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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)

(1) CLARIFICATION IN RELATION TO THE SECOND SUPPLEMENTAL AGREEMENT AND

(2) CONNECTED TRANSACTION IN RELATION TO THE EXERCISE OF THE PUT OPTION AND TERMINATION OF THE SHARE TRANSFER AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

CLARIFICATION IN RELATION TO THE SECOND SUPPLEMENTAL AGREEMENT

Reference is made to the announcement of the Company dated 9 October 2019 in relation to the Second Supplemental Agreement to amend certain terms of the Share Transfer Agreement and the Supplemental Agreement.

The Board wishes to inform the Shareholders and potential investors of the Company that after thorough evaluation of (i) the future financial performance of the Target Company; and (ii) the protracted regulatory process which would have been unduly burdensome on the Company to satisfy in connection with the Second Supplemental Agreement, the parties have mutually agreed to deem the Second Supplemental Agreement as invalid on 12 February 2020 and to take all necessary steps to restore the parties to the position before the entering into of the Second Supplemental Agreement.

THE EXERCISE OF THE PUT OPTION AND TERMINATION OF THE SHARE TRANSFER AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

On 12 February 2020, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Termination Agreement with the Vendor, pursuant to which the parties have agreed (i) to terminate the Share Transfer Agreement and the Supplemental Agreement and the transactions contemplated thereunder; (ii) to waive the term which required the Put Option be exercised by the Purchaser within seven Business Days after the provision of the relevant Audited Accounts to the Vendor; and (iii) that the Purchaser shall exercise the irrevocable and unconditional Put Option granted by the Vendor to the Purchaser for the exercise price of HK\$1 in relation to the Sale Shares as the Guaranteed Financial Performance of the Target Company has not been met for the Relevant Period.

IMPLICATIONS UNDER THE LISTING RULES

The Vendor is owned as to (i) 55% by Virtue Ever; and (ii) 45% by Rising Mission and Mr. Sha is the legal and beneficial owner of the entire issued share capital of Virtue Ever. As at the date of this announcement, Mr. Sha owns as to 16.54% of the Company and is therefore a substantial shareholder of the Company. Accordingly, the Vendor is a connected person and thus, the exercise of the Put Option constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the exercise of the Put Option contemplated under the Termination Agreement are more than 0.1% and less than 5%, the exercise of the Put Option is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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, and 9 October 2019 (collectively, the “**Announcements**”), respectively, in relation to the acquisition of the entire issued share capital of the Target Company. Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Circular and the Announcements.

CLARIFICATION IN RELATION TO THE SECOND SUPPLEMENTAL AGREEMENT

Reference is made to the announcement of the Company dated 9 October 2019 in relation to the Second Supplemental Agreement to amend certain terms of the Share Transfer Agreement and the Supplemental Agreement.

The Board wishes to inform the Shareholders and potential investors of the Company that after thorough evaluation of (i) the future financial performance of the Target Company; and (ii) the protracted regulatory process which would have been unduly burdensome on the Company to satisfy in

connection with the Second Supplemental Agreement, the parties have mutually agreed to deem the Second Supplemental Agreement as invalid on 12 February 2020 and to take all necessary steps to restore the parties to the position before the entering into of the Second Supplemental Agreement. The Board is of the view that the invalidity of the Second Supplemental Agreement will not cause any material adverse effect on the operation, business and financial position of the Group.

This clarification is supplemental to and should be read in conjunction with the Circular and the Announcements. Saved as disclosed above, all other information and terms as contained in the Circular, Announcements, Share Transfer Agreement and the Supplemental Agreement shall remain unchanged.

THE EXERCISE OF THE PUT OPTION AND THE TERMINATION OF THE SHARE TRANSFER AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

Reference is made to the Circular and the Announcements, respectively, in relation to the acquisition of the entire issued share capital of the Target Company.

On 12 February 2020, the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into a termination agreement (the “**Termination Agreement**”), pursuant to which the parties have agreed (i) to terminate the Share Transfer Agreement and the Supplemental Agreement and the transactions contemplated thereunder; (ii) to waive the term which required the Put Option be exercised by the Purchaser within seven Business Days after the provision of the relevant Audited Accounts to the Vendor (the “**Waiver**”); and (iii) that the Purchaser shall exercise the irrevocable and unconditional Put Option granted by the Vendor to the Purchaser for the exercise price of HK\$1 in relation to the Sale Shares as the Guaranteed Financial Performance of the Target Company has not been met for the year ended 30 June 2019 (the “**Relevant Period**”), details of which are set out below:

TERMINATION AGREEMENT

Date: 12 February 2020

Parties:

- (1) the Purchaser, incorporated under the laws of the BVI with limited liability, being the sole legal and beneficial owner of the Target Company and an indirect wholly-owned subsidiary of the Company, is principally engaged in investment holding; and
- (2) the Vendor, incorporated under the laws of the BVI with limited liability and is owned as to (i) 55% by Virtue Ever, which is in turn wholly-owned by Mr. Sha, a substantial shareholder of the Company; and (ii) 45% by Rising Mission, which is in turned wholly-owned by Mr. Mok, is principally engaged in investment holding.

Subject matter: Under the Termination Agreement, the parties have agreed (i) to terminate the Share Transfer Agreement and the Supplemental Agreement and the transactions contemplated thereunder; (ii) to the Waiver; (iii) that the Purchaser shall exercise the Put Option granted by the Vendor to the Purchaser; (iv) that the Purchaser shall waive the remaining receivables of RMB4,742,224 from the Target Group under the Guaranteed Financial Performance, being the amount advanced to the Target Group by the Purchaser for the purposes of its working capital; (v) that the Purchaser shall no longer be required to procure the Company to allot and issue the Consideration Shares to the Vendor under the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement); and (vi) that no parties shall have any claim of any nature whatsoever against the other party under the Share Transfer Agreement and the Supplemental Agreement.

As at the date of this announcement, no Consideration Shares have been issued to the Vendor in connection with the Acquisition as contemplated under the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement).

Exercise of the Put Option: Under the Supplemental Agreement, the Vendor has irrevocably and unconditionally guaranteed the following Guaranteed Financial Performance to be achieved by 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 ended 31 December 2019	For the two years ending 30 June 2020
Accumulated 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

As the accumulated audited loss after tax of the Target Group for the Relevant Period was approximately RMB4,165,000, the Guaranteed Financial Performance for the Relevant Period could not be met. On the basis of the above, the Group has decided to enter into the Termination Agreement and exercise the Put Option to dispose of the Target Company to the Vendor.

Upon exercising the Put Option, the Purchaser is not entitled to any undistributed distributable profit as the Target Company had recorded an accumulated audited loss after tax.

Exercise Price: Under the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement), the Put Option shall be exercised at the exercise price of HK\$1. The exercise price of the Put Option was arrived at after arm's length negotiations between the Vendor and the Purchaser with reference to, among other things, the view of limiting the Company's risk of loss from the Acquisition in the event that the future financial performance of the Target Group is not as anticipated at the time of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement).

The Directors (including the independent non-executive Directors) are of the view that the terms of the Termination Agreement (including the Waiver) and the exercise of the Put Option contemplated thereunder are fair and reasonable and are on normal commercial terms and the entering into the Termination Agreement is in the interests of the Company and Shareholders as a whole.

INFORMATION OF THE GROUP

The Group is principally engaged in the manufacture and sale of coal-related chemical products and generation and supply of power and steam. Coal-related chemical products comprise vinyl acetate products and polyvinyl-chloride products.

INFORMATION OF THE PURCHASER

The Purchaser, an indirect wholly-owned subsidiary of the Company, was incorporated in the BVI with limited liability and is principally engaged in investment holding.

INFORMATION OF THE VENDOR

The Vendor was incorporated under the laws of the BVI with limited liability and is principally engaged in investment holding. The Vendor is owned as to (i) 55% by Virtue Ever, which is in turn wholly owned by Mr. Sha, and (ii) 45% by Rising Mission, which is in turn wholly owned by Mr. Mok.

INFORMATION OF THE TARGET GROUP

The Target Company is a company incorporated under the laws of the BVI with limited liability. The Target Group is principally engaged in the sale of Xinyang Maojian Tea Leaves on the e-commerce market in the PRC and will develop the sale of Xinyang Maojian Tea Leaves outside of the PRC. The Group originally acquired the Target Company for the consideration of HK\$85,000,000, which was to be satisfied by the Company by allotting and issuing the Consideration Shares to the Vendor upon Completion. For further details of the Target Group, please refer to the Circular and the Announcements.

As at the date of the Termination Agreement, the Target Company has issued 50,000 shares, and immediately prior to the execution of the Termination Agreement, the Purchaser is the legal and beneficial owner of the 50,000 shares of the Target Company.

FINANCIAL INFORMATION OF THE TARGET COMPANY

The following table sets out the financial information of the Target Company:

	For the year ended 30 June 2019 <i>(Audited)</i> <i>HK\$'000</i>
Revenue	662
Net loss before taxation	4,786
Net loss after taxation	4,786

As at 30 June 2019, the audited consolidated total asset value and net liability of the Target Company were approximately HK\$3,610,000 and HK\$5,652,000, respectively. Following the completion of the disposal of the Target Company under the exercise of the Put Option, the Company will cease to have any interests in the Target Company.

FINANCIAL IMPACT ON THE GROUP

It is expected that the Group will record a profit on the disposal of the Target Company under the exercise of the Put Option in the amount of approximately HK\$389,000, which is calculated based on the unaudited net liability of the Target Company less the remaining receivable waived by the Purchaser. The actual profit on the disposal of the Target Company under the exercise of the Put Option to be recorded by the Group is subject to audit and may be different from the expected amount as stated above.

USE OF PROCEEDS

The sales proceeds arising from the disposal of the Target Company under the exercise of the Put Option will be used as general working capital of the Group.

REASONS FOR ENTERING INTO THE TERMINATION AGREEMENT AND EXERCISING THE PUT OPTION

Having considered that (i) the Target Company was not able to meet the Guaranteed Financial Performance for the Relevant Period; and (ii) the future and financial performance of the Target Company, the Directors are of the view that the disposal of the Target Company under the exercise of

the Put Option will enable the Group to re-shift its focus onto its main business segments and allow the Group to allocate more resources in exploring other potential business opportunities. In addition, the Group will continue to maintain its principal businesses after the completion of the disposal of the Target Company under the exercise of the Put Option.

As at the date of this announcement, no Directors have a material interest in the Termination Agreement and the exercise of the Put Option which required any of them to abstain from voting on the Board resolutions in relation to the aforesaid matters. The Directors (including the independent non-executive Directors) are of the view that the terms of the Termination Agreement and the exercise of the Put Option contemplated thereunder are fair and reasonable, are on normal commercial terms and in the ordinary and usual course of business of the Group and the entering into the Termination Agreement is in the interests of the Company and Shareholders as a whole. In addition, the Directors are of the view that the entering into of the Termination Agreement and the exercise of the Put Option contemplated thereunder will not cause any material adverse effect on the operation, business and financial position of the Group.

IMPLICATIONS UNDER THE LISTING RULES

The Vendor is owned as to (i) 55% by Virtue Ever; and (ii) 45% by Rising Mission and Mr. Sha is the legal and beneficial owner of the entire issued share capital of Virtue Ever. As at the date of this announcement, Mr. Sha owns as to 16.54% of the Company and is therefore a substantial shareholder of the Company. Accordingly, the Vendor is a connected person and thus, the exercise of the Put Option constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the exercise of the Put Option contemplated under the Termination Agreement are more than 0.1% and less than 5%, the exercise of the Put Option is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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

Hong Kong, 12 February 2020

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.