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XINYANG MAOJIAN GROUP LIMITED

信陽毛尖集團有限公司

(formerly known as 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)

UPDATE ON PROFIT GUARANTEE AND SUPPLEMENTAL AGREEMENT IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF XINYANG MAOJIAN INTERNATIONAL HOLDING LIMITED

Reference is made to the circular of the Company dated 23 July 2018 (the “**Circular**”) and the announcements of the Company dated 7 January 2018, 11 June 2018 and 15 August 2018, respectively, in relation to the acquisition of the entire issued share capital of Xinyang Maojian International Holding Limited. Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Circular. As at the date hereof, the Acquisition has been completed and the Target Company has become a subsidiary of the Company.

The board (the “**Board**”) of directors (the “**Directors**”) of Xinyang Maojian Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) announces that on 9 October 2019 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company) and the Vendor (an indirect non wholly-owned company of Mr. Sha Tao, who is a substantial shareholder of the Company) entered into a second supplemental agreement (the “**Second Supplemental Agreement**”) in relation to the Acquisition to amend certain terms of the Share Transfer Agreement and the Supplemental Agreement (collectively, the “**Existing Agreements**”).

Under the Existing Agreements:

- (1) the Vendor provided profit guarantee on the Target Group during the following period:

Guarantee Period	For the six months ended 31 December 2018	For the year ended 30 June 2019	For the eighteen months ending 31 December 2019	For the two years ending 30 June 2020
Accumulated audited profit/(loss) after tax	Not more than loss of RMB5,000,000	Not less than profit of RMB8,500,000	No loss	Not less than profit of RMB21,500,000

(Each of the above figures constitutes the “**Existing Guaranteed Financial Performance**”, and each guarantee period set out in the table above constitutes the “**Guarantee Period**”).

- (2) In the event that any of the Existing Guaranteed Financial Performance is not met after completion of the Acquisition, the Purchaser shall exercise an irrevocable and unconditional put option (the “**Put Option**”) in relation to the Sale Shares within seven Business Days after the provision of the Target Company’s audited accounts (the “**Audited Accounts**”) to the Vendor at an exercise price of HK\$1.

As the accumulated audited loss after tax of the Target Group for the year ended 30 June 2019 (the “**Relevant Period**”) was approximately RMB4,165,000, the Existing Guaranteed Financial Performance for the Relevant Period could not be met, which was mainly due to the following reasons:

- (1) In order to regulate the permitted activities of food operations, strengthen food operation supervision and guarantee food safety, the China Food and Drug Administration issued the Measures for the Administrative Measures for Food Distribution Licensing (食品經營許可管理辦法) and its subsequent amendment (the “**Measures**”). To meet the regulatory requirements and be responsible to the consumers, Xinyang Shenzhen has actively applied for the food operation license pursuant to the Measures. Due to the lengthy approval process, Xinyang Shenzhen had only successfully obtained the food operation license during the second half of 2018 and started its operation and sales since then;
- (2) To expand the influence of product, standardize the market order, establish industry examples and build internationally recognised brands, Xinyang Shenzhen actively applied for the establishment of exclusive brand-owned flagship and specialty stores in major mainstream e-commerce platforms in 2018. In particular, after over half a year of the application process, Jingdong Longtan Tea Flagship Store (京東龍潭茶葉旗艦店) and Taobao Longtan Tea Official Enterprise Store (淘寶龍潭茶葉官方企業店) finally successfully obtained authorizations to the relevant e-commerce platforms in the first half of 2019 and officially commenced operation; and

- (3) To further expand the flow in the consumer end and be a part of the daily life of ordinary people, Xinyang Shenzhen also actively developed and designed micro-business small programs on the WeChat application platform in 2018. It integrates the convenient shopping experience into the daily life of consumers, and uses the most convenient and effective way to allow customers to learn about its products. The new Longtan Tea Micro-Business app officially launched and began its operations during the first half of 2019.

After the establishment of the Target Group, it has been committed to maximizing long-term stable returns for its shareholders through sustainable development policies. In 2018, the Target Group actively applied for relevant licenses, established professional platforms for online sales, expanded online sales channels, optimised consumer shopping experience and strengthened brand image and influence. By mid-2019, the above work was near completion and had been fully placed in operation, and it is estimated that the financial performance and the profit situation of the Target Group will improve in the near future.

Given the above, the Directors (including the independent non-executive Directors) have considered either to (i) exercise the Put Option; or (ii) retain its investment in the Sale Shares by amending the terms of the Existing Guaranteed Financial Performance (the “**Alternatives**”).

As the circumstances were out of the control of the Vendor and after considering the Alternatives, in view of the potential of the development of the tea industry and in order to achieve a long-term cooperation and success between the Purchaser and the Vendor, the Board wishes to retain its investment in the Sale Shares and the parties agreed that the Existing Guaranteed Financial Performance be amended.

Pursuant to the Second Supplemental Agreement:

- (1) the Vendor irrevocably and unconditionally guarantees the following financial performance to be achieved by the Target Group during the following periods:

Guarantee Period	For the six months ending 31 December 2019	For the year ending 30 June 2020	For the eighteen months ending 31 December 2020	For the two years ending 30 June 2021
Accumulated audited profit/(loss) after tax	Not more than loss of RMB5,000,000	Not less than profit of RMB8,500,000	No loss	Not less than profit of RMB21,500,000

- (2) The Purchaser shall procure the Target Company to promptly (i) issue the Audited Accounts (which shall be audited or reviewed in accordance with the Company's applicable accounting standard at the relevant time by the Company's external auditors and shall be final and binding) of the Target Company as soon as practicable after each new Guarantee Period set out in the table in item (1) above; and (ii) deliver the Audited Accounts to the Vendor.

Save as disclosed above, all other material terms and conditions of the Existing Agreements shall remain unchanged and continue to be in full force and effect. The Directors (including the independent non-executive Directors) consider that the terms of the Second Supplemental Agreement were arrived at after arm's length negotiation, and the entering into of the Second Supplemental Agreement and the decision not to exercise the Put Option at this stage are fair and reasonable and in the interest of the Company and its shareholders as a whole.

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

Hong Kong, 9 October 2019

As at the date of this announcement, Ms. Chan Yuk Foebe, 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.