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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)*

ISSUE OF CONVERTIBLE BONDS UNDER GENERAL MANDATE

ISSUE OF CONVERTIBLE BONDS

The Board is pleased to announce that on 21 June 2022 (after trading hours), the Company entered into the Subscription Agreements with each of the Subscribers in relation to the issue of Convertible Bonds in an aggregate principal amount of HK\$35,400,000 at the Conversion Price of HK\$0.1 per Conversion Share. The subscription monies payable by Mr. Chiau in the sum of HK\$18,600,000 under the Subscription Agreement shall be satisfied by setting off the Indebted Amount A due from the Company to Mr. Chiau while the subscription monies payable by Ms. Wong in the sum of HK\$16,800,000 under the Subscription Agreement shall be satisfied by setting off the Indebted Amount B due from the Company to Ms. Wong.

As at the date of this announcement, the Company has 2,660,560,978 Shares in issue. Based on the Conversion Price of HK\$0.1, a maximum number of 354,000,000 Conversion Shares shall be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bonds, representing approximately 13.3% of the existing issued share capital of the Company and approximately 11.7% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares.

Completion is conditional upon and subject to the fulfilment of the conditions precedent of the Subscription Agreements. If the conditions precedent of the Subscription Agreements are not fulfilled or waived (other than condition (a) which cannot be waived by the parties) on or before the Long Stop Date, the Subscription Agreements shall lapse and none of the parties shall have any obligations and liabilities towards each other save for any prior breaches of the terms of the Subscription Agreements.

The gross proceeds and net proceeds from the issue of the Convertible Bonds will be HK\$35,400,000 and HK\$35,200,000 (having deducted the professional fees and other expenses in connection with the issue of the Convertible Bond) respectively. The Company shall use the gross proceeds to settle the Indebted Amounts and shall use its internal resources to settle the professional fees and other expenses in connection with the issue of the Convertible Bond.

The Conversion Shares will be issued and allotted by the Company pursuant to the General Mandate upon conversion of the Convertible Bonds. Under the General Mandate, the Company is authorised to issue up to 354,741,463 Shares until the revocation, variation or expiration of the General Mandate. The Company has yet to utilize any of the General Mandate prior to the date of the Subscription Agreements.

The Subscription Agreements and the transactions contemplated therein including the issue and allotment of Conversion Shares under the General Mandate are not subject to Shareholders' approval. No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

As the Subscription Agreements are subject to the Conditions precedent therein, holders of securities of the Company and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

THE SUBSCRIPTION

The Board is pleased to announce that on 21 June 2022 (after trading hours), the Company entered into the Subscription Agreements with each of the Subscribers in relation to the issue of the Convertible Bonds in an aggregate principal amount of HK\$35,400,000 at the Conversion Price of HK\$0.1 per Conversion Share. The subscription monies payable by Mr. Chiau in the sum of HK\$18,600,000 under the Subscription Agreement shall be satisfied by setting off the Indebted Amount A due from the Company to Mr. Chiau while the subscription monies payable by Ms. Wong in the sum of HK\$16,800,000 under the Subscription Agreement shall be satisfied by setting off the Indebted Amount B due from the Company to Ms. Wong.

The Subscription Agreements

Principal terms and conditions of the Subscription Agreements are summarised as follows:

Date: 21 June 2022

Parties: (1) the Company; and
(2) the Subscribers.

As at the date of this announcement, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries Mr. Chiau and Ms. Wong are interested in 99,521,256 Shares and 129,750,000 Shares, representing 3.74% and 4.88% of its issued share capital of the Company, respectively.

Assuming all the conversion rights attaching to the Convertible Bonds in the principal amount of HK\$35,400,000 are exercised by the Subscribers in full and on the assumption that there is no further allotment of Shares from the date of this announcement other than the Conversion Shares, Mr. Chiau and Ms. Wong will be interested in 285,521,256 Shares and 297,750,000 Shares, representing approximately 9.47% and 9.88% of the issued share capital of the Company, respectively.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Subscribers are Independent Third Parties and that they are third parties independent to each others as at the date of this announcement.

Conditions Precedent

Completion of the Subscription Agreements shall be subject to and conditional upon:

- (a) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares falling to be issued upon exercise of the conversion rights attached to the Convertible Bonds and the approval not having been subsequently revoked or cancelled;
- (b) the Company's warranties under the Subscription Agreements having remained true and accurate and not misleading in all respects as at Completion;
- (c) the Subscribers' warranties under the Subscription Agreements having remained true and accurate and not misleading in all respects as at Completion; and
- (d) the parties under the Subscription Agreements having obtained all necessary consents and approvals in respect of the Subscription Agreements and the transactions contemplated thereunder.

If the conditions precedent of the Subscription Agreements are not fulfilled or waived (other than condition (a) which cannot be waived by the parties) on or before the Long Stop Date, the Subscription Agreements shall lapse and none of the parties shall have any obligations and liabilities towards each other save for any prior breaches of the terms of the Subscription Agreements.

As at the date of this announcement, the condition precedent under paragraph (d) has been fulfilled, the other conditions precedent of the Subscription Agreements are yet to be fulfilled.

Completion Date

Completion of the Subscription Agreements will take place within three (3) Business Days upon the fulfillment of the conditions referred to above, or such other date as the Company and the Subscribers may agree in writing. The Company shall issue the Convertible Bonds in their respective principal amounts to the Subscribers on the Completion Date.

For the avoidance of any doubts, the Subscription Agreements between the Company and the Subscribers are not inter-conditional and are independent of each other.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds are summarized below:

Issuer:	The Company
Subscribers:	Two individual subscribers (collectively the “ Subscribers ” and each is a “ Subscriber ”)
Principal amount:	(a) Mr. Chiau: HK\$18,600,000 (which shall be satisfied by setting off Indebted Amount A) (b) Ms. Wong: HK\$16,800,000 (which shall be satisfied by setting off Indebted Amount B)
Maturity date:	The date of the first anniversary of the date of issue of the Convertible Bonds
Interest rate:	The Convertible Bonds do not bear any interest.
Conversion price:	HK\$0.1 per Conversion Share which represents the par value of the Share which, for the avoidance of doubt, shall be subject to adjustment provided in the Convertible Bonds. The Conversion Price represents: (a) a premium of approximately 49.3% to the closing price per Share of HK\$0.067 as quoted on the Stock Exchange on 21 June 2022 (being the date of the Subscription Agreements); (b) a premium of approximately 47.1% to the average closing price per Share of HK\$0.068 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Subscription Agreements; and (c) a premium of approximately 44.9% to the average closing price per Share of HK\$0.069 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the date of the Subscription Agreements.

The Conversion Price was determined based on arm’s length negotiations between the parties with reference to the prevailing market prices of the Shares as quoted on the Stock Exchange.

Adjustment events:

The Conversion Price shall from time to time be adjusted in accordance with the relevant provisions under the terms and conditions of the Convertible Bonds upon occurrence of the following events:

- (a) an alteration of the nominal amount of the Shares by reason of consolidation or subdivision;
- (b) an issue of Shares credited as fully paid to Shareholders by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve);
- (c) a capital distribution (as such term is defined in the conditions of the Convertible Bonds) to Shareholders being made by the Company;
- (d) offer to the Shareholders new Shares for subscription by way of rights, or a granting the Shareholders any options or warrants to subscribe for new Shares, at a price which is less than the market price per Share at the date of the announcement of the terms of the offer or grant;
- (e) an issue of Shares being made wholly for cash at a price less than the greater of either the closing price per Share at the date of the announcement of the terms of issue of such Shares or the Conversion Price in effect immediately prior to the date of the announcement of the terms of issue of such Shares;
- (f) an issue wholly for cash of any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares, in any case the relevant consideration per new Share initially receivable is less than the market price at the date of the announcement of the terms of issue of such securities;
- (g) modification of the rights of conversion, exchange or subscription attaching to any such securities mentioned in (f) above arises, so that the relevant consideration per new Share initially receivable is less than the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription; and

- (h) an issue of the Shares for the acquisition of any asset at a price per Share which is less than the market price at the date of the announcement of the terms of such issue.

Conversion Shares:	Based on the Conversion Price of HK\$0.1, a maximum number of 354,000,000 Conversion Shares shall be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bonds, representing (i) approximately 13.3% of the existing issued share capital of the company as at the date of this announcement and (ii) approximately 11.7% of the issued share capital of the company as enlarged by the issue and allotment of the Conversion Shares.
Conversion Period:	The period commencing from (and including) the Bond Issue Date and ending on (but excluding) the fifth (5th) day prior to the Bond Maturity Date.
Conversion rights:	Holder of the Convertible Bonds shall have the right, exercisable during the Conversion Period by delivering a written notice (the “ Conversion Notice ”) to the Company, to convert the whole or any part (in multiples of HK\$100,000) of the outstanding principal amount of the Convertible Bonds held by such holder of the Convertible Bonds into such number of Conversion Shares as will be determined by dividing the principal amount of the Convertible Bonds to be converted by the Conversion Price in effect on the date of conversion. No fraction of a Share shall be issued on conversion of the Convertible Bonds. Fractional entitlements shall be ignored and any sum paid in respect thereof shall be retained by the Company for its own benefit.
Redemption at maturity:	Unless previously purchased or converted for the Conversion Shares, the Company shall on the Bond Maturity Date redeem the outstanding principal amount of the Convertible Bonds.

Transfer restrictions: The Bondholder may not assign or transfer the Convertible Bonds without the prior written consent of the Company. Subject to the receipt of such consent, the Convertible Bonds may be assigned or transferred to any third party which is not a connected person (as defined in the Listing Rules) of the Company, subject only to compliance of the conditions hereunder and further subject to the conditions, approvals, requirements and any other provisions of or under:

- (a) the Stock Exchange (and any other stock exchange on which the Shares may be listed at the relevant time) or their rules and regulations;
- (b) the approval for listing in respect of the Conversion Shares; and
- (c) all applicable laws and regulations.

Events of default: If any of the events specified below occurs, the sole remedy of the Bondholder shall be to give notice to the Company that the Convertible Bond is immediately due and payable at its principal amount then outstanding:

- (a) other than as a result of or in circumstances where an offer made to holders of Shares to acquire all or any proportion of the Shares becoming unconditional, the listing of the Shares (as a class) on the Stock Exchange ceases; or
- (b) if there is a material breach by the Company of its obligations set out in the conditions,

provided that notwithstanding the foregoing, if the Company shall fail to issue any Conversion Shares in accordance with the conditions the Bondholder shall be entitled to bring an action against the Company for either specific performance or damages.

Application for listing: No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock or securities exchange. Application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares.

Ranking: The Conversion Shares upon issue shall rank *pari passu* with all other Shares in issue at the time of issue of the Conversion Shares.

GENERAL MANDATE TO ISSUE AND ALLOT THE CONVERSION SHARES

At the annual general meeting of the Company held on 9 December 2021, a resolution of the Shareholders was passed to grant to the Directors the General Mandate to allot, issue and otherwise deal with new Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing such resolution. The Company is authorized to allot and issue a maximum of 354,741,463 Shares under the General Mandate.

As at the date of this announcement, the General Mandate has yet been utilized. Accordingly, the Subscription Agreements and the transactions contemplated therein including the issue and allotment of Conversion Shares under the General Mandate are not subject to Shareholders' approval.

REASONS FOR THE ISSUE OF CONVERTIBLE BONDS AND USE OF PROCEEDS

As at the date of this announcement, the Company is indebted to Mr. Chiau for the Indebted Amount A which is due and payable in September 2025 and is indebted to Ms. Wong for the Indebted Amount B which is due and payable in September 2022. The Indebted Amount A is arising from a bond payable in the sum of HK\$18,600,000 to the Company for a term of four years and due in September 2025 at an interest rate of 7.5% per annum and the Indebted Amount B is arising from a loan in the sum of HK\$16,800,000 to the Company for a term of three months and due in September 2022 at an interest rate of 7.5% per annum.

According to the interim report of the Company for the period ended 31 December 2021, the Group's cash and cash equivalents as at 31 December 2021 was approximately HK\$9,766,000. If the financial positions of the Group shall not be improved, the Group may not be able to repay the Indebted Amount A and Indebted Amount B due to Mr. Chiau and Ms. Wong with the existing financial resources of the Company. Issue of the Convertible Bonds by setting off the Indebted Amounts enables the Group to avoid cash outflows in view of the current financial situation of the Company and to eliminate the interest payment of the Indebted Amounts as the Convertible Bonds will be issued on a zero-coupon basis. The Conversion Shares once converted, would reduce the gearing level of the Company and broaden its capital base.

The Company intends to allocate the gross proceeds from the issue of the Convertible Bonds in the total sum of HK\$35,400,000 to settle the Indebted Amount A and the Indebted Amount B. As the subscription amount payable by the Subscribers in the total sum of HK\$35,400,000 under the Subscription Agreements shall be satisfied by setting off the Indebted Amounts, the Group shall use its internal resources to settle the professional fees and all related expenses in connection with the issue of the Convertible Bonds. The net proceeds will be in the approximate sum of HK\$35,200,000 having deducted the professional fees and all related expenses.

INFORMATION ON THE COMPANY

The Company is a Hong Kong-based investment holdings company principally engaged in generation and sale of heat and power business and coal-related chemical business.

INFORMATION ON THE SUBSCRIBERS

Mr. Chiau is a professional investor and has more than 20 years experience in equity investment. As at the date of this announcement, Mr. Chiau holds 99,521,256 shares, representing 3.74% of the issued share capital of the Company.

Ms. Wong is a professional investor and a merchant principally engaged in consumption retail business in Hong Kong. As at the date of this announcement, Ms. Wong holds 129,750,000 shares, representing 4.88% of the issued share capital of the Company.

To the best of the Director' knowledge, information and belief, having made all reasonable enquiries, the Subscribers are Independent Third Parties and that they are third parties independent of each others.

EFFECTS ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the date of this announcement; and (ii) for illustration purpose only, immediately after the allotment and issue of the Conversion Shares in full upon exercise of the conversion rights under the Convertible Bonds (on the assumptions that the Conversion Price being HK\$0.1 and there is no further allotment of Shares from the date of this announcement other than the Conversion Shares) are as follows:

Shareholders	Existing shareholding structure as at the date of this announcement		Shareholding structure immediately upon full conversion of the Convertible Bonds	
	Number of Shares	Approximate %	Number of Shares	Approximate %
<i>Directors</i>				
Ms. Chan Yuk Foebe	2,860,000	0.11	2,860,000	0.10
Mr. Gao Ran	2,440,000	0.09	2,440,000	0.08
Mr. Liu Yangyang	3,320,000	0.12	3,320,000	0.11
<i>Substantial Shareholder</i>				
Mr. Chan Yuen Tung	613,187,537	23.05	613,187,537	20.34
<i>The Subscribers</i>				
– Mr. Chiau	99,521,256	3.74	285,521,256	9.47
– Ms. Wong	129,750,000	4.88	297,750,000	9.88
Other public Shareholders	<u>1,809,482,185</u>	<u>68.01</u>	<u>1,809,482,185</u>	<u>60.02</u>
Total	<u>2,660,560,978</u>	<u>100.00</u>	<u>3,014,560,978</u>	<u>100.00</u>

EQUITY FUND-RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has conducted the following equity fund-raising activities during the 12 months immediately preceding the date of this announcement:

Date of announcement	Event	Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
23 November 2021	Right issue on the basis of one (1) rights share for every two (2) existing shares held on record date of 3 January 2022	HK\$101,130,000	Intends to use for repayment of debts and general working capital	Fully utilised as intended
24 August 2021	Placing of 170,000,000 Shares at the placing price of HK\$0.25 and top-up subscription of new shares under general mandate	HK\$40,900,000	Intends to use for repayment of debts and general working capital	Fully utilised as intended

PUBLIC FLOAT

The Company will monitor closely and will ensure that it maintains the minimum public float percentage as prescribed under the Listing Rules from time to time. The Company's public float will not fall below the minimum prescribed percentage under the Listing Rules upon the conversion of the Convertible Bonds.

GENERAL

Completion is subject to the satisfaction of the conditions precedent set out in the Subscription Agreements. In addition, the Subscription Agreements may be terminated in certain circumstances.

As the Subscription Agreements may or may not proceed, holders of securities of the Company and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

“associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors of the Company;
“Bond Issue Date”	the date on which the Convertible Bonds are issued, being the Completion Date unless otherwise agreed between the Company and the Subscribers;
“Bond Maturity Date”	the date falling on the first anniversary of the Bond Issue Date;
“Bondholder(s)”	holders of the Convertible Bonds;
“Business Day(s)”	any day (excluding Saturdays, Sundays, public holidays and days on which a tropical cyclone warning No. 8 or above a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks generally are open for general banking 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, the issued Shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	completion of the Subscription Agreements;
“Completion Date”	the date of Completion;
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules;
“Conversion Date”	a day when the conversion rights attaching to the Convertible Bonds are exercised;
“Conversion Price”	the initial conversion price of HK\$0.1 per Conversion Share, subject to adjustments;

“Conversion Shares”	the Shares to be issued by the Company upon exercise by the Bondholder(s) of the conversion rights attached to the Convertible Bonds;
“Convertible Bonds”	the zero-coupon convertible bond due 2023 in the principal amount of HK\$35,400,000 to be issued by the Company to the Subscribers pursuant to the Subscription Agreements;
“Director(s)”	director(s) of the Company;
“General Mandate”	the general mandate granted to the Directors at the annual general meeting of the Company held on 9 December 2021 to allot, issue or deal with up to 354,741,463 Shares;
“Group”	the Company and its subsidiaries from time to time;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Indebted Amount A”	the indebtedness owed by the Company to Mr. Chiau of HK\$18,600,000, being the agreed amount for setting-off against the subscription amount payable by Mr. Chiau under the Subscription Agreement;
“Indebted Amount B”	the indebtedness owed by the Company to Ms. Wong of HK\$16,800,000, being the agreed amount for setting-off against the subscription amount payable by Ms. Wong under the Subscription Agreement;
“Indebted Amounts”	collectively, the Indebted Amount A and Indebted Amount B;
“Independent Third Party(ies)”	third party(ies) independent of, and not connected with or acting in concert with the directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or their respective associates;
“Listing Committee”	has the meaning ascribed to it in the Listing Rules;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	31 July 2022;

“Mr. Chiau”	Mr. Chiau Che Kong, a Subscriber;
“Ms. Wong”	Ms. Wong Chui Bing, a Subscriber;
“Shareholder(s)”	holder(s) of the Shares;
“Shares”	the ordinary shares of HK\$0.10 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscribers”	collectively, Mr. Chiau and Ms. Wong;
“Subscription Agreements”	the conditional subscription agreements dated 21 June 2022 and entered into between the Company and the Subscribers;
“%”	per cent.

By order of the Board
China Zenith Chemical Group Limited
Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong, 21 June 2022

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