Mr. Sha and the Company), the Subscription Agreement and all rights and obligations thereunder shall cease and terminate and none of the parties thereto shall have any claim against the other.

Completion

Completion of the Subscription Agreement shall take place on the 5th Business Day after the date on which all the relevant conditions precedent to the Subscription Agreement set out above have been fulfilled (or such other as Mr. Sha and the Company may agree in writing), and in any event not later than the Long Stop Date (or such later date as may be agreed by Mr. Sha and the Company).

APPLICATION FOR LISTING

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Subscription Shares.

SPECIFIC MANDATE TO ISSUE THE SUBSCRIPTION SHARES

The Subscription Shares will be issued under the Specific Mandate to be proposed for voting by Independent Shareholders at the SGM. The Specific Mandate, if approved, will be valid until the completion of the Subscription or termination of the Subscription Agreement.

INFORMATION OF THE COMPANY

The Group is principally engaged in the manufacture and sale of coal-related chemical products and generation and supply of power and steam and will commence the online and overseas sale of Xinyang Maojian Tea Leaves soon.

INFORMATION ON THE SUBSCRIBER

Mr. Sha is an indirect controlling shareholder of Dragon Wise. As set out in the Company's circular dated 23 July 2018, Mr. Sha, through Virtue Ever, will be a substantial shareholder of the Company when the 220,000,000 new Shares as consideration shares are allotted and issued in full to Dragon Wise pursuant to the terms of the share transfer agreement dated 5 January 2018 entered into between Prosper Path, a wholly-owned subsidiary of the Company, and Dragon Wise in relation to the acquisition of the entire share capital of Xinyang Maojian International (as amended and supplemented by the Supplemental Agreement dated 11 June 2018 entered into between Prosper Path and Dragon Wise).

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Company considers that due to the recent stock market performance in Hong Kong and the increase in bank interest rates, there are uncertainties as to the regional economic and financial conditions. Therefore, the unfavourable market condition limit the Company's ability to raise capital.

In the circumstances, the Company considers that the Subscription from Mr. Sha provides capital to the Company in order to enable the Group to maintain a sufficient cash position, to meet its current liabilities and to enhance its capital base. Accordingly, the Company is of the view that the Subscription is in the best interest of the Company and its Shareholders as a whole.

USE OF PROCEEDS

If the Subscription Agreement is completed, the gross proceeds and net proceeds (after deducting professional fees and other related expenses) to be received by the Company from the issue of the Subscription Shares at the Subscription Price of HK\$0.315 per Subscription Share are expected to be HK\$69,300,000 and approximately HK\$68,800,000, respectively. In such case, the net Subscription Price per Share to be issued under the Subscription Agreement will be approximately HK\$0.313. The proceeds from the issue of the Subscription Shares will be used in repayment of bank loans and bonds payable.

EFFECT ON THE SHAREHOLDING STRUCTURE

The effects of the Share Subscription on the shareholding structure of the Company are, for illustrative purpose only and assuming no further issue of new Shares or repurchase of Shares by the Company from the date of this announcement up to the dates of the relevant events, set out as follows:

Shareholders	Immediately prior to completion of the Subscription		Immediately following completion of the Subscription	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
<i>Substantial shareholder</i>				
Mr. Chan Yuen Tung	304,231,111	27.40	304,231,111	22.87
Mr. Sha	—	—	220,000,000	16.54
<i>Director</i>				
Ms. Chan Yuk Foebe	7,170,000	0.65	7,170,000	0.54
<i>Public shareholders</i>	<u>799,026,208</u>	<u>71.95</u>	<u>799,026,208</u>	<u>60.05</u>
Total	<u><u>1,110,427,319</u></u>	<u><u>100.00</u></u>	<u><u>1,330,427,319</u></u>	<u><u>100.00</u></u>

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

Save for the Lapsed Placing, the Company has not conducted any fund raising activity in the past 12 months immediately preceding the date of this announcement.

LISTING RULES IMPLICATION

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the SGM.

Reference is made to the Company's circular dated 23 July 2018 that the Company considers Mr. Sha to be a connected person as he through Virtue Ever will be a substantial shareholder of the Company when the 220,000,000 new Shares as consideration shares are allotted and issued in full to Dragon Wise pursuant to the terms of the share transfer agreement dated 5 January 2018 entered into between Prosper Path and Dragon Wise in relation to the acquisition of the entire share capital of Xinyang Maojian International (as amended and supplemented by the Supplemental Agreement dated 11 June 2018 entered into between Prosper Path and Dragon Wise). Hence, the Subscription constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

The SGM will be convened to obtain the Independent Shareholders' approval for the Subscription Agreement, and the transaction contemplated thereunder, including the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Mr. Sha.

The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, save for Mr. Sha and his associates, no Shareholder has a material interest in the Subscription. As such, no Shareholder other than Mr. Sha and his associates will abstain from voting on the resolution(s) for approving the Subscription to be proposed at the SGM.

The Independent Board Committee comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, further details of the Subscription Agreement and the transactions contemplated thereunder, a letter of advice from the Independent Board Committee to the Independent Shareholders, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder is expected to be despatched by the Company to the Shareholders on or before 29 October 2018.

DEFINITIONS

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

“Board”	the board of Directors
“Business Day”	any day (excluding a Sunday) on which banks generally are open for business in Hong Kong
“Company”	China Zenith Chemical Group Limited (stock code: 362), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dragon Wise”	Dragon Wise Group Limited, a company incorporated under the laws of British Virgin Islands with limited liability and is owned as to 55% by Virtue Ever and is the sole legal and beneficial owner of Xinyang Maojian International
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit
“Independent Shareholders”	the shareholders of the Company other than those who are required to abstain under the Listing Rules from voting at the SGM for the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder
“Lapsed Placing”	the placing of up to a maximum of 220,000,000 Placing Shares on a best efforts basis from the period commencing immediately from the date of the Placing Agreement and expiring at 5:00 p.m. on the date falling 14 days after the date of the Placing Agreement (i.e. 3 October 2018), which has lapsed on 3 October 2018
“Last Trading Date”	4 October 2018, being the last trading day of the Shares on the Stock Exchange immediately prior to the date of the Subscription Agreement

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	5 December 2018
“Mr. Sha”	Mr. Sha Tao
“Placing Agent”	VC Brokerage Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the placing agreement dated 19 September 2018 entered into between the Company and the Placing Agent in relation to the Lapsed Placing
“Placing Price”	HK\$0.315 per Placing Share
“Placing Share(s)”	the new Shares proposed to be issued under the Lapsed Placing
“Prosper Path”	Prosper Path Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, and is wholly owned by the Company
“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving by the Independent Shareholders the Subscription Agreement, and the transactions contemplated thereunder (including the grant of Specific Mandate)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Specific Mandate”	the specific mandate to allot and issue the Subscription Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Sha
“Subscription”	the proposed issue of the Subscription Shares to Mr. Sha
“Subscription Agreement”	the conditional subscription agreement dated 5 October 2018 entered into between the Company and Mr. Sha in relation to the issue of 220,000,000 Subscription Shares to Mr. Sha
“Subscription Price”	the subscription price of HK\$0.315 per Subscription Share

“Subscription Shares”	the 220,000,000 new Shares to be allotted and issued to the Subscriber pursuant to the Subscription Agreement
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Virtue Ever”	Virtue Ever Limited, a company incorporated under the laws of Seychelles with limited liability and is legally and beneficially wholly owned by Mr. Sha
“Xinyang Maojian International”	Xinyang Maojian International Holding Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and is a wholly-owned subsidiary of Dragon Wise
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By Order of the Board
China Zenith Chemical Group Limited
Chan Yuk Foebe
Chairman and Executive Director

Hong Kong, 5 October 2018

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