THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Zenith Chemical Group Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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

(Stock Code: 362)

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE TARGET GROUP INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
(2) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
(3) PROPOSED CHANGE OF NAME OF THE COMPANY
AND
(4) NOTICE OF SPECIAL GENERAL MEETING

Financial Advisor

Euto Capital Partners Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Nuada Limited

Capitalised terms used on this cover shall have the meanings as defined in this circular unless the context requires otherwise.

A letter from the board of Directors of the Company is set out on pages 8 to 39 of this circular. A letter from the Independent Board Committee (as defined herein) to the Independent Shareholders is set out on pages 40 to 41 of this circular. A letter from Nuada Limited (as defined herein), containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders of the Company, is set out on pages 42 to 83 of this circular.

A notice convening the special general meeting of the Company to be held at Room 4007, 40/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, on Wednesday, 15 August 2018 at 4:00 p.m. is set out on pages 92 and 95 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and lodge the same with the Company's branch Share registrar in Hong Kong, Tricor Tengis Limited, at 22/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

23 July 2018

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In this circular, unless the context otherwise requires, the following terms have the corresponding definitions listed below:

"Acquisition"	the acquisition of the Sale Shares by the Purchaser from the Vendor pursuant to the terms and conditions set out in the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement)
"Announcements"	the First Announcement and the Second Announcement
"associate(s)"	have the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
"BVI"	the British Virgin Islands
"Change of Company Name"	the proposed change of the primary name of the Company from "China Zenith Chemical Group Limited" to "Xinyang Maojian Group Limited", and the proposed change of the secondary name of the Company from "中國天化工集團有限公司" to "信陽毛尖集團有限公司"
"China Xinyang"	China Xinyang Maojian Group Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company
"China Xinyang Agreement"	an agreement dated 5 January 2018 entered into between the Suppliers on one hand and China Xinyang and Xinyang Shenzhen on the other hand in relation to, among other things, grant of exclusive distributorship on e-commerce platforms in the PRC by the Suppliers to China Xinyang to, among other things, sell Xinyang Maojian Tea Leaves
"Company"	China Zenith Chemical Group Limited, 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
"Completion"	completion of the transfer of the Sale Shares in accordance with the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the granting of the Put Option by the Vendor to the Purchaser

"Completion Date"	the day that is the 10th Business Days after the day on which the conditions of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) have been satisfied or waived or such other day as the Purchaser and Vendor may agree
"connected person(s)"	has the meaning ascribed to this term under the Listing Rules
"Consideration"	the total consideration of HK$85,800,000 for the sale and purchase of the Sale Shares
"Consideration Shares"	the 220,000,000 new Shares to be issued by the Company to the Vendor to settle the Consideration
"controlling shareholder(s)"	has the meaning ascribed to this term under the Listing Rules
"Director(s)"	the director(s) of the Company
"Elite Partners"	Elite Partners CPA Limited, the reporting accountants of the Company
"First Announcement"	the announcement of the Company dated 5 January 2018 in relation to the Share Transfer Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions, the appointment of Mr. Sha as an executive Director and the Change of Company Name
"Group"	the Company and its subsidiaries
"Guaranteed Financial Performance"	each of the figures set out in sub-paragraph (1) of the paragraph headed "The Share Transfer Agreement — Guaranteed Financial Performance" in this circular
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HK GAAP"	accounting principles generally accepted in Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Henan Xinyang Maojian"*	Henan Xinyang Maojian Group Co., Ltd.* (河南信陽毛尖集團有限公司), a company established in the PRC with limited liability and indirectly owned as to approximately 90.28% by Xinyang Maojian Holding, which in turn is indirectly owned as to 51% by Mr. Sha and directly owned as to 49% by Henan Xinyang Maojian

"Henan Xinyang Maojian Tea Group"	Henan Xinyang Maojian and its subsidiaries
"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, which has been established to make recommendations to the Independent Shareholders in respect of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the proposed annual caps for the period from the Sale Share Transfer Date to 30 June 2019 and the two years ending 30 June 2021
"Independent Financial Adviser"	Nuada Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"Independent Shareholders"	Shareholders who are not required to abstain under the Listing Rules from voting at the SGM for the resolutions approving the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the proposed annual caps for the period from the Sale Share Transfer Date to 30 June 2019 and the two years ending 30 June 2021
"Independent Third Party(ies)"	third parties independent of and not connected with the Company and its connected persons
"Issue Price"	HK$0.39 per Consideration Share
"Latest Practicable Date"	18 July 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

"Mr. Mok"	Mr. Mok Tsan Lam, who indirectly owns 45% interest in the Vendor
"Mr. Sha"	Mr. Sha Tao, who indirectly owns 55% interest in the Vendor
"Non-Exempt Continuing Connected Transactions"	the transactions contemplated under the China Xinyang Agreement and the Xinyang Overseas Agreement which will constitute continuing connected transactions of the Company within the meaning of the Listing Rules upon completion of the transfer of Sale Shares in accordance with the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement)
"percentage ratios"	shall have the meaning ascribed to it in Rule 14.07 of the Listing Rule
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	Prosper Path Limited, a company incorporated under the laws of the BVI with limited liability, and is wholly owned by the Company
"Put Option"	the irrevocable and unconditional put option in relation to the Sale Shares granted by the Vendor to the Purchaser pursuant to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement)
"Rising Mission"	Rising Mission Limited, a company incorporated under the laws of the BVI with limited liability and is legally and beneficially wholly owned by Mr. Mok
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	50,000 shares of the Target Company, representing 100% of the issued share capital of the Target Company as at the Latest Practicable Date
"Sale Share Transfer Date"	the day on which the Vendor and the Purchaser complete the transfer of the Sale Shares in accordance with the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the granting of the Put Option by the Vendor to the Purchaser

"Second Announcement"	the announcement of the Company dated 11 June 2018 in relation to, among other things, the Supplemental Agreement
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SGM"	the special general meeting of the Company to be held at Room 4007, 40/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Wednesday, 15 August 2018 at 4:00 p.m. to consider, and if thought fit, to approve, among other things, the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the proposed annual caps for the period from the Sale Share Transfer Date to 30 June 2019 and the two years ending 30 June 2021 and the proposed Change of Company Name
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Share Transfer Agreement"	the share transfer agreement dated 5 January 2018 entered into between the Purchaser and the Vendor in relation to the Acquisition
"Shareholder(s)"	the holder(s) of the Share(s)
"Shenzhen Pinxiang"	Shenzhen Pinxiang Trading Limited* (深圳品香貿易有限公司), a company established in the PRC with limited liability and is wholly-owned by China Xinyang
"Specific Mandate"	the specific mandate proposed to be granted to the Directors by the Independent Shareholders to allot and issue the Consideration Share at the SGM
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 11 June 2018 entered into between the Purchaser and the Vendor to amend and supplement certain terms of the Share Transfer Agreement
"Suppliers"	Henan Xinyang Maojian, Xinyangshi Longtan and Xinyang Maojian Holding

"Target Company"	Xinyang Maojian International Holding Limited, a company incorporated under the laws of the BVI with limited liability and is a wholly-owned subsidiary of the Vendor
"Target Group"	the Target Company and its subsidiaries
"Valuer"	Ravia Global Appraisal Advisory Limited, an independent professional valuer
"Vendor"	Dragon Wise Group Limited, a company incorporated under the laws of BVI with limited liability and is owned as to 55% by Virtue Ever and as to 45% by Rising Mission and is the sole legal and beneficial owner of the Target Company
"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 Holding"	Xinyang Maojian Holding Co., Ltd.* (信陽毛尖控股有限公司), a company established in the PRC with limited liability and owned as to 51% indirectly by Mr. Sha and 49% directly by Henan Xinyang Maojian
"Xinyang Maojian Tea Leaves"	tea leaves (including green tea and red tea) to be supplied by the Suppliers to China Xinyang and Xinyang Overseas under the China Xinyang Agreement and the Xinyang Overseas Agreement
"Xinyang Overseas"	Xinyang Maojian Overseas Development Limited, a company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of the Target Company
"Xinyang Overseas Agreement"	an agreement dated 5 January 2018 entered into between the Suppliers and Xinyang Overseas in relation to, among other things, grant of exclusive distributorship for places outside of PRC by the Suppliers to Xinyang Overseas to sell Xinyang Maojian Tea Leaves
"Xinyang Shenzhen"	Xinyang Maojian Chaye (Shenzhen) Co., Ltd.* (信陽毛尖茶葉(深圳)有限公司) is a company in the PRC and established in the PRC with limited liability and is legally owned as to 100% by Shenzhen Pinxiang as at the Latest Practicable Date

"Xinyangshi Longtan"	Xinyangshi Longtan Chaye Co., Ltd.* (信陽市龍潭茶葉有限公司), a company established in the PRC with limited liability and directly owned as to approximately 79.03% by Henan Xinyang Maojian
"Zhonglin"	Zhonglin Senlin Holdings Group Co., Ltd.* (中林森林控股集團有限公司), a company established in the PRC with limited liability and is indirectly wholly owned by Mr. Sha
"%"	per cent

For illustration purposes, amounts in RMB have been translated into HK$ at RMB1.00 = HK$1.20 in this circular.

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

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

(Stock Code: 362)

Executive Directors:
Chan Yuk Foebe
Law Tze Ping Eric
Yu Defa

Independent non-executive Directors:
Ma Wing Yun Bryan
Tam Ching Ho
Hau Chi Kit

Registered Office:
Canon's Court
22 Victoria Street
Hamilton, HM12
Bermuda

Principal Place of Business:
Room 4007, 40/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

23 July 2018

To the Shareholders of the Company

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE TARGET GROUP INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
(2) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
(3) PROPOSED CHANGE OF NAME OF THE COMPANY
AND
(4) NOTICE OF SPECIAL GENERAL MEETING

1. DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE TARGET GROUP INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

Introduction

Reference is made to the First Announcement in relation to the Share Transfer Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the Change of Company Name.

Reference is also made to the Second Announcement dated 11 June 2018 in respect of the Supplemental Agreement entered into by the Purchaser and the Vendor dated 11 June 2018, pursuant to which the Share Transfer Agreement was amended and supplemented pursuant to the terms of the Supplemental Agreement.

On 5 January, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Share Transfer Agreement with the Vendor. On 11 June 2018, the Company and the Vendor entered into the Supplemental Agreement, pursuant to which the Purchaser and the Vendor agreed to amend certain terms of the Share Transfer Agreement. Pursuant to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement), the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares. The Consideration for the Acquisition is HK$85,800,000, which will be satisfied by way of allotment and issue of the Consideration Shares to the Vendor or its nominee(s) at an issue price of HK$0.39 per Consideration Share. The Consideration Shares will not be allotted and issued to the Vendor unless and until the Guaranteed Financial Performance is met by the Target Group, and the Purchaser shall within 10 Business Days from the receipt of the audited/reviewed consolidated financial statements of the Target Group for the two years ending 30 June 2020 procure the Company to allot and issue the Consideration Shares to the Vendor.

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 Share Transfer Agreement

The principal terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) are summarised as follows:

Date

5 January 2018

Parties

(i) the Purchaser, a wholly-owned subsidiary of the Company; and

(ii) the Vendor, being the sole legal and beneficial owner of the Target Company.

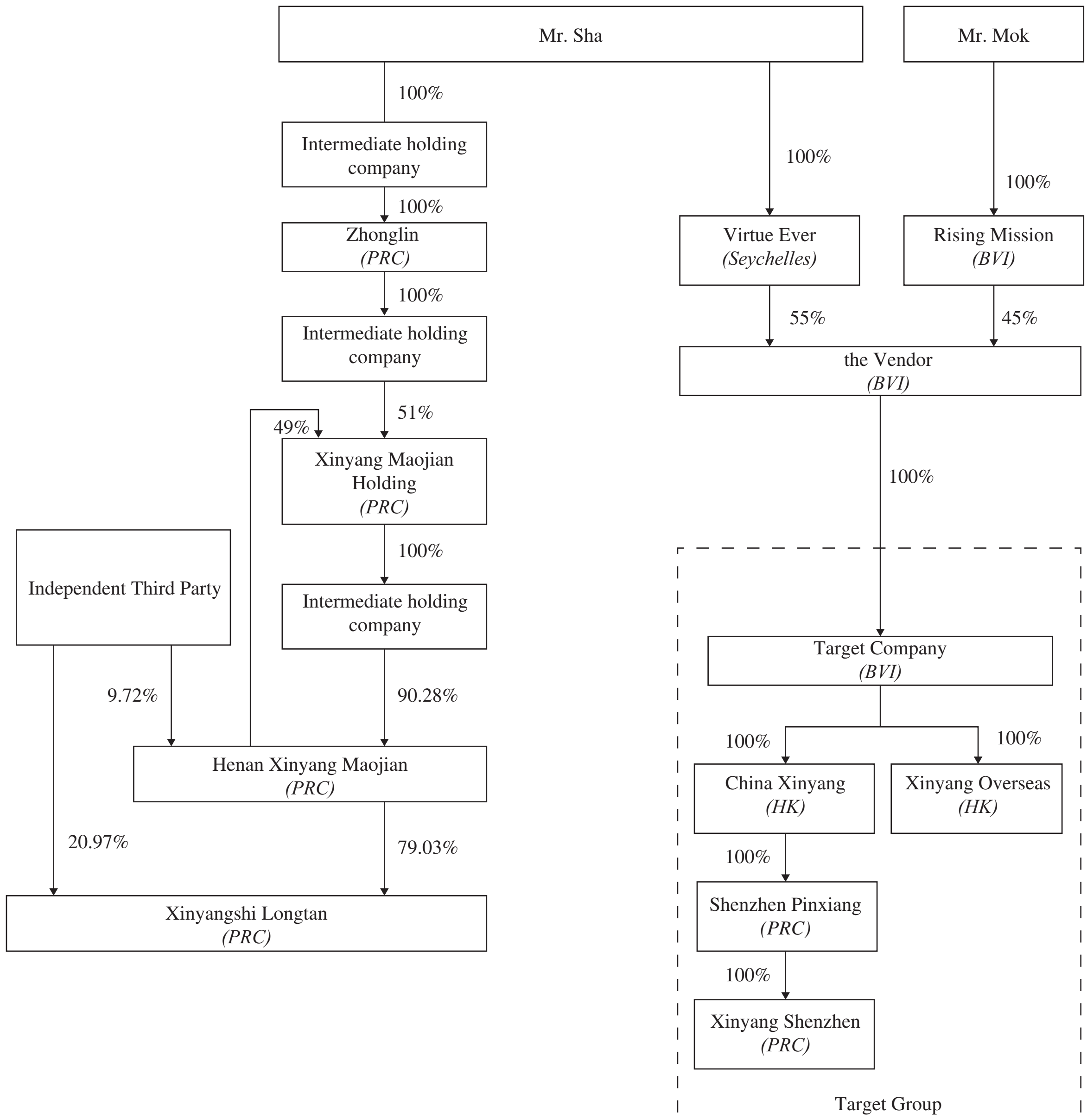
To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are Independent Third Parties.

Assets to be acquired

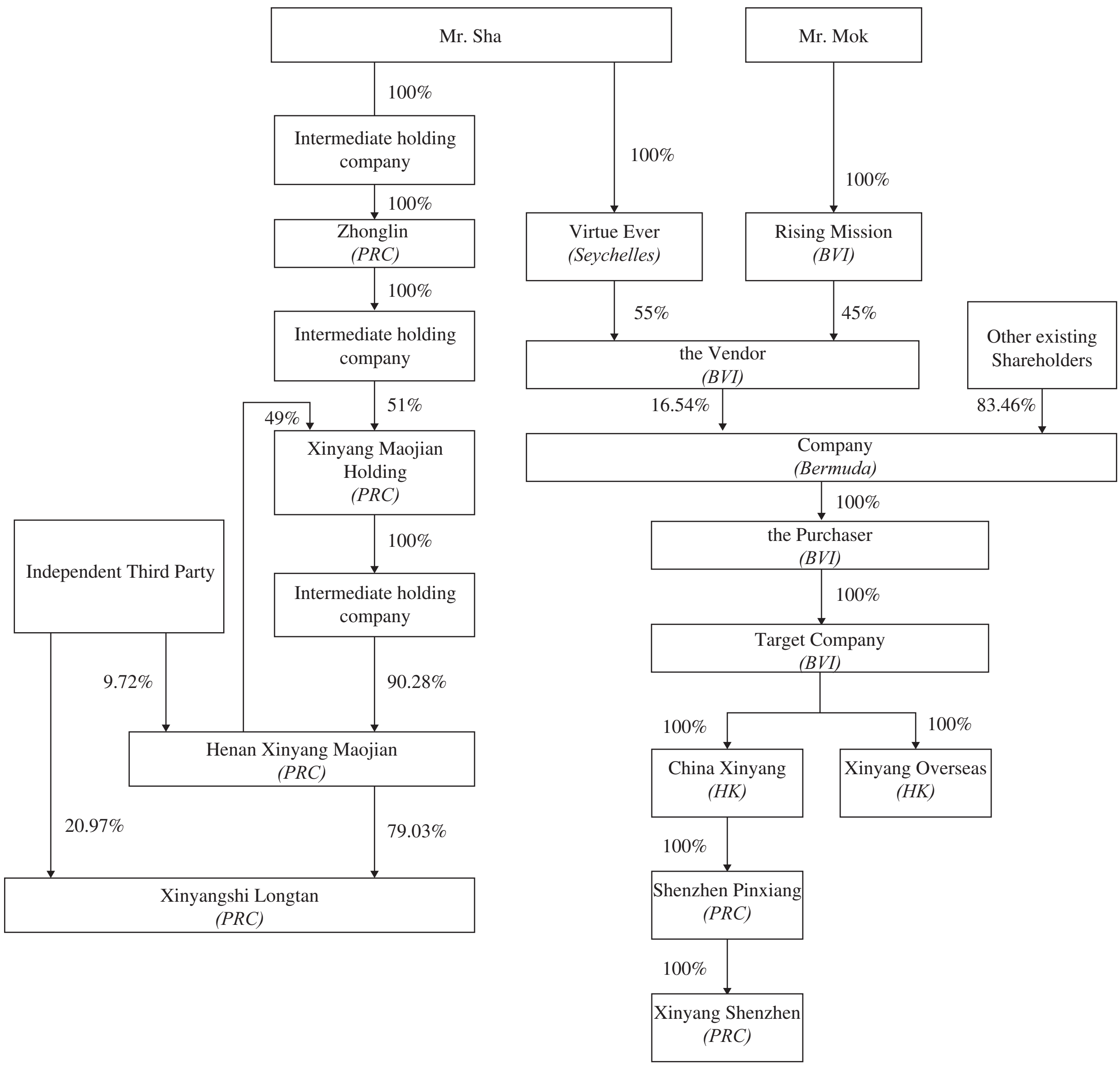
Pursuant to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement), the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares, representing 100% of the entire issued share capital of the Target Company as at the date of the Share Transfer Agreement.

Upon Completion, the Target Company and its subsidiaries will become wholly-owned subsidiaries of the Company and the financial result of the Target Group will be consolidated into the financial statements of the Group.

Set out below is a corporate structure chart showing the structure of the Target Group immediately before Completion:



Set out below is a corporate structure chart showing the structure of the Group (including the Target Group) immediately after the allotment and issue of the Consideration Shares in full:



Consideration

The Consideration for the Sale Shares is HK$85,800,000, which will be satisfied by the Company by allotting and issuing the Consideration Shares at the Issue Price of HK$0.39 per Consideration Share to the Vendor. The Consideration Shares will not be allotted and issued to the Vendor unless and until the Guaranteed Financial Performance is met by the Target Group, and the Purchaser shall within 10 Business Days from the receipt of the audited/reviewed consolidated financial statements of the Target Group for the two years ending 30 June 2020 procure the Company to allot and issue the Consideration Shares to the Vendor.

The Consideration has been arrived at between the parties after arm's length negotiations, taken into account (i) the valuation on the Target Company of approximately RMB80 million as at 15 December 2017 based on the discounted cash flow method under the income approach prepared by the Valuer, (ii) the net asset value of the Target Company, (iii) the financial results of the Target Company for the period from its date of incorporation on 14 December 2016 to 31 December 2017, (iv) the future prospects of the principal business of the Target Group and (v) the Consideration to be satisfied by the allotment and issue of the Consideration Shares.

The Directors will seek a specific mandate from its Independent Shareholders for the issue and allotment of the Consideration Shares to the Vendor or its nominee(s).

The Consideration Shares

The Issue Price of HK$0.39 per Consideration Share represents:

(a) a discount of approximately 10.3% to the closing price per Share of HK$0.435 as quoted on the Stock Exchange on 5 January 2018, being the date of the Share Transfer Agreement;

(b) a premium of approximately 1.56% to the average closing price per Share of HK$0.384 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Share Transfer Agreement;

(c) a premium of approximately 3.72% over the average closing price per Share of HK$0.376 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Share Transfer Agreement; and

(d) a discount of approximately 1.27% to the closing price per Share of HK$0.395 as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represent approximately 19.81% of the issued share capital of the Company as at the Latest Practicable Date and approximately 16.54% of the issued share capital of the Company as enlarged by the Consideration Shares.

The Consideration Shares, once issued and fully paid in accordance with the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement), shall be free from all encumbrances and shall rank *pari passu* in all respects with the Shares then in issue on the date of the issuance of the Consideration Shares. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Conditions precedent

Completion of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) is conditional upon fulfillment of the conditions including but not limited to the following:

(i) there being no material adverse impact on the financial, commercial and trading positions, or assets, liabilities or profitability or prospects of each of the members of the Target Group, or an event reasonably likely to result in such a material adverse change from the date of the Share Transfer Agreement to the Sale Share Transfer Date;

(ii) completion of satisfactory due diligence, including the legal, financial, tax, business, ownership and other respects of the Target Group, by the Purchaser;

(iii) the passing of resolutions by the Independent Shareholders or the Shareholders, as the case may be, at the SGM approving the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder, including but not limited to the grant of the Specific Mandate, the Change of Company Name, the Non-Exempt Continuing Connected Transactions and the appointment of a Director nominated by the Vendor;

(iv) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Consideration Shares (and such listing and permission not subsequently revoked prior to Completion Date);

(v) there being no law in effect on the Completion Date restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) or which may have a material adverse effect on any of the members of the Target Group;

(vi) obtaining all necessary or appropriate consents in relation to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder;

(vii) completion of the transfer of 100% equity interest in Xinyang Shenzhen and its entire assets to China Xinyang by Zhonglin, including completion of relevant approvals by and registrations with the governmental departments and regulatory authorities in the PRC; and

(viii) none of the warranties being found to be, or no matter arising, which may render or renders 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 by the Purchaser (other than conditions (iii) and (iv) which may not be waived) on or before 28 September 2018 or such other date as the parties may agree, the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) (save for the confidentiality clauses) shall lapse and no party shall make any claim against the other in respect thereof, save for any antecedent breach.

Guaranteed Financial Performance

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

Guarantee Period	For the six months ending 31 December 2018	For the year ending 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 "**Guaranteed Financial Performance**"). The above figures are absolute thresholds and therefore can not be adjusted.

(2) The Purchaser shall procure the Target Company to promptly (i) issue the Target Company's audited accounts (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 guarantee period set out in the table above (individually and collectively, "**Guarantee Period**") and (ii) deliver the Audited Accounts to the Vendor.

Put Option

(1) The Vendor grants the Purchaser an irrevocable and unconditional put option for HK$1 (the "**Put Option**") in relation to the Sale Shares. If the Guaranteed Financial Performance is not met at any relevant time during the Guarantee Period, the Put Option shall be exercised by the Purchaser within seven Business Days after the provision of the relevant Audited Accounts to the Vendor at an exercise price of HK$1. The Purchaser is entitled to the undistributed distributable profit, where applicable, of the Target Company before the completion of the exercise of the Put Option by the Purchaser.

(2) The Vendor shall procure the Director nominated by it to resign from the Company within seven Business Days of the exercise of the Put Option by the Purchaser.

Completion Date

Completion Date shall take place on the day that is the 10th Business Day after the day on which the conditions of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) have been satisfied or waived or such other day as the parties may agree.

Vendor's waiver of all of its right in relation to nomination of a Director

On 18 July 2018, the Vendor issued a letter to the Purchaser to waive all of the Vendor's rights to nominate a Director under the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement). Accordingly, the Board will not put forward the resolution to appoint Mr. Sha as an executive Director at the SGM, the passing of a resolution by the Independent Shareholders at the SGM to appoint a Director nominated by the Vendor set out in the sub-paragraph (iii) in the paragraph headed "Conditions precedent" above is not applicable, and the Vendor will not need to procure the Director nominated by it to resign from the Company within seven Business Days of the exercise of the Put Option by the Purchaser in the paragraph headed "Put Option" above.

Valuation

According to the preliminary valuation report prepared by the Valuer, the fair value of 100% equity interest in the Target Company as at 15 December 2017 was approximately RMB80 million. The fair value under the said valuation report was determined using the discounted cash flow method under the income approach. Accordingly, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules (the "**Profit Forecast**").

For the purpose of complying with Rules 14.60A and 14.62 the Listing Rules, the principal assumptions upon which the Profit Forecast is based are as follows:

General Market Assumptions

(a) the information provided and the representations made by the management of the Company, the management of the Target Company, and/or their representative(s) (the "**Management**") with regard to the Target Company's financial, business affairs and financial projection are accurate and reliable;

(b) the Target Company will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business operations;

(c) there will be no material change in the existing political, legal, fiscal, technological, economic and market conditions in the jurisdiction where the Target Company is currently or will be situated;

(d) there will be no material change in the taxation laws and regulations in the jurisdiction where the Target Company is currently or will be situated, that the tax rates will remain unchanged and that all applicable laws and regulations will be complied with;

(e) the market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;

(f) the supply and demand, both domestically and internationally, of the products and/or services of the Target Company or similar products and/or services will not differ materially from those of present or expected;

(g) the market prices and the relevant costs, both domestically and internationally, of the products and/or services of the Target Company or similar products and/or services will not differ materially from those of present or expected;

(h) the products and/or services of the Target Company or similar products and/or services are marketable and liquid, that there are active markets for the exchange of the products and/or services of the Target Company or similar products and/or services; and

(i) the market data, industrial information and statistical figures obtained from Bloomberg Terminal and other publicly available sources are true and accurate.

Company-specific Assumptions

(a) all licenses, permits, certificates and consents issued by any local, provincial or national government or other authorized entity or organization that will affect the operation of the Target Company have been obtained or can be obtained upon request with an immaterial cost;

(b) the core operation of the Target Company will not differ materially from those of present or expected;

(c) the after-tax profit guarantee of RMB8 million in the financial year 2019 is materialized;

(d) the acquisition of the operating company by China Xinyang is assumed to have been completed as instructed by the Management;

(e) the financial and operational information in respect of the Target Company have been prepared on a reasonable basis that have been arrived at after due and careful consideration by the senior management of the Company;

(f) the Target Company currently has, or will have, adequate human capital and capacity required for the production and/or provision of the products and/or services of the Target Company, and the required human capital and capacity will be acquired in a timely manner that will not affect the operation of the Target Company;

(g) the Target Company has acquired, or will acquire, adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time;

(h) the senior management of the Target Company will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of the Target Company;

(i) the senior management of the Target Company has sufficient knowledge and experience in respect of the operation of the Target Company, and the turnover of any director, management or key person will not affect the operation of the Target Company;

(j) the senior management of the Target Company has adopted reasonable and appropriate contingency measures against any natural disaster such as fire, flood and hurricane, and the occurrence of any natural disaster will not affect the operation of the Target Company;

(k) the senior management of the Target Company has adopted reasonable and appropriate contingency measures against any human disruption such as fraud, corruption and strike, and the occurrence of any human disruption will not affect the operation of the Target Company; and

(l) there are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Target Company as at 15 December 2017.

The Board has reviewed the principal assumptions upon which the Profit Forecast was based on and is of the view that the Profit Forecast was made after due care and enquiry. Elite Partners, the reporting accountants of the Company, has also reviewed the calculations of the discounted cash flow method under the income approach upon which the Valuation Report prepared by the Valuer was based on.

A letter from the Board and a letter from Elite Partners are set out in Appendix I to this circular.

Information of the Company, the Purchaser, the Vendor and the Target Group

(i) ***Information relating to 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.

(ii) ***Information relating to the Purchaser***

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

(iii) ***Information relating to 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 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.

Two subsidiaries of the Target Company have obtained licences to distribute Xinyang Maojian Tea Leaves from the Suppliers. Henan Xinyang Maojian is the owner of the Longtan (龍潭), Wuyunshan (五雲山) and Luyu (陸羽) brands.

China Xinyang, a subsidiary of the Target Company, has been licensed by the Suppliers to be the exclusive distributor of Xinyang Maojian Tea Leaves on the e-commerce platforms (including but not limited to Tianmao (天貓) and Jingdong (京東) in the PRC) from 5 January 2018 to 5 January 2028 under the China Xinyang Agreement.

China Xinyang has entered into agreements on 1 December 2017 and 5 January 2018 with Zhonglin, under which China Xinyang has agreed to purchase and Zhonglin has agreed to sell the entire equity interest of Xinyang Shenzhen. Upon completion of all the relevant transfer and registration procedures, Xinyang Shenzhen will become an indirect wholly-owned subsidiary of China Xinyang. Xinyang Shenzhen has been licensed by the Suppliers to carry out the sales operations of Xinyang Maojian Tea Leaves on the e-commerce platforms in the PRC under the China Xinyang Agreement. Xinyang Shenzhen has commenced the sale of Xinyang Maojian Tea Leaves on the e-commerce platform Jingdong since December 2017.

Xinyang Overseas, another subsidiary of the Target Company, has been licensed by the Suppliers to be the exclusive global distributor (outside of the PRC) of Xinyang Maojian Tea Leaves from 5 January 2018 to 5 January 2028 under the Xinyang Overseas Agreement.

(a) *Business Model*

For e-commerce business: The Target Group, being the exclusive distributor of Xinyang Maojian Tea Leaves of the Suppliers on e-commerce platforms, distributes Xinyang Maojian Tea Leaves in the e-commerce market.

The Target Group provides the following value-added services:

1. Design and arrange specific package for the products for e-commerce sale;

2. Promote the products and enhance the branding of Xinyang Maojian Tea Leaves;

3. Make use of the e-commerce platforms (such as Tianmao and Jingdong) to enable the products to reach out to a larger customer base in Mainland (including Hong Kong and Macau);

4. Arrange delivery to the aforesaid customer base by engaging outside logistics companies;

5. Provide the after sales service to ensure the customer loyalty and also promote the branding of Xinyang Maojian Tea Leaves; and

6. Set aside not less than RMB7.5 million as the working capital of this segment of business after the completion of the transfer of the Sale Shares in accordance with the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement).

For overseas distribution: The Target Group, being the exclusive global distributor (outside of the PRC) of Xinyang Maojian Tea Leaves, distributes raw tea leaves to the overseas market.

The Target Group provides the following services:

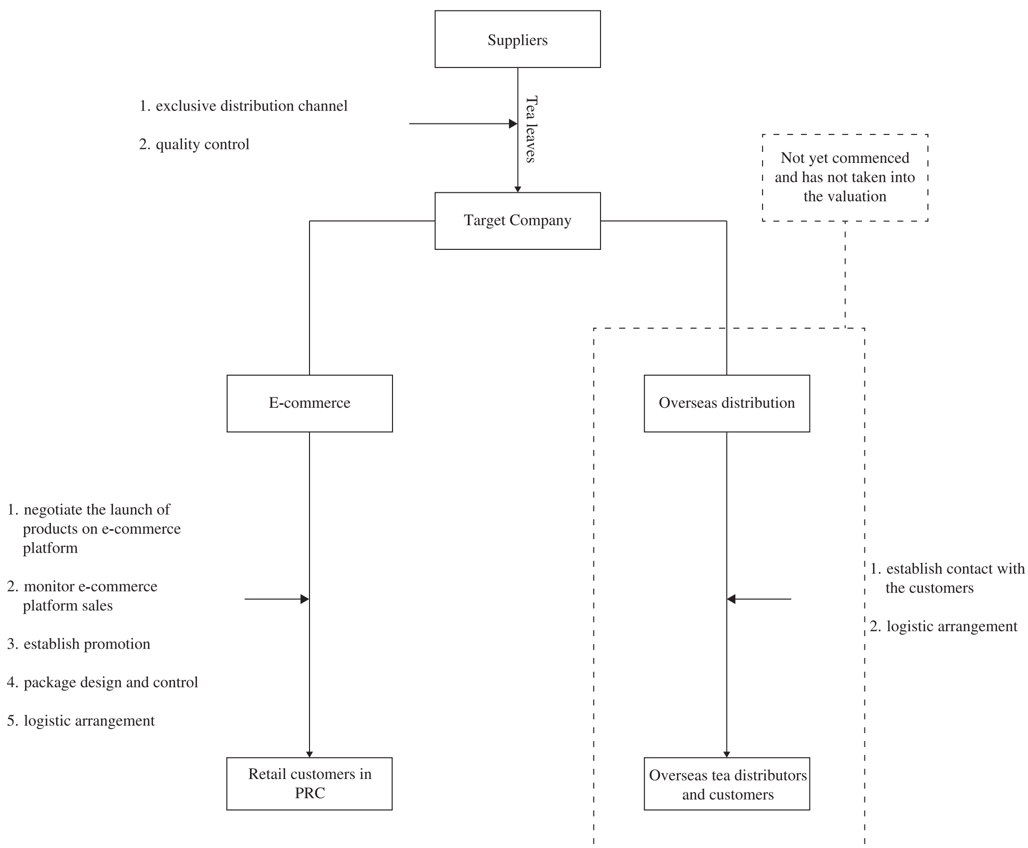
1. Contact and visit the tea suppliers in the overseas market (including Japan, Taiwan and Korea);

2. Perform quality inspection of the raw tea leave to be performed by the team under Chief Quality Controller; and

3. Arrange logistic arrangement including packing, shipment, transportation and insurance arrangement.

Below please find a diagram illustrating the business model of the Target Group:

Procedures:



Additional details of the China Xinyang Agreement and the Xinyang Overseas Agreement are set out in the section headed "Non-Exempt Continuing Connected Transactions" below.

(b) *Financial Information*

As at the date of the Share Transfer Agreement, the Target Company has issued 50,000 shares, and immediately prior to the execution of the Share Transfer Agreement, the Vendor is the legal and beneficial owner of 50,000 shares of the Target Company. Set out below is the summary of the key financial data extracted from the unaudited management accounts of the Target Group for the period from the incorporation of the Target Company on 14 December 2016 to 31 December 2017 and for the five months ended 31 May 2018:

	For the period from 14 December 2016 to 31 December 2017	**For the five months ended 31 May 2018**
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Revenue	Nil	5,058
Net loss before taxation	Nil	891
Net loss after taxation	Nil	891

	As at 31 December 2017	**As at 31 May 2018**
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Total assets	390	5,214
Net assets	390	(501)

(c) *Litigations of Henan Xinyang Maojian Tea Group*

The Directors are aware that the Henan Xinyang Maojian Holding Tea Group is facing litigations as at the Latest Practicable Date. The Company's PRC lawyers have conducted online litigation searches of judgments held by the PRC courts that are publicly available against Henan Xinyang Maojian and Xinyangshi Longtan as at 30 June 2018 and noted the following results for these two companies:

Henan Xinyang Maojian

Nature of Litigations	**Number of Cases**	**Aggregate Exposure** *(RMB)*
Direct Compensation Liabilities	26	101,458,629
Direct Compensation Liabilities jointly borne with other(s)	2	260,311,999
Joint and Several Liabilities	2	7,166,591
Joint and Several Liabilities jointly borne with other(s)	2	196,847,052
Joint and Several Liabilities jointly borne with Xinyangshi Longtan (which are classified as "Direct compensation Liabilities (jointly borne with Xinyang Maojian)" below)*	8	65,600,000
Total		631,384,271

Xinyangshi Longtan

Nature of Litigations	**Number of Cases**	**Aggregate Exposure** *(RMB)*
Direct Compensation Liabilities	9	1,545,426
Direct Compensation Liabilities (jointly borne by Henan Xinyang Maojian)*	8	65,600,000
Direct Compensation Liabilities jointly borne with other(s))	1	10,000,000
Joint and Several Liabilities	1	12,000,000
Total		89,145,426
Less: Duplicate litigation*		(65,600,000)
Aggregated liabilities		654,929,697

As advised by the Vendor, Xinyang Maojian Holding and 中國建設銀行股份有限公司信陽分行 (China Construction Bank Xinyang Branch)("**CCB Xinyang**") entered into a strategy cooperation agreement pursuant to which CCB Xinyang agreed to provide a tentative facility to Xinyang Maojian for an amount of RMB3 billion, which is over the maximum exposure of the litigations of approximately RMB655 million. The Directors consider that, with the said facility, Xinyang Maojian is of sound financial situation which enables it to honor its supplier's obligation under the China Xinyang Agreement and the Xinyang Overseas Agreement.

To have a better understanding of the Suppliers, the Company's Chairman and Chief Executive Officer, Ms. Chan Yuk Foebe, and finance and accounting manager, Mr. John Yu also paid a site visit from 7 November 2017 to 8 November 2017 to the tea farm and facilities of the Suppliers in Xinyang and noted that the Suppliers' operation were normal with no indicators which would materially affect their supplying obligations under the China Xinyang Agreement and the Xinyang Overseas Agreement.

As advised by the Vendor and the Company's PRC lawyers, the strategy cooperation agreement is legally binding for the tentative facility. Therefore, Xinyang Maojian Holding can apply drawdowns during the period of the agreement (e.g. From 26 April 2017 to 25 April 2022). Nevertheless, for each drawdown, Xinyang Maojian shall enter into separate loan agreements (under the framework of the strategy cooperation agreement) with CCB Xinyang.

(iv) ***Information relating to 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.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquires, as at the date of the circular, the Vendor and its ultimate beneficial owners are Independent Third Parties.

(v) ***Information of Henan Xinyang Maojian***

Established in 1989, Henan Xinyang Maojian Tea Group is a national key leading enterprise for agriculture industrialization and a marker of national standard on Xinyang Maojian tea. It is a group company covering a whole industry chain integrating tea plantation, research and development, processing and sales of tea drinks and tea food, tea garden tourism, tea industry and tea culture. Henan Xinyang Maojian possesses 450,000 Mu of Maojian Tea Core Tea Garden bases including "Cheyunshan, Lianyunshan, Jiyunshan, Tianyunshan, Yunwushan, Bailongtan, Heilongtan and Hejiazhai", Luyu Tea Culture Park which covers an area of over 650 Mu, over 10 standard tea refining and processing plants, 6 cold chain systems with the storage of 50 tonnes and 1 tea fresh-keeping refrigeration storage with the capacity of 500 tonnes. Besides, it has a number of international full-automatic Maojian tea production lines and automatic filling lines with the fresh tea leaves handling capacity of 600kg per hour. In case of full production, it can annually produce 2,000,000kg of dry tea. Under the core brand "Longtan"of the Group, there are 50 series consisting of 400 types of products. As at 2013, Henan Xinyang Maojian had 10 branches and 368 exclusive shops, and had set up 769 agents and 260 franchised outlets in large and medium-sized cities nationwide.

The Ministry of Agriculture of the PRC proposes to make an overall plan for the international and domestic markets under the leadership of new development idea, accelerate the construction of a batch of standard tea production bases, cultivate a batch of international tea groups and create a batch of tea brands with global competitiveness; and build 5 tea groups with the sales amount of more than RMB5 billion, 20 tea groups with the sales amount of more than RMB2 billion and 1–2 extra-large tea groups with international influence and brand awareness by 2020. Currently, the rapid growth of the domestic consumption market in the PRC and with the quickened implementation of "One Belt One Road" strategy have brought a rare opportunity for the development of the tea industry. The opportunity is beneficial to develop the international market, transform agriculture industry and carry forward the Chinese tea culture to make contributions to the promotion of China's cultural industry.

According to the research conducted by CARD Agricultural Brand Research Center of Zhejiang University, an authoritative evaluation authority in the PRC, in the 2017 ranking list of regional public brand value of tea in the PRC, "Xinyang Maojian Tea" public brand ranks the second with the value of RMB5.991 billion.

The Longtan Teahouse established in 1913 and the present Henan Xinyang Maojian Tea Group witnessed the changes of China's tea history in one hundred years. At the 1915 Panama Pacific International Exposition, Xinyang Maojian Tea from Longtan Teahouse won the gold award, enjoying great prestige in the world with the State Liquor Maotai. From then on, Xinyang Maojian Tea became the representative of green tea in the world; in 1959, Xinyang Maojian Tea won the title of "China Top Ten Famous Teas"; in 1990, "Longtan" Xinyang Maojian Tea won the quality gold award of China; in 2007, at the second World Green Tea Congress held in Japan, Xinyang Maojian Tea won the gold award with the highest score through competition with hundreds of green tea varieties from 29 countries and regions including the PRC, Japan, Korea, India, Sri Lanka, the United States and Vietnam in the appraisal of green teas, and was hailed as the "King of Green Tea"; in 2009, the national standard on Xinyang Maojian tea, of which Henan Xinyang Maojian Tea Group participated in the preparation, was officially implemented; in 2010, "Longtan" Xinyang Maojian Tea was designated as the tea manufacturer and supplier of the Shanghai World Expo; in 2011, "Longtan" Xinyang Maojian Tea was officially approved as a "Time-honoured Brand of Henan".

Since 2017, Henan Xinyang Maojian Tea Group started to perform transformation.

I. It has prepared the plan on revitalizing the world with famous tea and transformed into global one-stop plebification tea manufacturer and operator and achieved the plan of big channel consisting of internet and one thousand stores, and spread traditional tea culture of China all over the world.

II. Targeting at the tea drinks market with the size of over RMB400 billion in the PRC, it proposed the marketing idea of "origin, healthy tea" and created the "Tea Energy" branded series of tea drinks on the basis of adhering to original tea extraction, striving to achieve the annual output of RMB10 billion.

III. The tea deep-processing project utilizes the unique tea polyphenol of green tea to create healthcare food and the stem leaf of tea to manufacture tea pulp and tea powder, creating a tremendous development space for the comprehensive utilization of tea trees.

IV. In terms of cultural tourism in tea gardens, the Henan Xinyang Maojian Tea Group has the largest tea garden of 450,000 Mu and will fully tap the tourism potentials of tea gardens including Cheyunshan, Jiyunshan, Yunwushan, Lianyunshan and Tianyunshan.

Effect on Shareholding Structure

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after the allotment and issue of the Consideration Shares in full assuming no further issue or repurchase of the Shares by the Company before the allotment and issue of the Consideration Shares:

Shareholders	**As at the Latest Practicable Date**		**Immediately after the allotment and issue of the Consideration Shares in full**	
	No. of Shares	*approx. %*	*No. of Shares*	*approx. %*
Substantial shareholder				
Mr. Chan Yuen Tung	288,721,111	26.00	288,721,111	21.70
Director				
Ms. Chan Yuk Foebe	7,170,000	0.65	7,170,000	0.54
Vendor *(Note)*		—	220,000,000	16.54
Public Shareholders	814,536,208	73.35	814,536,208	61.22
Total	1,110,427,319	100	1,330,427,319	100

Note: The Vendor is owned as to (i) 55% by Virtue Ever, which in turn is wholly owned by Mr. Sha and (ii) 45% by Rising Mission, which in turn is wholly owned by Mr. Mok. Accordingly, Mr. Sha and Mr. Mok are deemed to be interested in the 220,000,000 Shares held by the Vendor for the purpose of the SFO.

Reasons for and the Benefits of the Acquisition

The Group has suffered from the slump of chemical market in the last five year. For the Group's future development, the management explores new and value-added businesses from time to time. The management believes that the Acquisition could diversify the risk of the Group and, hence, to provide a stable return to the Group.

As disclosed in the Company's annual report for the year ended 30 June 2017, the revenue and the profit of the Group for the two years ended 30 June 2017 by segment are as follows:

	Revenue for the year ended 30 June		**Profit/(Loss) for the year ended 30 June**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Polyvinyl-chloride	**—**	—	**(7,867)**	(65,764)
Vinyl acetate	**—**	—	**(9,287)**	(117,734)
Heat and power	**134,810**	68,300	**18,032**	4,379
Calcium Carbide	**51,300**	—	**(54,760)**	(224,519)
Vitamin C, glucose and starches (discontinued operations	**—**	—	**192,195**	(14,177)
Others	**—**	—	**(76,995)**	(90,581)
Total	**186,110**	68,300	**61,318**	(508,396)

As shown in the table above, the Group has focused on its heat and power segment for the past two years since the Group suffered from the slump of chemical market in the last five year as disclosed in the First Announcement.

This business segment of heat and power serves a good growth driver for the Group with an increase of revenue by 97% (from RMB68.3 million in FY2016 to RMB134.8 million in FY2017) and an increase of profit by 312% (from RMB4.4 million for the year ended 30 June 2016 to RMB18.0 million for the year ended 30 June 2017). To further develop this area, as disclosed in the announcement dated 5 June 2017, the Group entered into an equity transfer agreement to acquire the entire interest of a public facilities construction company (being Mudanjiang Jinyang Municipal Engineering Company Limited), through which the Group intends to construct more heat exchange stations and facilities and pipeline networks to support its growing heat and power segment.

The coal-related chemical market has been recovering since the year ended 30 June 2017 based on the increase in price of calcium carbide. At the same time, the Group had paid efforts and resources to enhance the plant and machinery of its calcium carbide production line under its chemical division in order to reduce production wastage and increase the production capacity. The Directors expect that the revenue contribution from the sale of calcium carbide would substantially increase in the coming few years and be one of the growth drivers of the Group.

The Company considers that the business of the Target Group (distributing Chinese tea), which would contribute RMB90 million in revenue the first year of the valuation period (from 1 July 2018 to 30 June 2019), would provide business diversity, great potential and more long-term development, and such revenue would supplement the Group's financial performance.

To reduce the potential reliance on the tea business, the revenue to be derived from the tea business with the Suppliers shall not be more than 45% of the total revenue of the Group as shown in the consolidated audited financial statements of the Company for each of the three years ending 30 June 2021; and the Company will announce its plan to explore opportunities to diversify its suppliers base (other than the Suppliers) for the tea business as and when appropriate. If the revenue to be derived from the Suppliers exceeds the aforesaid proposed cap, the Company will inform the Stock Exchange and comply with the applicable Listing Rules at the relevant time.

Regarding the aforesaid cap, it will be determined in accordance with the following formula:

$$= \frac{\textbf{The revenue recorded by the Group from selling the tea products sourced from the Suppliers during the relevant financial year}}{\textbf{The Group's total revenue during the relevant financial year as shown in the consolidated audited financial statements of the Company}}$$

The Company will review the Group's management accounts on a monthly basis to ensure that the 45% cap would not be exceeded. If the Company becomes aware that 45% cap is so exceeded, the Company shall stop selling those tea products from the Suppliers immediately till the revenue percentage from the tea products sourced from the Suppliers drops below 45% again.

The Company considered that Chinese tea has greater potentiality and more long-term development after it reviewed the potentiality of the background tea market of Xinyang Maojian and the implementing of "One Belt One Road" strategy. The Company believes that the Chinese tea business will be one of the major sources of the future revenue and profit for the Group. Therefore, in line with the development of the Group in the future, the Company proposes to change its name to "Xinyang Maojian Group Limited 信陽毛尖集團有限公司".

The Company wants to achieve the transformation into green development and accomplish the targeted poverty alleviation task as assigned by the central government. The Board firmly believes that the Green Tea Business of Xinyang Maojian Tea is currently the most vigorous green industry, which creates economic benefits for shares and bring about ecological benefits to the society to achieve cooperation and a win-win situation between capital and resources.

The Directors (including the independent non-executive Directors after taking into account the advice given by the Independent Financial Adviser) are of the view that the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) are fair and reasonable and are on normal commercial terms and the entering into the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) is in the interest of the Company and the Shareholders as a whole.

Listing Rules Implications

As the applicable ratios in respect of the Acquisition exceed 5% but are below 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but exempted from the Shareholders' approval requirement under Chapter 14 of the Listing Rules. The Vendor is owned as to 55% by Virtue Ever and as to 45% by Rising Mission. Mr. Sha is the legal and beneficial owner of the entire issued share capital of Virtue Ever and hence, a controlling shareholder of the Target Company. 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 Consideration Shares are allotted and issued in full to the Vendor pursuant to the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement). Accordingly, the Acquisition constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

The Acquisition, including the issue of the Consideration Shares by way of a Specific Mandate to be sought from the Independent Shareholders, is subject to the reporting, announcement and Independent Shareholders approval requirements under Chapter 14A of the Listing Rules.

2. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Target Company and its subsidiaries will become subsidiaries of the Company upon Completion, and accordingly certain ongoing transactions of the Target Group with Henan Xinyang Maojian, Xinyangshi Longtan and Xinyang Maojian Holding will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon Completion.

The Connected Persons

Upon the allotment and issue of the Consideration Shares by the Company to the Vendor pursuant to the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement), Mr. Sha will indirectly own 55% interest in the Vendor, which will become a substantial shareholder of the Company, holding approximately 16.54% of the enlarged issued share capital of the Company, and Mr. Sha is therefore a connected person of the Company. Accordingly, the Company considers Mr. Sha to be a connected person and any transaction between (1) Mr. Sha or his associates and (2) the Group (including the Target Group) will constitute a connected transaction of the Company.

As at the Latest Practicable Date, Henan Xinyang Maojian is indirectly owned as to 90.28% by Xinyang Maojian Holding, which in turn is owned as to 51% indirectly by Mr. Sha and 49% directly by Henan Xinyang Maojian. Xinyangshi Longtan is owned as to 79.03% by Henan Xinyang Maojian. Therefore, Henan Xinyang Maojian, Xinyangshi Longtan and Xinyang Maojian Holding are associates of Mr. Sha and will become connected persons of the Company upon the allotment and issue of the Consideration Shares by the Company to the Vendor pursuant to the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement).

The following transactions will be regarded as continuing connected transactions of the Group under Rule 14A.31 of the Listing Rules. As one or more of the relevant percentage ratios as set out in Rule 14A.76(2) of the Listing Rules exceeds 5% for each of the continuing connected transactions, each of such continuing connected transactions will be subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

China Xinyang Agreement

Set out below is a summary of the China Xinyang Agreement:

Date

5 January 2018

Parties

Henan Xinyang Maojian, Xinyangshi Longtan and Xinyang Maojian Holding as suppliers and China Xinyang and Xinyang Shenzhen as distributors.

Nature of the transaction

Under the China Xinyang Agreement, the Suppliers agreed to supply Xinyang Maojian Tea Leaves to China Xinyang and Xinyang Shenzhen for sale on the e-commerce platforms in the PRC. The Suppliers authorized China Xinyang to act as its exclusive distributor on e-commerce platforms in PRC, including but not limited to Tianmao (天貓) and Jingdong (京東), and authorized Xinyang Shenzhen to carry out the sales operations of Xinyang Maojian Tea Leaves on such e-commerce platforms.

The Suppliers have undertaken to supply to China Xinyang:

(i) Xinyang Maojian Tea Leaves representing a value not less than RMB100 million in 2018;

(ii) Xinyang Maojian Tea Leaves representing a value not less than RMB200 million in 2019; and

(iii) Xinyang Maojian Tea Leaves representing a value not less than RMB500 million per year from 2020 to 2028;

China Xinyang and/or Xinyang Shenzhen shall place the individual orders with the Suppliers by issuing a written order to the Suppliers stating the quantity, price and details of delivery. The Suppliers shall arrange for the manufacturing and delivery of products after receiving such orders from China Xinyang and/or Xinyang Shenzhen.

Under the China Xinyang Agreement, China Xinyang agreed to promote the products supplied by the Suppliers and bear the advertising costs.

The Suppliers agreed to provide the suggested retail price of the various Xinyang Maojian products to China Xinyang and Xinyang Shenzhen. China Xinyang and Xinyang Shenzhen may adjust the retail price of the Xinyang Maojian products in accordance with the circumstances of the market, and shall report the adjusted retail price of the Xinyang Maojian products to the Suppliers.

China Xinyang has been authorized to use trademarks (trade names and logos), patents, copyrights and trade secrets owned by the Suppliers at nil consideration for the purpose of sales of Xinyang Maojian products.

Term

The term of the China Xinyang Agreement shall be 10 years, commencing on 5 January 2018 to 5 January 2028.

Pricing basis

The Suppliers shall supply Xinyang Maojian Tea Leaves to China Xinyang at the ex-factory price. The ex-factory price is constituted by the cost of production, value-added tax and packaging costs.

As advised by the Company and based on information available from the Vendor and the Target Group, the above pricing basis was determined at retail market price less discount of more than 50% after arm's length negotiation between parties.

Annual caps

The proposed annual caps for the China Xinyang Agreement for each of the period commencing on the Sale Share Transfer Date to 30 June 2019 and for the two years ending 30 June 2021 are RMB54,000,000 (equivalent to approximately HK$65,000,000), RMB81,000,000 (equivalent to approximately HK$97,000,000) and RMB114,000,000 (equivalent to approximately HK$136,000,000) respectively.

The above annual caps are different from those disclosed in the First Announcement as they have been revised after additional diligence exercise on the Target Group and the revised caps are determined with reference to the following factors:

(a) the estimated purchase for the period commencing from the Sale Share Transfer Date to 30 June 2019 and for each of the year ending 30 June 2020 and 30 June 2021; and

(b) the estimated growth rates for each of the year ending 30 June 2020 and 30 June 2021 which are expected to be 50% and 40% respectively.

The Company will set the new annual caps for the remaining period of the China Xinyang Agreement when the annual cap for the year ending 30 June 2021 expires and will comply with all applicable requirements under Chapter 14A of the Listing Rules.

Xinyang Overseas Agreement

Set out below is a summary of the Xinyang Overseas Agreement:

Date

5 January 2018

Parties

Henan Xinyang Maojian, Xinyangshi Longtan and Xinyang Maojian Holding, as suppliers and Xinyang Overseas as distributor.

Nature of the transaction

Under the Xinyang Overseas Agreement, the Suppliers agreed to supply Xinyang Maojian Tea Leaves to Xinyang Overseas for sale in places outside the PRC, and authorized Xinyang Overseas to act as its exclusive global distributor (outside of the PRC).

The Suppliers have undertaken to supply Xianyang Maojian Tea Leaves representing a value not less than RMB200 million per year to Xinyang Overseas. Xinyang Overseas shall place the individual orders with the Suppliers by issuing a written order to the Suppliers stating the quantity, price and details of delivery. The Suppliers shall arrange for the manufacturing and delivery of products after receiving such orders from Xinyang Overseas.

Under the Xinyang Overseas Agreement, Xinyang Overseas agreed to promote the products supplied by the Suppliers and to bear the advertising costs.

The Suppliers agreed to provide the suggested retail price of the various Xinyang Maojian products to Xinyang Overseas. Xinyang Overseas may adjust the retail price of the Xinyang Maojian products in accordance with the circumstances of the market, and shall report the adjusted retail price of the Xinyang Maojian products to the Suppliers.

Xinyang Overseas has been authorized to use trademarks (trade names and logos), patents, copyrights and trade secrets owned by the Suppliers at nil consideration for the purpose of sales of Xinyang Maojian products.

Term

The term of the Xinyang Overseas Agreement shall be 10 years, commencing on 5 January 2018 to 5 January 2028.

Pricing basis

The Suppliers shall supply the Xinyang Maojian Tea Leaves to China Xinyang at the ex-factory price. The ex-factory price constitutes the cost of production, the value-added tax and the packaging costs. As advised by the Company and based on information available from the Vendor and the Target Group, the above pricing basis was determined at cost plus a markup of no more than 10% as determined after arm's length negotiation between the parties.

Annual caps

The proposed annual caps for the Xinyang Overseas Agreement for each of the period commencing on the Sale Share Transfer Date to 30 June 2019 and for the two years ending 30 June 2021 are RMB25,500,000 (equivalent to approximately HK$30,600,000), RMB32,300,000 (equivalent to approximately HK$38,760,000) and RMB47,175,000 (equivalent to approximately HK$56,610,000) respectively.

The annual caps are determined with reference to the following factors:

(a) the estimated purchase for the period commencing on the Sale Share Transfer Date to 30 June 2019 and for each of the year ending 30 June 2020 and 30 June 2021; and

(b) the estimated growth rates for each of the year ending 30 June 2020 and 30 June 2021 are expected to be 26% and 46% respectively.

The Company will set the new annual caps for the remaining period of the Xinyang Overseas Agreement when the annual cap for the year ending 30 June 2021 expires and will comply with all applicable requirements under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that the terms of the China Xinyang Agreement and the Xinyang Overseas Agreement and the proposed annual caps are fair and reasonable and are on normal commercial terms and are in the interests of the Company and its Shareholders as a whole.

Listing Rule Implications

Upon Completion, as one or more of the relevant percentage ratios as set out in Rule 14A.76(2) of the Listing Rules exceeds 5% for each of the Non-Exempt Continuing Connected Transactions, each of such Non-Exempt Continuing Connected Transactions will be subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Internal Control on the Pricing Policy and the Annual Caps

The Company has assigned its accounts department to review, on a monthly basis, the continuing connected transactions to make sure all transactions are conducted in accordance to the agreed terms including the pricing policy and within annual caps.

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Non-Exempt Continuing Connected Transactions are subject to the following annual review requirements:

(a) each year the independent non-executive Directors must review the transactions and confirm in the annual report that transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(b) each year the auditors of the Company must provide a letter to the Board confirming that the transactions:

(i) have received the approval of the Board;

(ii) are in accordance with the pricing policies of the Group (if applicable);

(iii) have been entered into in accordance with the relevant agreements governing the Non-Exempt Continuing Connected Transactions; and

(iv) have not exceeded the annual caps;

(c) the Company shall allow, and shall procure the relevant counterparties to the Transactions to allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Non-Exempt Continuing Connected Transactions as set out in paragraph (b); and

(d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

3. PROPOSED CHANGE OF NAME OF THE COMPANY

For the purpose of reflecting the adjustment of the business development of the Group, the Directors will propose a special resolution to the Shareholders to change (i) the existing primary name of the Company to "Xinyang Maojian Group Limited" ("**Primary Name**") and (ii) the existing secondary name of the Company to "信陽毛尖集團有限公司" ("**Secondary Name**") at the SGM.

Conditions of the Change of Company Name

The Change of Company Name is subject to the satisfaction of the following conditions:

1. the completion of the Acquisition;

2. the passing of a special resolution by the Shareholders at the SGM to approve the Change of Company Name; and

3. the approval of the Change of Company Name by the Registrar of Companies in Bermuda.

Subject to the approval of the Registrar of Companies in Bermuda, the Change of Company Name shall take effect upon the respective dates on which the Primary Name and the Secondary Name are entered on the register of companies maintained by the Registrar of Companies in Bermuda. Upon the Change of Company Name taking effect and the receipt of the certificate of incorporation on change of name, the Company will carry out the necessary filing procedures with the Registrar of Companies in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). Subject to the Change of Company Name becoming effective, the English and Chinese stock short names of the Company will also be changed. Further announcement on the Change of Company Name and change in stock short names will be made once the Change of Company Name has become effective.

Effects of the Change of Company Name

The Change of Company Name, once approved and after becoming effective, will not in any way affect any of the rights of any Shareholders and all existing share certificates of the Company in issue bearing the present name of the Company will after the Change of Company Name has become effective, continue to be effective as documents of title to the shares of the Company and will be valid for trading, settlement and registration purposes.

Accordingly, there will not be any arrangement for free exchange of existing share certificates for new share certificates under the new name. Should the Change of Company Name become effective, all new share certificates of the Company will be issued in the new name of the Company thereafter.

Further announcements will be made by the Company concerning the effective date of the Change of Company Name and the change of the stock short name upon the Change of Company Name becoming effective as and when appropriate.

4. GENERAL

As at the Latest Practicable Date, (i) no Director has a material interest in the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing

Connected Transactions and the Change of Company Name which require any of them to abstain from voting on the Board resolutions in relation to the aforesaid matters; and (ii) to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the Change of Company Name and therefore no Shareholder is required to abstain from voting at the SGM in respect of the resolutions approving the aforesaid matters.

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 Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the proposed annual caps are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. The Independent Financial Adviser, Nuada Limited, has been appointed to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 40 to 41 of this circular. The text of the letter from Nuada Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 42 to 83 of this circular.

5. SPECIAL GENERAL MEETING

A notice convening the SGM to be held at Room 4007, 40/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 15 August 2018 is set out on pages 92 and 95 of this circular.

A form of proxy for use at the SGM is enclosed with this document. Whether or not you intend to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share register in Hong Kong, Tricor Tengis Limited, at 22/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any votes of the Shareholders at a general meeting must be taken by poll. Accordingly, the resolutions to be proposed at the SGM will be voted by way of a poll by the Shareholders.

6. RECOMMENDATIONS

The Independent Board Committee, having taken into account the advice and recommendation of the Independent Financial Adviser, consider that (i) the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of Specific Mandate), are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and that (ii) the Non-Exempt Continuing Connected Transactions and the proposed annual caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions approving the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and proposed annual caps as set out in the notice of the SGM enclosed to this circular.

The Board also consider that the Change of Company Name to be in the interest of the Company and its Shareholders as a whole, and recommend the Shareholders to vote in favour of the proposed resolutions approving the Change of Company Name as set out in the notice of the SGM enclosed to this circular.

Shareholders and potential investors should note that the Acquisition contemplated under the Share Transfer Agreement (as amended and supplemented by the Supplemental 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.

7. FURTHER INFORMATION

Your attention is drawn to additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China Zenith Chemical Group Limited
Chan Yuk Foebe
Chairman and Chief Executive Officer

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the proposed annual caps:

中國天
China Zenith

China Zenith Chemical Group Limited
中國天化工集團有限公司
(Incorporated in Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

To the Independent Shareholders

23 July 2018

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE TARGET GROUP INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
(2) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
(3) PROPOSED CHANGE OF NAME OF THE COMPANY
AND
(4) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

We refer to the circular dated 23 July 2018 issued by the Company (the "**Circular**"), of which this letter forms part. Terms defined therein shall have the same meanings which used in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether in our opinion, the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the proposed annual caps thereunder as described in pages 29 to 35 in the Letter from the Board are fair and reasonable in so far as the Independent Shareholders are concerned and whether such transactions are in the interests of the Company and the Shareholders as a whole.

Nuada Limited has been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transaction contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transaction and the proposed annual caps thereunder. Details of the advice of Nuada Limited, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 42 to 83 of this Circular.

RECOMMENDATION

Having taken into account the advice and recommendation of Nuada Limited and the principal factors and reasons considered by Nuada Limited, we consider that the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the proposed annual caps are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Non-Exempt Continuing Connected Transactions and the proposed annual caps to be proposed at the SGM.

Yours faithfully,
The Independent Board Committee of
China Zenith Chemical Group Limited

Mr. Ma Wing Yun Bryan	**Mr. Tam Ching Ho**	**Mr. Hau Chi Kit**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

Set out below is the text of a letter received from Nuada Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the Non-Exempt Continuing Connected Transactions prepared for the purpose of inclusion in this circular.

Nuada Limited

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協成行上環中心18樓1805–08室

23 July 2018

To the Independent Board Committee and
the Independent Shareholders of
China Zenith Chemical Group Limited

Dear Sirs,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE TARGET GROUP INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; AND (2) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the Non-Exempt Continuing Connected Transactions, the details of which are set out in the Letter from the Board (the "**Board's Letter**") in the circular issued by the Company to the Shareholders dated 23 July 2018 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement)

On 5 January 2018, the Purchaser, a wholly-owned subsidiary of the Company entered into the Share Transfer Agreement with the Vendor. On 11 June 2018, the Company and the Vendor entered into the Supplemental Agreement, pursuant to which the Purchaser and the Vendor agreed to amend certain terms of the Share Transfer Agreement. Pursuant to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement), the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company at a consideration of HK$85,800,000 which will be settled by the allotment and issue of the Consideration Shares by the Company to the Vendor or its nominee(s) at an issue price of HK$0.39 per Consideration Share. The Consideration Shares will not be allotted and issued to the Vendor unless and until the Guaranteed Financial Performance is met by the Target Group, and the Purchaser shall within 10 Business Days from the receipt of the audited/reviewed consolidated financial statements of the Target Group for the two years ending 30 June 2020 procure the Company to allot and issue the Consideration Shares to the Vendor.

As the applicable ratios in respect of the Acquisition exceed 5% but are below 25%，the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but exempted from the Shareholders' approval requirement under Chapter 14 of the Listing Rules.

The Vendor is owned as to 55% by Virtue Ever and 45% by Rising Mission. Mr. Sha is the legal and beneficial owner of the entire issued share capital of Virtue Ever and hence, a controlling shareholder of the Target Company. 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 Consideration Shares are allotted and issued in full to the Vendor pursuant to the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement). Accordingly, the Acquisition constitutes a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

The Non-Exempt Continuing Connected Transactions

Upon the allotment and issue of the Consideration Shares by the Company to the Vendor pursuant to the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement), Mr. Sha will indirectly own 55% interest in the Vendor, which will become a substantial shareholder of the Company, holding approximately 16.54% of the enlarged issued share capital of the Company, and Mr. Sha is therefore a connected person of the Company. Accordingly, the Company considers Mr. Sha to be a connected person and any transaction between (1) Mr. Sha or his associates and (2) the Group (including the Target Group) will constitute a connected transaction of the Company.

As at the Latest Practicable Date, Henan Xinyang Maojian is indirectly owned as to 90.28% by Xinyang Maojian Holding, which in turn is owned as to 51% indirectly by Mr. Sha and 49% directly by Henan Xinyang Maojian. Xinyangshi Longtan is owned as to 79.03% by Henan Xinyang Maojian. Therefore, Henan Xinyang Maojian, Xinyangshi Longtan and Xinyang Maojian Holding are associates of Mr. Sha and will become connected persons of the Company upon the allotment and issue of the Consideration Shares by the Company to the Vendor pursuant to the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement).

The Target Company and its subsidiaries will become subsidiaries of the Company upon Completion, and accordingly certain ongoing transactions of the Target Group with Henan Xinyang Maojian, Xinyangshi Longtan and Xinyang Maojian Holding will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon Completion.

Upon Completion, as one or more of the relevant percentage ratios as set out in Rule 14A.76(2) of the Listing Rules exceeds 5% for each of the Non-Exempt Continuing Connected Transactions, each of such Non-Exempt Continuing Connected Transactions will be subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee

The Independent Board Committee, comprising all the 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 in relation to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate) and the Non-Exempt Continuing Connected Transactions and the proposed annual caps for the period from the Sale Share Transfer Date to 30 June 2019 and the two years ending 30 June 2021. We, Nuada Limited, have been appointed with the approval of the Independent Board Committee as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Our independence

We, Nuada Limited, did not act as independent financial adviser to the other transactions of the Company in the last two years. We are independent from, and are not associated with the Company, the Vendor, or their respective associates, close associates or core connected persons. Apart from normal professional fees payable to us in connection with our engagements, no arrangement exists whereby we will receive any fees or benefits from the abovementioned parties or any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. Accordingly, we are considered eligible to give independent advice in respect of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the Non-Exempt Continuing Connected Transactions to the Independent Board Committee and the Independent Shareholders in accordance with Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and will remain so up to the

Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

The circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Independent Shareholders as a result of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the Non-Exempt Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the Non-Exempt Continuing Connected Transactions, we have taken into account the following principal factors and reasons:

1. 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.

Set out below is a summary of the Group's operating results and financial position extracted from the Company's annual reports for the year ended 30 June 2017 (the "**Annual Report 2016/17**") and interim report for the six months ended 31 December 2017 (the "**Interim Report 2017/18**").

Operating results

	For the six months ended 31 December		For the year ended 30 June	
	2017	**2016**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Represented)*
Revenue	167,150	144,632	186,110	68,300
Manufacture and sale of polyvinyl-chloride*(Note 1)*	—	—	—	—
Manufacture and sale of vinyl acetate*(Note 1)*	—	—	—	—
Generation and supply of heat and power	131,870	105,566	134,810	68,300
Manufacture and sale of calcium carbide*(Note 2)*	35,280	39,066	51,300	—
Gross profit	66,456	65,490	33,840	21,097
(Loss) for the period/year from continuing operations	(27,598)	(30,476)	(130,877)	(494,207)
(Loss)/Profit for the year attributable to owners of the Company	(25,815)	140,909	68,481	(421,647)

Notes:

1. Production line of polyvinyl-chloride segment and vinyl acetate segment has been suspended since November 2013 due to a substantial decrease in profit margin.

2. The production of calcium carbide in Heihe, the PRC was suspended since the second quarter of 2014 because a subsidiary of the Company filed a writ against both the Heihe City Local Government and the State Grid Heilongjiang Electric Power Company Limited on failing in offering the preferential electricity price as promised. The production of calcium carbide has resumed since September 2016.

Financial position

	As at 31 December	As at 30 June	
	2017	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Audited)*
Non-current assets	2,958,274	2,919,362	3,123,917
Current assets	329,895	231,442	171,612
Non-current liabilities	(1,039,444)	(937,770)	(461,324)
Current liabilities	(366,658)	(344,750)	(1,010,947)
Net current liabilities	(36,763)	(113,308)	(839,335)
Net assets	1,882,067	1,868,284	1,823,258

For the year ended 30 June 2017 ("FY2016/17")

The revenue of the Group surged drastically from approximately HK$68.3 million for the year ended 30 June 2016 ("**FY2015/16**") to approximately HK$186.1 million for FY2016/17, representing an increase of approximately 172.5%. As discussed in the Annual Report 2016/17, such growth in revenue was attributable to the increase in sales volume of the Group's heat and power products and the resumption of operation of the Group's calcium carbide factory in Heihe. Despite the above, the gross profit of the Company merely increased from approximately HK$21.1 million for FY2015/16 to approximately HK$33.8 million for FY2016/17, where the gross profit margin decreased from approximately 30.9% for FY2015/16 to approximately 18.2% for FY2016/17. As advised by the management of the Company, such decrease was mainly attributable to initial production costs incurred in Heihe factory during the fine-tuning period.

The Group recorded profit attributable to owners of the Company of approximately HK$68.5 million for FY2016/17 (FY2015/16: loss of approximately HK$421.6 million). As noted from the Annual Report 2016/17 and advised by the management of the Company, the turnaround in profit was primarily due to (i) the decrease in other operating expenses of approximately HK$62.4 million for FY2016/17 which was mainly due to resume of the Heihe factory that reduced the idle factory overhead cost of approximately HK$24.7 million and decreased the allowance for receivables of approximately HK$37.2 million; (ii) the decrease in the impairment of fixed assets related to plant and machinery used in the polyvinylchloride, vinyl acetate and calcium carbide segment of approximately HK$206.4 million for FY2016/17; and (iii) the profit from discontinued operations (mainly comprised gain on disposal) of approximately HK$192.2 million for FY2016/17 (FY2015/16: loss of approximately HK$14.2 million).

As at 30 June 2017, the Group had net current liabilities and net assets of approximately HK$113.3 million and HK$1,868.3 million respectively. As at 30 June 2017, the Group's current ratio (calculated by dividing current assets by current liabilities) and gearing ratio (calculated by dividing total debts by total assets) were approximately 0.67 and 0.41 (as at 30 June 2016: approximately 0.17 and 0.45) respectively.

As noted from "Independent auditor's report" and "Note 2 to the consolidated financial statement" in the Annual Report 2016/17, the net current liabilities and incurrence of loss from continuing operations during FY2016/17 indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

For the six months ended 31 December 2017 ("Six Months 2017/18")

The revenue of the Group rose from approximately HK$144.6 million for the six months ended 31 December 2016 ("**Six Months 2016/17**") to approximately HK$167.2 million for Six Months 2017/18, representing an increase of approximately 15.6%. As noted from the Interim Report 2017/18, such growth in revenue was mainly attributable to the increase in income from heat and supply segment due to the increase of the residential heat supplying area. Despite the above, the gross profit of the Company merely increased from approximately HK$65.5 million for Six Months 2016/17 to approximately HK$66.5 million for Six Months 2017/18, where the gross profit margin decreased from approximately 45.3% for Six Months 2016/17 to 39.8% for Six Months 2017/18.

The Group recorded loss attributable to owners of the Company of approximately HK$25.8 million for Six Months 2017/18 (Six Months 2016/17: profit of approximately HK$140.9 million). As noted from the Interim Report 2017/18, the loss was primarily due to profit from discontinued operations (mainly comprised gain on disposal as referred to the Annual Report 2016/17) of approximately HK$165.6 million for Six Months 2016/17 while nil was recorded for Six Months 2017/18.

As at 31 December 2017, the Group had net current liabilities and net assets of approximately HK$36.8 million and HK$1,882.1 million respectively. As at 31 December 2017, the Group's current ratio (calculated by dividing current assets by current liabilities) and gearing ratio (calculated by dividing total debts by total assets) were approximately 0.90 and 0.43 (as at 30 June 2017: approximately 0.67 and 0.41) respectively.

Our review

Based on the above, notwithstanding the loss from continuing operations and net current liabilities have been improved for FY2016/17 and Six Months 2017/18 as discussed above, there was no obvious sign of turnaround.

2. Information on the Target Group

2.1 *Background information and financial information of the Target Group*

As disclosed in the Board's Letter, the Target Company is a company incorporated under the laws of the BVI with limited liability and the Target Group is principally engaged in 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.

Two subsidiaries of the Target Company have obtained licences to distribute Xinyang Maojian Tea Leaves from the Suppliers. Henan Xinyang Maojian, one of the Suppliers, is the owner of the Longtan (龍潭), Wuyunshan (五雲山) and Luyu (陸羽) brands. China Xinyang, a subsidiary of the Target Company, has been licensed by the Suppliers to be the exclusive distributor of Xinyang Maojian Tea Leaves on the e-commerce platforms (including but not limited to Tianmao (天貓) and Jingdong (京東) in the PRC) from 5 January 2018 to 5 January 2028 under the China Xinyang Agreement. Xinyang Overseas, another subsidiary of the Target Company, has been licensed by the Suppliers to be the exclusive global distributor (outside of the PRC) of Xinyang Maojian Tea Leaves from 5 January 2018 to 5 January 2028 under the Xinyang Overseas Agreement. For additional details of the China Xinyang Agreement and the Xinyang Overseas Agreement, please refer to the section headed "2. Non-Exempt Continuing Connected Transactions" in the Board's Letter.

China Xinyang has entered into agreements on 1 December 2017 and 5 January 2018 with Zhonglin, under which China Xinyang has agreed to purchase and Zhonglin has agreed to sell the entire equity interest of Xinyang Shenzhen. Upon completion of all the relevant transfer and registration procedures, Xinyang Shenzhen will become a wholly-owned subsidiary of China Xinyang. Xinyang Shenzhen has been licensed by the Suppliers to carry out the sales operations of Xinyang Maojian Tea Leaves on the e-commerce platforms in the PRC under the China Xinyang Agreement. Xinyang Shenzhen has commenced the sale of Xinyang Maojian Tea Leaves on the e-commerce platform Jingdong since December 2017.

As at the date of the Share Transfer Agreement, the Target Company has issued 50,000 shares, and immediately prior to the execution of the Share Transfer Agreement, the Vendor is the legal and beneficial owner of 50,000 shares of the Target Company. As disclosed in the Board's Letter, the Target Group has recorded (i) revenue of nil and approximately HK$5.1 million for the period from 14 December 2016 to 31 December 2017, and for the five months ended 31 May 2018 respectively; and (ii) net loss of nil and approximately HK$891,000 both before and after taxation for the period from 14 December 2016 to 31 December 2017, and for the five months ended 31 May 2018 respectively. As at 31 May 2018, the Target Group recorded total assets and net liabilities of approximately HK$5.2 million and HK$501,000 respectively.

2.2 *Business of the Target Group*

As mentioned under the paragraph headed "2.1 Background information and financial information of the Target Group" above in this letter, two subsidiaries of the Target Company have obtained licenses to distribute Xinyang Maojian Tea Leaves from the Suppliers on e-commerce platforms in the PRC and overseas respectively. Moreover, Henan Xinyang Maojian is the owner of the Longtan (龍潭), Wuyunshan (五雲山) and Luyu (陸羽) brands.

As advised by the management of the Company, in order to increase the attractiveness of the tea leaves products of the Target Group, the Target Group intends to cooperate with professional design firm to design and arrange specific package for these tea leaves products. We are advised by the management of the Company that the Target Group is currently in negotiation stage with potential design firms. Based on a proposal from a design firm provided by the management of the Company, we noted that through understanding the brand information of the Target Company, the design firm will (i) help to position the brand, (ii) design new logo and slogan for promotion, (iii) design new packaging for the Target Group's products; and (iv) help to structure the promotion plan of the Target Group including but not limited to festive promotion and theme promotion. Apart from the services provided by the design firm, the Target Group will also (i) make use of different marketing channels, including e-commerce platform, television shows or films and social media platforms, including but not limited to "Tmall Direct Train", "Taobao Promoters", "Diamond Display", "Weibo" and "Wechat", to promote its tea leaves products, and the cost of which shall be approximately RMB6.75 million for 2018; and (ii) through design and re-packaging of the products for e-commerce sale as mentioned above to enhance the branding image of its tea leaves product. For the overseas distribution of the tea leaves products, the Target Company targets to be wholesaler and sell its products to retailers overseas. We are advised by the management of the Company that the Target Group is negotiating with one tea seller in Japan.

We are advised by the management of the Company that the Target Group has already hired 7 employees responsible for products quality control, online promotion and customer services, etc as at the Latest Practicable Date. Upon completion of the Acquisition, the Target Group will allocate not less than RMB7.5 million as the working capital of these segments, of which the relevant staff cost, promotion fee and acquisition of fixed assets has been taken into account in the Forecast (as defined below). The management of the Company confirmed that the Target Group has already entered into service agreement with Yunda Express to provide delivery service for the online orders of the Target Group.

The Target Company has already recruited several persons as senior management staff including a chief executive officer and two project managers that would take part in product distribution, marketing and brand promotion. We have reviewed the biographical information of such managements and noted that they have been working as management in the food and beverage industry and also have management experiences in e-commerce industry. For the quality control unit, the Company has recruited a chief quality controller who obtained a bachelor degree in Agricultural Science from Henan Agricultural University in 2017 and has experience for business and sales operation in tea leaves industry according to his biographical information provided by the management of the Company. The chief quality controller will lead the quality check team to perform inspection on the raw tea leaves twice a month in order to maintain the quality of raw tea leaves. The newly recruited quality consultant was graduated from Xinyang College of Agriculture and Forestry with a diploma in tea culture in 2009 and also obtained a bachelor degree in Agricultural Science from Henan University of Science and Technology in 2010. She is experienced in quality management in tea leaves industry and also acted as tea art consultant for the movie One Hundred Years of Love (草木之戀), which is related to Chinese tea culture according to her biographical information provided by the management of the Company.

2.3 ***Industry overview on the e-commerce and tea leaves market and export in the PRC***

As stated in the Board's Letter, the Target Group is principally engaged in sale of Xinyang Maojian Tea Leaves on the e-commerce market in the PRC and will develop the sale of Xinyang Maojoan Tea Leaves outside of the PRC. Therefore, we have researched different statistics or PRC national policy with respect to the e-commerce market in the PRC and the outlook of the tea leaves related business and export in the PRC.

According to "E-commerce in China 2017" published by The Ministry of Commerce of the PRC Government in May 2018, e-commerce transaction amount increased from approximately RMB16.39 trillion in 2014 to approximately RMB29.16 trillion in 2017, representing a compound annual growth of approximately 21.2%. We further noted from such publication that the online retail sales of physical products (which exclude the sales of virtual goods and service goods) increased by approximately 28.0% as compared to previous year. Given that online retail sales of physical products may reflect the consumption behaviour of the PRC citizens and the increase in retail sales of physical products as mentioned above, we consider there is increasing trend of the PRC citizens purchasing any physical goods, including tea products, online.

The PRC Commerce Ministry has released the "The Thirteenth Five-Year Plan for the Development of Business Logistics" (商務物流發展"十三五"規劃) (the "**13th Five-Year Plan of Business Logistics**") in February 2017. The 13th Five-Year Plan of Business Logistics indicates that the PRC government intends to facilitate the development of the e-commerce logistics industry in the PRC and also the cross-border e-commerce logistics platform. The PRC Commerce Ministry insists that the government would continuously improve the distribution of the e-commerce network that connects urban or rural area in the PRC and target to cover the whole country, and also support development of the e-commerce credit evaluation in order to protect all the parties involved. In the long run, the PRC Commerce Ministry will focus on improving the international competitiveness of the e-commerce trading industry in the PRC in order to expand the business network of the domestic PRC companies.

In order to assess the profitability and the outlook of the tea leaves business in the PRC and export trading situation, we reviewed the latest statistics available on the online database of the National Bureau of Statistics of the PRC regarding the profitability of the tea leaves trading business and amount of the tea leaves exported from 2015 to 2016:

	2016	**2015**
Total profit of private industrial enterprises, manufacture of liquor, beverages and refined tea (RMB billion)	49.89	47.33
Turnover of retail of tea markets (RMB billion)	2.38	1.93
Turnover of wholesale of tea markets (RMB billion)	25.53	24.96
Volume of Exports, Tea (ton)	328,699	324,955
Value of Exports, Tea (USD million)	1,485	1,382

Source: National Bureau of Statistics of the PRC

According to the table above, the total profit of private industrial enterprises, manufacture of liquor, beverages and refined tea increased from approximately RMB47.33 billion in 2015 to approximately RMB49.89 billion in 2016. The turnover of retail and wholesale of tea markets in the PRC were also in an upward trend that recorded growth of approximately 23.32% and 2.28% respectively from 2015 to 2016. Moreover, the statistics from National Bureau of Statistics of the PRC in relation to the export of tea leaves in terms of value and volume as shown above have both increased from 2015 to 2016. The volume of export of tea leaves has recorded a growth of approximately 1.15% and the value of export of tea leaves has increased from approximately USD1,382 million in 2015 to approximately USD1,485 million in 2016, which represents a growth of approximately 7.45% from 2015 to 2016.

Based on the national policies announced by the PRC government regarding the development plan of e-commerce industry and the official statistics regarding the e-commerce market, profitability tea leaves enterprises and the export of tea leaves from PRC as described in this section, we are of the view and concur with the view of the management of the Company that the business prospect of the Target Group is optimistic.

3. Reasons for and benefits of the Acquisition

As stated in the Board's Letter and advised by the management of the Company, the Group was suffered from the slump of chemical market in the last five years. According to "Report of the Directors" in the Annual Report 2016/17, the Group has incurred loss from continuing operations and been in net current liabilities since the year ended 30 June 2013.

Though such loss from continuing operation and net current liabilities have been improved for FY2016/17 and Six Months 2017/18 as discussed in paragraph headed "1. Information of the Group" above, there was no obvious sign of turnaround.

With reference to the Interim Report 2017/18, it is the Group's strategy to actively restructure the assets so as to create value to the Shareholders and to perform possible further acquisition. As disclosed in the Board's Letter, for the Group's future development, the management explores new and value-added businesses from time to time. The management believes that the Acquisition could diversify the risk of the Group and, hence, to provide a stable return to the Group. The Company considers that Chinese tea has greater potentiality and more long-term development after it reviewed the market trend of tea business. As discussed in the paragraph headed "2.3 Industry overview on the e-commerce and tea leaves market and export in the PRC" above, the prospect of e-commerce and tea leaves market is positive.

Having considered (i) the negative financial performance and position of the Group, which indicates no obvious sign of turnaround; and (ii) the prospect of e-commerce and tea leaves market is positive, we are of the view that the reasons for the Acquisition is justifiable.

4. Information on the Vendor and the Suppliers

4.1 *Information on the Vendor*

As stated in the Board's Letter, 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. To the best of the Directors' knowledge, information and belief, having made all reasonable enquires, as at the Latest Practicable Date, the Vendor and its ultimate beneficial owners are Independent Third Parties.

4.2 *Information of the Suppliers*

Henan Xinyang Maojian, Xinyangshi Longtan and Xinyang Maojian Holding, which are under control by Mr. Sha, are the Suppliers. Please refer the paragraph headed "Assets to be acquired" under the section headed "The Share Transfer Agreement" in the Board's Letter for further details of the shareholding structure regarding the group of the Suppliers.

As stated in the Board's Letter, Henan Xinyang Maojian was established in 1989. It is a group company covering a whole industry chain integrating tea plantation, research and development, processing and sales of tea drinks and tea food, tea garden tourism, tea industry and tea culture. Henan Xinyang Maojian possesses tea garden bases, tea culture park, standard tea refining and processing plants, cold chain systems, tea fresh-keeping refrigeration storage, full-automatic Maojian tea production lines and automatic filling lines. Under the core brand "Longtan", there are 50 series consisting of 400 types of products. According to the legal opinion dated 18 July 2018 issued by 金誠同達律師事務所 (Jincheng Tongda & Neal) (the "**Legal Opinion**"), Henan Xinyang Maojian owned approximately 456,000 Mu tea garden. Since 2017, Henan Xinyang Maojian started to perform transformation in respect of being global one-stop plebification tea manufacturer and operator, marketing strategy, utilization of tea trees and cultural tourism in tea gardens. For further details of Henan Xinyang Maojian, please refer to the paragraph headed "(v) Information of Henan Xinyang Maojian" under the section headed "Information of the Company, the Purchaser, the Vendor and the Target Group" in the Board's Letter.

According to the Legal Opinion, there are legal issues regarding high liabilities, mortgages and pledges of Henan Xinyang Maojian. Once the issues happen, the cash flow, production capacity, ownership of forest ownership, and ownership of trademark rights of Henan Xinyang Maojian will be adversely affected, and in turn, will affect Henan Xinyang Maojian's ability to perform the China Xinyang Agreement and Xinyang Overseas Agreement. According to an appendix dated 30 June 2018 to the Legal Opinion, in respect of the litigations of Henan Xinyang Maojian provided by the Company, based on online litigation searches of judgments held by the courts that are publicly available against Henan Xinyang Maojian and Xinyangshi Longtan (its non-wholly owned subsidiary), as at 30 June 2018, Henan Xinyang Maojian is related to 40 litigations in aggregate amount of around RMB631.4 million while Xinyangshi Longtan is related to 19 litigations which involves a total of approximately RMB89.1 million. Among the above litigations, litigations of RMB65.6 million are jointly borne by Henan Xinyang Maojian and Xinyangshi Longtan. The possible litigation liabilities of two companies in total amounted to approximately RMB654.9 million. Please refer to the paragraph headed"(c) Litigations of Henan Xinyang Maojian Tea Group" under the section headed "Information of the Company, the Purchaser, the Vendor and the Target Group" in the Board's Letter for details. In respect of the potential litigations, we are advised by the management of the Company that Xinyang Maojian Holding has entered into strategic corporation agreement (the "**SCA**") with 中國建設銀行股份有限公司信陽分行 (China Construction Bank Xinyang Branch) ("**CCB**"), pursuant to which CCB Xinyang indicated its intention to grant Xinyang Maojian Holding loan(s) for an aggregate amount of RMB3,000.0 million, which is over the maximum exposure of the litigations of approximately RMB654.9 million as set out above.

We have reviewed the SCA and based on another appendix dated 17 May 2018 to the Legal Opinion, we noted that, among others, (i) the SCA is legally binding; (ii) the SCA cannot be regard as facility letter and the amount, interest rate and usage of the facility to be granted (if granted) are not yet confirmed by the bank so that for each drawdown, separate loan agreements shall be entered and agreed in future; (iii) the facilities to be granted to Xinyang Maojian Holding are subject to the financing needs of Xinyang Maojian Holding fulfilling national production policy (國家產業政策) and the financing conditions of Xinyang Maojian Holding fulfilling《商業銀行法》and《貸款通

則》(as advised by the PRC lawyers of the Company, those conditions are standard term conditions applying to general borrowers instead of specific conditions which only apply to Xinyang Maojian Holding); and (iv) that granting of loan is restricted by, among others, the type of loans that stipulated by banks for different usages and according to the SCA, the loans to be granted is mainly for supporting Xinyang Maojian Holding's quality project construction (while no restriction if the loan is used for settlement of litigation as advised by the PRC lawyers of the Company). Based on the above, we are unable to ascertain when Xinyang Maojian Holding will obtain facility and draw loans from CCB for repaying the potential litigation liabilities as stated above pursuant to the terms of the SCA.

Since we have not obtained the details of conditions that the banks will impose on the Suppliers under the framework of the SCA when the facility is applied, we consider that the SCA may not be used to settle the possible litigation liabilities. In view of that, we cannot comment on whether (i) the possible litigations of Henan Xinyang Maojian and Xinyangshi Longtan can be settled in time; and (ii) the Suppliers are able to perform its obligation under the China Xinyang Agreement and the Xinyang Overseas Agreement when the possible litigations liabilities are not settled in time.

5. Principal terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement)

Pursuant to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement), the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company at a consideration of HK$85,800,000 which will be settled by the allotment and issue of the Consideration Shares. The Consideration Shares will not be allotted and issued to the Vendor unless and until the Guaranteed Financial Performance is met by the Target Group, and the Purchaser shall within 10 Business Days from the receipt of the audited/reviewed consolidated financial statements of the Target Group for the two years ending 30 June 2020 procure the Company to allot and issue the Consideration Shares to the Vendor. Details of the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) are set out in the section headed "The Share Transfer Agreement" in the Board's Letter.

5.1 *Payment terms*

The consideration for the Sale Shares is HK$85,800,000, which will be satisfied by the Company by allotting and issuing the Consideration Shares at the Issue Price of HK$0.39 per Consideration Share to the Vendor. The Consideration Shares will not be allotted and issued to the Vendor unless and until the Guaranteed Financial Performance is met by the Target Group, and the Purchaser shall within 10 Business Days after the delivery by the Target Group to the Vendor of the audited/reviewed consolidated financial statements of the Target Group for the two years ending 30 June 2020, procure the Company to allot and issue the Consideration Shares to the Vendor. The Vendor grants the Purchaser an irrevocable and unconditional put option for HK$1 (the "**Put Option**") in relation to the Sale Shares. If the Guaranteed Financial Performance is not met at any relevant time during the Guarantee Period, the Put Option shall be exercised by the Purchaser within seven Business Days after the provision of the relevant audited accounts of the Target Company to the Vendor at an exercise price of HK$1. The Purchaser is entitled to the undistributed distributable profit, where applicable, of the Target Company before the completion of the exercise of the Put Option by the Purchaser. The Vendor shall procure the Director nominated by it to resign from the Company within seven Business Days of the exercise of the Put Option by the Purchaser. As advised by the Company, the Company should be responsible for financing the operation of Target Company.

The Vendor irrevocably and unconditionally guarantees the following 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 ended 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 "**Guaranteed Financial Performance**". The above figures are absolute thresholds and therefore cannot be adjusted.

As advised by the management of the Company, the Guaranteed Financial Performance was arrived at having considered that the operating cycle of the business of the Target Group that (i) more advertisements are placed or launched in the period from July to December of each year and (ii) sales of the products are concentrated in the period from January to June of each year. We noted from the management of the Company that in determining the abovesaid operating cycle, it mainly considered revenue and promotion cost factors. For revenue generation, the management of the Company has taken into account the increase in sales during shopping festivals including "雙十一" (in English, for identification purpose only, Double Eleven), Chinese New Year, the production of spring tea (it refers to tea leaves collected in spring which usually has higher quality due to the temperature and less attacks by pests and diseases) and "618網購狂歡節" (in English, for identification purpose only, 618 Online Shopping Carnival). For promotion costs factors, we are advised by the management of the Company that (i) a higher promotion cost would be needed in the period from July to December as it is crucial for the Target Company to promote its products before Double Eleven, which is the first shopping festival after the Sale Share Transfer Date and is also the beginning of a series of shopping festival during winter, and the promotion before Double Eleven would directly affect the sales of the Target Company for the remaining festivals; and (ii) for Chinese New Year and spring tea, less promotion cost will be incurred as the consumers would intend to buy tea leaves more as compared with that during Double Eleven which is an online shopping festival for purchasing wide variety of products online. Having considered the above, we are of the view that the basis for determining the Guaranteed Financial Performance is reasonable.

Please refer to paragraphs headed "Guaranteed Financial Performance" and "Put Option" under the section headed "The Share Transfer Agreement" in the Board's Letter for details of, amongst others, the Guaranteed Financial Performance and the Put Option.

As noted from the Interim Report 2017/18 and the Annual Report 2016/17, while the Group recorded net profit of approximately HK$61.3 million for FY2016/17 which was mainly attributable to the profit from discontinued operations, the Group recorded net current liabilities of approximately HK$36.8 million as at 31 December 2017 and net cash used in operating activities of approximately HK$428.7 million for FY2016/17. In view of the above, we consider that settling the Consideration by issue of the Consideration Shares instead of direct cash payment will (i) minimise the cash outflow of the Group; and (ii) enable the Group to preserve cash for financing its daily operations and future development demands for capital.

In addition, having considered that

(i) despite the positive market overview of e-commerce and tea leaves market, the Target Group is at start-up stage and no historical financial performance could support its business. The deferred payment of the Consideration, the Guaranteed Financial Performance and the Put Option limit the Company's risk of losing from the Acquisition in the event that the future financial performance of the Target Group is not as anticipated;

(ii) if the Company exercises the Put Option in the event that the financial performance of the Target Group for every six-month period is not as expected pursuant to the Guaranteed Financial Performance, the possible loss of the Company would mainly the expenses for running the Target Group's business which are inevitable. We have enquired with the Company and noted that the selling expenses and general and administrative expenses are in aggregate expected to be approximately RMB11.1 million, RMB11.4 million, RMB16.8 million and RMB17.1 million respectively for the six months ended 31 December 2018, 30 June 2019, 31 December 2019 and 30 June 2020 respectively. Comparing the abovementioned costs with that of the Group (being the sum of selling and distribution costs, administrative expenses and other operating expenses) which amounted to approximately HK$204.8 million (equivalent to approximately RMB170.7 million) for FY2016/17, it represents approximately between 6.5% and 9.8% of the existing costs of the Group for each of the six-month period as set out above; and

(iii) as advised by the Company, the Directors will monitor the status of the Suppliers (including but not limited the status of to their litigation and the status of operation) from time to time and report to the Board. Thus, it is assumed that the Company shall ensure the Suppliers being able to continue to perform its duty under the China Xinyang Agreement and the Xinyang Overseas Agreement for not exercising the Put Option and issuing the Consideration Shares,

we are of the view that the payment terms have taken into account the Company's financial situation and safeguard the interests of the Group if the financial performance of the Target Group is not as expected. As such, we consider that the payment terms are in the interests of the Company and the Shareholders as a whole.

5.2 *The Consideration*

As set out in the Board's Letter, the Consideration has been arrived at between the parties after arm's length negotiations, taken into account (i) the valuation on the Target Company of approximately RMB80 million as at 15 December 2017 based on the discounted cash flow method under the income approach prepared by the Valuer, (ii) the net asset value of the Target Company, (iii) the financial results of the Target Company for the period from its date of incorporation on 14 December 2016 to 31 December 2017, (iv) the future prospects of the principal business of the Target Group and (v) the Consideration to be satisfied by the allotment and issue of the Consideration Shares.

A. *The Valuation*

In assessing the fairness and reasonableness of the Valuation, we have reviewed the valuation report (the "**Valuation Report**") provided by the management of the Company and discussed with the Valuer in relation to its competence, methodologies used and assumptions adopted in performing the Valuation. We noted that the Valuation was based on International Valuation Standards established by the International Valuation Standards Council.

Based on our enquires with the Valuer, we have reviewed the biographical information of Dr. Lee, Wai Kin Alan, who is the director and principal valuer of the Valuer and noted that he has obtained the professional qualification of, among others, (i) Approved Valuer for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuation in connection with Takeovers and Mergers in Hong Kong in 2010; (ii) Certified Practicing Valuer (Business) in Australia in 2010; and (iii) Registered Business Valuer in Hong Kong in 2012. We have reviewed the engagement letter of the Valuer and are satisfied the terms of engagement and the scope of work of the Valuer is appropriate to the opinion the Valuer is required to give. There is no limitation of the scope of work which might have an adverse impact on the degree of assurance given by the Valuer in the Valuation Report. Furthermore, we have enquired with the Valuer as to its independence from the Group, and understood that the Valuer is independent from the Company, does not have any relationship with the Directors, substantial Shareholders and senior management of the Company and does not have any interests in the shares of the Company.

(i) Valuation methodologies

According to the Valuation Report and based on our discussion with the Valuer for the methodologies, basis and assumptions adopted by the Valuer, we understood that the Valuer has considered three generally accepted approaches, namely the income approach, market approach and cost approach in the Valuation. We noted from the Valuer that (i) market approach is not suitable as there is not enough available information in relation to listed companies with similar principal business and operation stage as compared with the Target Company; and (ii) compared with income approach, cost approach is less likely to capture the future growth potentials of the Target Company as it measures the value of an asset by the cost to reproduce or replace it with another of like utility. Having considered the above, we concur with the view of the Valuer income approach is the most appropriate approach for the Valuation.

Under the income approach, the discounted cash flow method is adopted. As advised by the Valuer, the discounted cash flow method begins with an estimation of annual cash flows, which a market participant acquirer would expect the asset to generate over a discrete projection method. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows. The present values of the estimated cash flows are then added to the present value equivalent of the residual value of the asset (if any) at the end of the discrete projection period to arrive at an estimate of the value of the specific asset.

(ii) Valuation bases and assumptions

It should be noted that the Forecast has only taken into account the expected financial performance under sale on the e-commerce platforms in the PRC, but not overseas. As noted from the announcement of the Company dated 5 January 2018, the Board has reviewed the principal assumptions upon which the Forecast was based on and is of the view that the Forecast was made after due care and enquiry.

In preparing the Valuation, we noted that the Valuer has adopted certain assumptions. General market assumptions in summary assume (i) no material change in the existing political, legal, fiscal, technological, economic and market conditions, taxation laws and regulations which the Target Company is situated; (ii) no materially difference in the market return, market risk, interest rates, exchange rates, demand and supply of the products of the Target Company, market prices and relevant costs from present or expected; (iii) the products of the Target Company or similar products are in active market and are marketable and liquid; and (iv) the market data, industrial information and statistical figures from publicly available resources are true and accurate.

For the Target Company, there are also assumptions in respect of the representations made regarding the Target Company, the Target Company's business operation (including but not limited to all licenses, permits, certificates, consents, human resources and contingency measures) and financial position. As noted from the Valuation Report, the Valuation conclusion is based on the assumptions in the Valuation Report and the information provided by the management of the Company, the management of the Target Company and/or their representative(s). We noted from the Valuation Report that in the course of the Valuer's valuation work, it has conducted processes to evaluate the reasonableness of the adopted basis and assumptions provided, including (i) discussing the development, operations and other relevant information of the Target Company with the management of the Company, the management of the Target Company and/or their representative(s); (ii) reviewing relevant financial information and other relevant data concerning the Target Company provided by the management of the Company, the management of the Target Company and/or their representative(s); (iii) performing market research and relevant statistical figures from public sources in relation to the Valuation; and (iv) presented all relevant information on the scope of works, limitation in scope of work, sources of information, an overview of the Target Company, valuation methodology and parameters, major assumptions, limiting conditions, remarks and opinion of value in the Valuation Report. We also noted that the Valuer has reviewed and examined the relevant information and financial projection of the Target Company provided by the management of the Company, the management of the Target Company and/or their representative(s) without further verification. We have discussed with the Valuer in respect of the assumptions made by the Company and the Target Company for preparing the Forecast, and noted that in performing its services, the Valuer has relied on the accuracy of information provided by the management of the Company, the management of the Target Company and/or their representative(s) with regards to the Target Company's financial information and business affairs as well as the outlook for the business. The procedures and enquiries undertaken by the Valuer in preparing the Valuation Report do not include any verification work, nor does the Valuer constitute an examination made in accordance with generally accepted auditing standards. As such, the Valuer does not express an opinion or offer any forms of assurance regarding the accuracy, reasonableness, completeness or reliability of these information the Valuer is based.

As discussed above, in preparing the Valuation, the Valuer relied on the assumptions and the profit forecast for the ten years ending 31 December 2027 (the "**Forecast**") prepared by the Company and the Target Company. We noted that the Company has performed certain measures to assess the reasonableness of the Forecast, including reviewing the background, history and prospect of the tea industry, engaging a tea expert namely Mr. Wang Wen (the "**Tea Expert**"), and browsing different e-commerce platforms for determining which platform for selling the products of the Target Company and reviewing sales trend of major competitors.

Certain major assumptions on the Forecast and thus the Valuation are based on the report dated 15 November 2017 from the Tea Expert engaged by the Company. According to the information provided by the Company, he is the Executive Director of Guangdong Zhong Yin Investment Limited (廣東中飲投資有限公司) ("**Guangdong ZY**"). We found from the website of Guangdong ZY that it possesses three tea brands namely "御可貢茶", "果茶大王" and "麥思琪", which are chained takeaway tea drinks retailers in the PRC. As the Tea Expert also engages in tea businesses, we cast doubt on whether the Tea Expert is independent in expressing opinions on tea industry in the PRC, i.e. whether the Tea Expert would tend to give more favourable view on the tea market in the PRC. According to the information provided by the Company, the Tea Expert has been engaged in tea culture exchange and promotion since 2002. He was "Vice President" (副會長) and "Secretary" (秘書長) of Chinese Tea Committee of Chinese Food Culture Research Association (中國食文化研究會茶飲品委員會) (the "**Association**") in 2016 when the Association was formed and was appointed as "Chairman" (會長) in 2018. We browsed the websites of the Association and noted that the Association was approved by Ministry of Culture, and registered by Ministry of Civil Affairs in 1993 and the respective founding conference was held in June 1994. The Association serves as an agent for spreading Chinese food culture. The listing ceremony of its Chinese Tea Committee was held in January 2016. We have also noted from the Tea Expert report that the statistical results from the Tea Expert are based on over 300 tea manufacturers and sellers in the Association. Despite the above, our Internet search shows no official tea associations in the PRC and we are unable to confirm whether the Association is representative.

For the engagement of the Tea Expert, we obtained an execution version of the engagement letter between the Company and an appraisal firm named A and K Appraisal and noted from such engagement letter that its scope of services includes, among others, to prepare its opinion, detailing its investigations and analysis with respect to the validity, completeness and accuracy of the documents and information which have been based upon arriving at its opinion of its expert opinion. We contacted such appraisal firm and noted that the firm acted as a contact person between the Company and the Tea Expert and take no responsibility on the report or the reliability of the Tea Expert. We also obtained an engagement letter between A & K Appraisal and the Tea Expert.

We have sent enquiries to the Tea Expert in respect of its professional qualification, the members' information of the Association, source of statistics adopted in its report and method for conducting research in arriving at the conclusion in its report including (i) the date/period of the Tea Expert in preparing the Tea Expert report, (ii) methodology for the research; (iii) limitations and assumptions of the research; and (iv) working paper of the Tea Expert for arriving at the conclusion in the Tea Expert report. We have received, among others, the source of statistics adopted in the Tea Expert report. However, we noted that those sources are not official statistics so that we are unable to verify such statistics. In addition, we cannot assess the members' information of the Association and method for conducting research in arriving at the conclusion in the report of Tea Expert. We only obtained a sample survey for the research and we consider such sample survey is inadequate for us to assess the accuracy and completeness of the research conducted by the Tea Expert. Despite the letter from the Board dated 5 January 2018, details of which are set out in the announcement of the Company on the same date, in relation to its comments on the Forecast, given (i) that the Tea Expert also engages in tea businesses, which may affect the Tea Expert's independence in expressing opinions on tea industry in the PRC, i.e. whether the Tea Expert would tend to give more favourable view on the tea market in the PRC; (ii) that the Association is not an official tea association in the PRC and we are unable to confirm whether the Association is representative; (iii) the inadequate information provided by the Tea Expert as set out above; and (iv) the statistics used the Tea Expert report are not official, we are unavailable to assess the reliability of the Tea Expert and the reasonableness of the Tea Expert report, on which certain major assumptions in the Forecast and thus the Valuation relied upon.

Nevertheless, based on our understanding from the Internet, Xinyang Maojian Tea Leaves ranked top ten of the tea leaves in the PRC. Having taken into account (i) the industry overview on the e-commerce and tea leaves market and export in the PRC as discussed in paragraph headed "2.3 Industry overview on the e-commerce and tea leaves market and export in the PRC" above, in particular, e-commerce transaction amount represented a compound annual growth of approximately 21.2% from 2014 to 2017 and the online retail sales of physical products increased by approximately 28.0% from 2016 to 2017; (ii) the long operating history of Henan Xinyang Maojian (which was established in 1989); and (iii) the reputation of Xinyang Maojian Tea Leaves in the PRC, we consider the sales of the Target Group shall depend on its promotion plan.

As discussed in the paragraph headed "2.2 Business of the Target Group" above, the Target Group will engage a design firm for providing solutions for the Target Group's brand positioning, logo, slogan and new package design, and promotion plan. The Target Group itself will also promote its products on different marketing channels and platforms. Senior management staff, which are with experiences in management in the food and beverage industry and e-commerce industry are recruited for monitoring product distribution, marketing and brand promotion. In addition, staff members have also been hired for products quality control, online promotion and customer services, etc. Based on the above, we consider the promotion strategy of the Target Group is comprehensive.

Apart from the above, we assessed the fair and reasonableness of the projected revenue of the Forecast by comparing the ratio of the expected costs (including costs of goods sold and selling and distribution expenses) of the Target Group with that of companies listed on the Stock Exchange which are principally engaged in sale of tea leaves in the PRC (the "**Comparable Companies**"). As the Comparable Companies are listed on the Stock Exchange, we consider their administrative expenses are relatively higher due to their expenses relating to listing (including but not limited to annual listing fees and the costs for drafting and publication of annual/interim/quarterly reports, announcement and circular to investors and shareholders) as compared with unlisted companies. As such, we exclude administrative expenses for comparison. For reference purpose only, an analysis comparing the ratio of the expected costs which also includes administrative expenses is also included.

As the Guaranteed Financial Performance shows the expected net profit after tax of the Target Group, which is obtained by the net of revenue and costs of the Target Group, we consider analysing the expected cost to revenue ratio of the Target Group is able to determine the achievability of the Guaranteed Financial Performance. It should be noted that the comparable analysis is based on (i) the growth in e-commerce market and the increasing trend of the PRC citizens purchasing goods online as discussed above; (ii) the long history and reputation of Xinyang Maojian Tea Leaves in the PRC; (iii) the assumption that the promotion plan of the Target Company as described above is successful; (iv) the assumption that the projected costs (including costs of goods sold and selling and distribution expenses) of the Target Company is able to generate revenue as per the ratio of approximately 75.0% (as discussed below); (v) that the Guaranteed Financial Performance (i.e. the expected net profit after tax of the Target Group) is a result of the net of revenue and costs of the Target Group and relates to the cost to revenue ratio as analysed above; and (vi) that the sales from overseas market has not been taken into account.

Based on the criteria that the comparable companies are (i) listed on the Stock Exchange; and (ii) principally engaged in selling of tea leaves in the PRC, we identified an exhaustive list of three Comparable Companies. Set out below are the percentages of costs (including costs of goods sold and selling and distribution expenses) to revenue for the latest financial year and the P/E Ratios (as defined below) of the Comparable Companies and the Target Company:

No.	Company name	Stock code	Principal business	Percentage of costs (including costs of goods sold and selling and distribution expenses) to revenue for the latest financial year	Percentage of costs (including costs of goods sold, selling and distribution expenses and administrative expenses) to revenue for the latest financial year	P/E Ratio (Note 1)
1	Tenfu (Cayman) Holdings Company Limited	6868	Sales and marketing of a comprehensive range of tea products and the development of product concepts, tastes and packaging designs.	66.8%	79.9%	20.2
2	Longrun Tea Group Company Limited	2898	Distribution of tea and other food products	90.0%	122.4%	N/A
3	Blockchain Group Company Limited	364	Fabric and tea businesses	62.0%	76.1%	N/A
			Average	72.9%	92.8%	20.2
			Minimum	62.0%	76.1%	20.2
			Maximum	90.0%	122.4%	20.2
	The Target Company		Sale of Xinyang Maojian Tea Leaves on the e-commerce market in the PRC	75.0%	80.1%	5.5 (Note 2)

Notes:

1. It is based on dividing the market capitalisations of the Comparable Companies by their respective latest published net profit attributable to owners of the company. For Comparable Companies recorded net loss attributable to owners of the company, N/A is shown. Market capitalisation is based on the number of issued shares of the Comparable Companies as shown in their respective monthly returns and the closing price of the shares of the Comparable Companies as at the Latest Practicable Date.

2. It is based on dividing the Consideration of HK$85,800,000 by the Profit 2020 (as defined below).

3. RMB is converted to HK$ at a rate of 1:1.2.

As shown above, the costs (including costs of goods sold and selling and distribution expenses) to revenue of the Comparable Companies for the latest financial year ranged from approximately 62.0% to 90.0%, with an average of approximately 72.9%. The percentage of costs (including costs of goods sold and selling and distribution expenses) to revenue of the Target Group of approximately 75.0% for each of the years ended 31 December 2018 to 2028, which is calculated based on the projected costs of goods sold, selling and distribution expenses, and revenue of the Target Group for the each of the years ended 31 December 2018 to 2028 according the Forecast, is within the range and close to the average of that of the Comparable Companies. For reference purpose only, the costs (including costs of goods sold, selling and distribution expenses and administrative expenses) to revenue of the Comparable Companies for the latest financial year ranged from approximately 76.1% to 122.4%, with an average of approximately 92.8%. The percentage of corresponding costs to revenue of the Target Group of approximately 80.1% for each of the years ended 31 December 2018 to 2028, which is calculated based on the respective projected costs and revenue of the Target Group for the each of the years ended 31 December 2018 to 2028 according the Forecast, is within the range of that of the Comparable Companies.

Although only estimated figures of the Target Company can be used to calculate its percentage ratio, taking into account that the Comparable Companies are top tier well known tea sellers in the PRC and has considerable years of operating history (at least five years), we consider the mark-up value to costs of the Comparable Companies' products reflect similar industry ecology and industry practice, which the Target Group is subject to. As such, we consider the percentage ratio of the Comparable Companies forms an appropriate benchmark to that of the Target Company. In performing our analysis above, we have taken into account (i) the growth in e-commerce market and the increasing trend of the PRC citizens purchasing goods online as discussed above; (ii) the long history and reputation of Xinyang Maojian

Tea Leaves in the PRC; (iii) the assumption that the promotion plan of the Target Company as described above is successful; (iv) the assumption that the projected costs (including costs of goods sold and selling and distribution expenses) of the Target Company is able to generate revenue as per the ratio of approximately 75.0% as discussed above and such ratio is within the range of that of the Comparable Companies; (v) the Guaranteed Financial Performance (i.e. the expected net profit after tax of the Target Group) is a result of the net of revenue and costs of the Target Group and relates to the cost to revenue ratio as analysed above; and (iv) that the sales from overseas market has not been taken into account, we consider the estimated revenue of the Company is reasonable and thus the Guaranteed Financial Performance is achievable.

In order to assess the Consideration, we compared the price-to-earnings ratio (the "**P/E Ratio**") of other listed companies in Hong Kong with that of the Target Company based on the assumption that the Guaranteed Financial Performance is achieved as discussed above. P/E Ratio is commonly used benchmarks in assessing the financial valuation of a company which measures the value of companies by measuring their profitability of their principal business. As the Target Group is expected to record profit for the two years ending 30 June 2020, around which the Consideration Shares shall issue, we are of the view that the then P/E Ratio of the Target Company is feasible to assess the fair and reasonableness of the Consideration.

Based on the reasonableness of the estimated revenue of the Company as analysed above and assuming the Guaranteed Financial Performance shall be achieved, the Target Company shall record profit before tax of approximately RMB13,000,000 (equivalent to approximately HK$15,600,000, the "**Profit 2020**") for the year ending 30 June 2020. As such, the P/E Ratio of the Target Company is expected to be approximately 5.5 times at the time of the payment of Consideration of HK$85,800,000 which is based on the Profit 2020.

As depicted from the table in this section above, only one Comparable Company recorded profit attributable to owners of the Company for the latest financial year, and the P/E Ratio of which is approximately 20.2 times. The P/E Ratio of the Target Company of approximately 5.5 times at the time of the payment of Consideration is expected to be far below that of the Comparable Company. Although only one Comparable Company shows P/E Ratio from its results for the latest financial year, having taken into consideration that (i) the shares of such Comparable Company are listed on the Stock Exchange, the stock prices of which represent the value investors are willing to pay and the shareholders are willing to accept. In other words, the price of its shares already reflects investor perception of the Comparable Company; (ii) such Comparable Company is also principally engaged in sale of tea leaves in the

PRC, which is similar to that of the Target Company; and (iii) the revenue of the Comparable Company was generated from the PRC and is the same as that proposed by the Target Company, which means that both of them are exposed under same economic situation, market sentiment and consumers' behaviour, we consider the Comparable Company can form a reference to the Consideration.

Although we are unable the assess the reliability of the Tea Expert and the reasonableness of the Tea Expert report, on which certain assumptions in the Forecast and the Valuation relied upon, and thus unable to comment on the Valuation, given (i) the growth in e-commerce market and the increasing trend of the PRC citizens purchasing goods online as discussed above; (ii) the long history and reputation of Xinyang Maojian Tea Leaves in the PRC; (iii) the assumption that the promotion plan of the Target Company as described above is successful; (iv) that the sales from overseas market has not been taken into account; (v) the assumption that the projected costs (including costs of goods sold and selling and distribution expenses) of the Target Company is able to generate revenue as per the ratio of approximately 75.0%; (vi) that the percentage of costs (including costs of goods sold and selling and distribution expenses) to revenue of the Target Group of approximately 75.0% is within the range and close to the average of that of the Comparable Companies; (vii) the Guaranteed Financial Performance (i.e. the expected net profit after tax of the Target Group) is a result of the net of revenue and costs of the Target Group and relates to the cost to revenue ratio as analysed above; and (viii) the P/E Ratio of the Target Company at the time of the payment of Consideration is expected to be far below that of the Comparable Company which recorded profit attributable to owners of the Company for the latest financial year, we consider the Guaranteed Financial Performance is achievable and the Consideration is justifiable. In addition, taking into account the deferred payment of the Consideration, the Guaranteed Financial Performance and the Put Option, we consider the Company will pay the Consideration only if the Guaranteed Financial Performance is reached. As such, we consider the Consideration (taking into account the payment terms) is fair and reasonable.

B. *The Consideration Shares*

The Issue Price of HK$0.39 per Consideration Share represents:

(a) a discount of approximately 10.3% to the closing price per Share of HK$0.435 as quoted on the Stock Exchange on 5 January 2018, being the date of the Share Transfer Agreement;

(b) a premium of approximately 1.6% over the average closing price per Share of HK$0.384 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Share Transfer Agreement;

(c) a premium of approximately 3.7% over the average closing price per Share of HK$0.376 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Share Transfer Agreement; and

(d) a discount of approximately 1.3% to the closing price per Share of HK$0.395 as quoted on the Stock Exchange on the Latest Practicable Date.

Historical price performance of the Shares

In order to assess the fairness and reasonableness of the Issue Price, we have reviewed the trading price of the Shares for the period from 6 January 2017 to 5 January 2018, being the 12-month period prior to the date of the Share Transfer Agreement, up to and including the date of the Share Transfer Agreement (the "**Review Period**"). The chart below illustrates the daily closing price of the Shares (the "**Closing Price**") versus the Issue Price of HK$0.39 per Offer Share during the Review Period:

Historical Closing Price of the Share

Source: the website of the Stock Exchange

As shown in the above chart, the Closing Price were floating slightly below the Issue Price until late September 2017. We noted that the Closing Price of the Share was floating within a range from HK$0.248 to HK$0.425 between 6 January 2017 and 27 September 2017. On 27 September 2017, the Company published the positive profit alert announcement and the Closing Price began to climb from HK$0.425 on 27 September 2017 to HK$0.640 on

28 November 2017. After that the Closing Price dropped to HK$0.370 on 4 December 2017, on the similar period from 22 November 2017 to 6 December 2017, Hang Seng Index also dropped from 30,003 to 28,224. We are advised by the Company that they are not aware of any specific reason for the aforesaid price movement. After that, the Closing Price remain stable and slightly increased from HK$0.380 on 3 January 2018 to HK$0.440 on 4 January 2018.

During the Review Period, the highest Closing Price was HK$0.640 recorded on 28 November 2017 and the lowest Closing Price was HK$0.248 recorded on 16 January 2017, 25 January 2017, 27 January 2017 and 1 February 2017 respectively. The average Closing Price of the Review Period was HK$0.348. The Issue Price of HK$0.39 represents (i) a discount of approximately 39.06% to the highest Closing Price; (ii) a premium of approximately 57.26% over the lowest Closing Price during the Review Period.; and (iii) a premium of approximately 12.07% over the average Closing Price during the Review Period.

Comparable analysis

We have conducted a comparable analysis through identifying companies listed on the Stock Exchange (excluding companies under prolonged suspension or debt restructuring) which announced issues of new shares as acquisition consideration to connected person(s) during the period from 6 January 2017 up to and including 5 January 2018, being the date of the Share Transfer Agreement. On such basis, we have identified 13 issues of shares as acquisition consideration (the "**Share Issue Comparables**") which provide a reasonable number of comparable transactions for comparison purposes. We consider such list an exhaustive list of relevant comparable issues of new shares based on the said criteria above. It should be noted that all the subject companies involved in the Share Issue Comparables may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company. Circumstances leading to the subject companies to proceed with the issue may also be different from that of the Company. However, as the Share Issue Comparables fulfill the above criteria, and can provide a general reference of this type of transaction in Hong Kong equity capital market, we consider them to be an appropriate basis to assess the fairness of the Issue Price.

No.	Date of initial announcement	Company	Stock Code	Type of transaction	Principal business of the listed company according to the announcement	Principal business of the target company according to the announcement	Premium/(Discount) of the issue price of respective consideration share over/(to) the closing price on last trading day *(Approximate %)*	Premium/(Discount) of the issue price of respective consideration share over/(to) the closing price on last 5 consecutive trading days preceding/up to and including the last trading day as stated in respective announcement *(Approximate %)*
1	10 January 2017	Midland IC&I Limited	459	Major and connected transaction	Provision of property agency services in respect of commercial and industrial properties and shops in Hong Kong	Property investment and holds a property which is currently under property enhancement project and is expected to be used as serviced apartments and shops	(4.20)	(4.96)
2	16 January 2017	DTXS Silk Road Investment Holdings Company Limited	620	Discloseable and connected transaction	(i) Arts and collections related business; (ii) auction business; (iii) financial e-commerce business; (iv) sale of vessels; (v) marine engineering; and (vi) construction and structural steel engineering and related services.	Property investment holding business, and holds (i) a property for hotel catering venue, shopping area, exhibition center and function room which provides offline retailing and shopper experience center for art and collections and the offline event venue for hosting regular events of exhibition, conference and auction in relation to the high-end arts and collections and (ii) the arts and cultural collectibles which include paintings and calligraphies of well-known art celebrities across the globe and have been common auction items in the auction houses in the PRC and overseas	(10.61)	(13.23)
3	19 January 2017	Guangdong Investment Limited	270	Discloseable and connected transaction	Investment holding, water resources, property holding and investment, hotel ownership and operation, hotel management, department store operation and investments in other infrastructure projects	Property investment and development	(4.30)	(2.70)
4	25 January 2017	Shun Tak Holdings Limited	242	Discloseable transaction, connected transaction	Property development, investment and management, hospitality, transportation and investment	Its principal asset is a property which is expected to have office, medical suites and retail components upon completion of asset enhancement works	(1.46)	(1.82)
5	9 February 2017	Madison Wine Holdings Limited	8057	Discloseable transaction, connected transaction	Sales of alcoholic beverages and provision of wine storage services	A corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO	(45.27)	(46.18)
6	5 April 2017	Trigiant Group Limited	1300	Discloseable and connected transaction	Research, development and sales of feeder cable series, optical fibre cable series and related products, flame-retardant flexible cable series, new-type electronic components and other accessories for mobile communications and telecommunications transmission	Principal asset is 87.5% equity interest in a company principally engaged in research and development, manufacturing and sale of optical fibre cables, special cable series, electronic components and communication equipment	(0.51)	(0.68)
7	12 April 2017	Vincent Medical Holdings Limited	1612	Discloseable and connected transaction	Manufacturing and sale of medical devices focusing on respiratory products, imaging contrast media power injector disposables, orthopedic and rehabilitation products	Design, research and development, manufacture, sales and marketing of a wide range of medical devices	17.02	15.30

No.	Date of initial announcement	Company	Stock Code	Type of transaction	Principal business of the listed company according to the announcement	Principal business of the target company according to the announcement	Premium/(Discount) of the issue price of respective consideration share over/(to) the closing price on last trading day *(Approximate %)*	Premium/(Discount) of the issue price of respective consideration share over/(to) the closing price on last 5 consecutive trading days preceding/up to and including the last trading day as stated in respective announcement *(Approximate %)*
8	24 April 2017	Youyuan International Holdings Limited	2268	Major and connected transaction	Manufacturing and trading of wrapping tissue paper, wall paper backing paper, copy paper and other specialty paper products	Manufacturing and distribution of wallpaper products with manufacturing facilities located in Zhangzhou, Fujian, the PRC.	15.00	13.64
9	25 May 2017	Fullshare Holdings Limited	607	Connected transaction	(a) property development, (b) tourism, (c) investment, (d) healthcare products and services business and (e) new energy business	Asset management, letting agency and hotel operation	(10.00)	(10.00)
10	24 July 2017	Goodbaby International Holdings Limited	1086	Major and connected transaction	Design, research and development, manufacture, marketing and sales of strollers children's car safety seats, cribs, bicycles and tricycles and other durable juvenile products	(i) The product development, brand management and distribution of leading Self-owned Brands in maternity and baby-care products and apparel products; and (ii) one of the largest retail networks for MBC Products in the PRC, and a leading omni-channel sales platform that provides customers with its Self-owned Brands in maternity and baby-care products, apparel products and the Group's durable juvenile products	6.40	5.10
11	28 December 2017	Beijing Gas Blue Sky Holdings Limited	6828	Major and connected transaction	(i) Natural gas for transportation; (ii) trading and distribution of natural gas; and (iii) city gas and other related products, such as sale of natural gas to residential, industrial and commercial users through pipelines and pipeline connection fees	Holds 29% equity interest in a company principally engaged in provision of port facilities for vessels, provision of cargo handling services, warehousing and loading services within the port area, and receiving, storage and re-gasification of liquefied natural gas	(1.96)	(4.94)
12	4 January 2018	V1 GROUP LIMITED	82	Major and connected transaction	Development of the tele-media business	Development and operation of online and/or mobile game applications, live streaming platforms and online mobile interactive game applications, online information platforms and related products of sports nature in the PRC	27.68	35.80
13	5 January 2018	Sino Biopharmaceutical Limited	1177	Major and connected transaction	Research and development, production and sale of a series of modernized Chinese medicines and chemical medicines for the treatment of hepatitis, cardio-cerebral diseases and other diseases	Developing, manufacturing and marketing high-technology pharmaceutical products in the PRC	(9.97)	(7.95)
				Mean			(1.71)	(1.74)
				Highest premium			27.68	35.80
				Highest discount			(45.27)	(46.18)
		The Company			Manufacture and sale of coal-related chemical products and generation and supply of power and steam	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	(10.34)	1.56

As shown in the above table, the issue price of the Share Issue Comparables ranged from (i) a discount of approximately 45.27% to a premium of approximately 27.68% over the respective closing prices of their shares on their respective last trading day (the "**Last Trading Day Price**") prior to the release of the relevant announcement in relation to such issue or the relevant agreement date relating to the respective issue, with an average discount of around 1.71%; and (ii) a discount of approximately 46.18% to a premium of approximately 35.80% over the respective closing prices of their shares over the last 5 consecutive trading days preceding/up to and including their respective last trading day as stated in respective announcement (the "**5 Days Average Price**"), with an average discount of approximately 1.74%. The Issue Price, which represents a discount of approximately 10.34% to the closing price of the Shares on the date of the Share Transfer Agreement and a premium of approximately 1.56% to the closing price of the Shares on the last 5 consecutive trading days up to and including the date of the Share Transfer Agreement, (i) falls within the range of and represents deeper discount to the average of the Last Trading Day Price, and (ii) falls within the range of and represents less discount to the 5 Days Average Price, respectively.

We also noted that one of the Share Issue Comparables, namely Madison Wine Holdings Limited (stock code: 8057) ("**Madison Wine**"), acquired a company with business entirely different from that of the existing business of Madison Wine, which is in similar case as that of the Acquisition. The issue price of Madison Wine represents (i) a discount of approximately 45.27% to the respective closing price of its shares on its respective last trading day; and (ii) a discount of approximately 46.18% to the respective closing price of its shares over the last 5 consecutive trading days preceding/up to and including its respective last trading day as stated in its respective announcement. The Issue Price represents less discount to the respective prevailing closing prices as compared to that of Madison Wine as mentioned above.

Although the discount of the Issue Price to the closing price of the Shares on the date of the Share Transfer Agreement represents deeper discount to the average of the Last Trading Day Price, having taken into consideration (i) though the loss from continuing operations and net current liabilities since the year ended 30 June 2013 have been improved for FY2016/17 and Six Months 2017/18, there was no obvious sign of turnaround as discussed in paragraph headed "1. Information of the Group" above; (ii) the deferred payment of the Consideration, the Guaranteed Financial Performance and the Put Option limit the Company's risk of losing from the Acquisition in the event that the future financial performance of the Target Group is not as anticipated; (iii) the Consideration (taking into account the payment terms) is fair and reasonable as discussed in paragraph headed "A. The Valuation" above; (iv) the Issue Price has a premium of approximately 12.07% over the average Closing Price during the Review Period; (v) that the discount represented by the Issue Price to the closing price of the Shares on the Last Trading Day and average closing price per Share for the last five consecutive trading days immediately preceding the date of the Share Transfer Agreement falls within the range of the Last Trading Day Price and the 5 Days Average Price respectively; (vi) that the premium represented by the Issue Price to the average closing price per Share for the last five consecutive trading days immediately preceding the date of the Share Transfer Agreement represents less discount to the average of the 5 Days Average Price; and (vii) the Issue Price represents less discount to the respective prevailing closing prices as compared to that of Madison Wine which is in similar situation as the Company (i.e. proposed to acquire a business entirely different from their existing business), we consider the Consideration (taking into account the payment terms) and the issue of the Consideration Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. Effect on shareholding structure

As set out in the section headed "Effect on shareholding structure" in the Board's Letter, the shareholding of the existing public Shareholders will decrease from approximately 73.35% to approximately 61.22% immediately after the allotment and issue of the Consideration Shares in full assuming no further issue or repurchase of the Shares by the Company before the allotment and issue of the Consideration Shares, representing a dilution by approximately 16.54%.

We noted that the allotment and issue of the Consideration Shares will result in a dilution effect for the public Shareholders. Nonetheless, having taken into account (i) the reasons for and benefits of the Acquisition as discussed in paragraph headed "3. Reasons for and benefits of the Acquisition" above; (ii) that the payment of the Consideration, the Guaranteed Financial Performance and the Put Option limit the Company's risk of losing from the Acquisition in the event that the future financial performance of the Target Group is not as anticipated; (iii) the Consideration and the Issue Price being fair and reasonable as discussed in paragraph headed "5.2 The Consideration" above; and (iv) the positive cash flow and earnings brought to the Group if the Guaranteed Financial Performance materialises as discussed in paragraph headed "7. Possible financial effects of the Acquisition" below, we are of the opinion that the dilution effects on shareholding of the existing public Shareholders are acceptable.

7. Possible financial effects of the Acquisition

Upon Completion, the Target Company and its subsidiaries will become wholly-owned subsidiaries of the Company and the financial result of the Target Group will be consolidated into the financial statements of the Group.

As set out in section headed "2.1 Background information and financial information of the Target Group" above, we noted that the Target Group has not recorded profit for the period from 14 December 2016 to 31 December 2017. The financial impact on the consolidated net profit attributable to Shareholders is minimal. Refer to the Put Option as set out in section "5.1 Payment terms" above, the loss attributable by the Target Group to the Group is maximised at approximately RMB5.0 million for the six months ended 31 December 2018. Nevertheless, if the Guaranteed Financial Performance materialises, positive cash flow shall be brought to the Group and the financial performance of the Group shall improve.

In view of that Consideration Shares would be issued as the Consideration, it is expected that the settlement of the Consideration would not have material impact on the financial position of the Group.

It should be noted that the above analyses are for illustrative purposes only and does not purport to represent how the actual financial position of the Group will be on the Completion Date. The actual financial effects to the Group will depend on the future financial performance of the Target Group.

8. Non-exempt Continuing Connected Transactions

The Target Company and its subsidiaries will become subsidiaries of the Company upon Completion, and accordingly certain ongoing transactions of the Target Group with Henan Xinyang Maojian, Xinyangshi Longtan and Xinyang Maojian Holding will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon Completion.

8.1 *China Xinyang Agreement*

Under the China Xinyang Agreement, the Suppliers agreed to supply Xinyang Maojian Tea Leaves to China Xinyang and Xinyang Shenzhen for sale on the e-commerce platforms in the PRC. The Suppliers authorized China Xinyang to act as its exclusive distributor on e-commerce platforms in PRC, including but not limited to Tianmao (天貓) and Jingdong (京東), and authorized Xinyang Shenzhen to carry out the sales operations of Xinyang Maojian Tea Leaves on such e-commerce platforms.

The Suppliers have undertaken to supply to China Xinyang:

(i) Xinyang Maojian Tea Leaves representing a value not less than RMB100 million in 2018;

(ii) Xinyang Maojian Tea Leaves representing a value not less than RMB200 million in 2019; and

(iii) Xinyang Maojian Tea Leaves representing a value not less than RMB500 million per year from 2020 to 2028.

As advised by the management of the Company, although the Suppliers have undertaken a minimum amount for the period from 2018 to 2028 as discussed above, the Target Group is not obliged or committed to purchase such amounts from the Suppliers i.e. those are not the minimum purchase amounts of the Target Group. Such minimum could provide more buffer for the Target Group to increase its purchases in light of the significant development of the e-commerce sales platforms.

China Xinyang and/or Xinyang Shenzhen shall place the individual orders with the Suppliers by issuing a written order to the Suppliers stating the quantity, price and details of delivery. The Suppliers shall arrange for the manufacturing and delivery of products after receiving such orders from China Xinyang and/or Xinyang Shenzhen.

Under the China Xinyang Agreement, China Xinyang agreed to promote the products supplied by the Suppliers and bear the advertising costs.

The Suppliers agreed to provide the suggested retail price of the various Xinyang Maojian products to China Xinyang and Xinyang Shenzhen. China Xinyang and Xinyang Shenzhen may adjust the retail price of the Xinyang Maojian products in accordance with the circumstances of the market, and shall report the adjusted retail price of the Xinyang Maojian products to the Suppliers.

China Xinyang has been authorized to use trademarks (trade names and logos), patents, copyrights and trade secrets owned by the Suppliers at nil consideration for the purpose of sales of Xinyang Maojian products.

(i) *Term*

The term of the China Xinyang Agreement shall be 10 years, commencing on 5 January 2018 to 5 January 2028.

As advised by the management of the Company, to make sure the continuous and stable supply of the products from the Suppliers and to give more flexibility and control to the Company on the pricing, the parties further agreed that the pricing mechanism would be reviewed once every three years taking into account the then situation of the tea market. As set out in paragraph headed "(iii) Annual caps" in this section below, the proposed annual caps for China Xinyang Agreement are for each of the period commencing on the Sale Share Transfer Date to 30 June 2019 and for the two years ending 30 June 2021. The Company will set the new annual caps for the remaining period of the China Xinyang Agreement when the annual cap for the year ending 30 June 2021 expires and will comply with all applicable requirements under Chapter 14A of the Listing Rules.

(ii) *Pricing basis*

The Suppliers shall supply Xinyang Maojian Tea Leaves to China Xinyang at the ex-factory price. The ex-factory price is constituted by the cost of production, value-added tax and packaging costs. As advised by the Company and based on information available from the Vendor and the Target Group, the above pricing basis was determined at retail market price less discount of more than 50% after arm's length negotiation between the parties.

We are given to understand from the management of the Company that the products purchased in China Xinyang Agreement is for retailing. As such, the pricing basis is based on the practice in retail market.

The tea products of the Target Company have been sold in physical stores. As advised by the management of the Company, the average wholesale price of the products offered by the Suppliers to other retailers represents discount of approximately 20% to 40% to the average retail selling price in physical stores with reference to the pricing policy of the Suppliers. Based on the pricing policy of Xinyang Maojian Holding dated 26 March 2018 provided by the management of the Company, we noted that the suggested selling price to retailers represents discount of 40% with the selling price to end customers. The discount provided by the Suppliers to the Target Company of more than 50% is more favorable as compared with the discount offered by the Suppliers to other retailers as discussed above. We are advised by the management of the Company that it will obtain random samples of the invoices issued by the Suppliers to other retailers once a month and check whether the products sold to the Target Company is not higher than that to the other retailers.

We are advised by the management of the Company that a price list of the products of the Target Company will be prepared every month. Based on such price list, the Company will (i) check the retail price of each of the products with the selling price of respective products in physical store to ensure the retail price of the products offered by the Target Company is in line with market practice; and (ii) compare the purchase price of each product with the retail price to ensure the respective purchase price is not higher than 50% of the retail price which meets the pricing basis.

Based on the above, we consider the pricing basis is fair and reasonable and the procedures to be adopted by the Company can ensure the pricing basis as discussed above.

(iii) *Annual caps*

The proposed annual caps for the China Xinyang Agreement for each of the period commencing on the Sale Share Transfer Date to 30 June 2019 and for the two years ending 30 June 2021 are RMB54,000,000 (equivalent to approximately HK$65,000,000), RMB81,000,000 (equivalent to approximately HK$97,000,000) and RMB114,000,000 (equivalent to approximately HK$136,000,000) respectively.

The above annual caps are different from those disclosed in the First Announcement as they have been revised after additional diligence exercise on the Target Group and the revised caps are determined with reference to the following factors:

(i) the estimated purchase for the period commencing from the Sale Share Transfer Date to 30 June 2019 and for each of the year ending 30 June 2020 and 30 June 2021; and

(ii) the estimated growth rates for each of the year ending 30 June 2020 and 30 June 2021 which are expected to be 50% and 40% respectively.

We noted from the management of the Company that the annual caps for each of the period commencing on the Sale Share Transfer Date to 30 June 2019 and for the two years ending 30 June 2021 are based on the revenue assumption of the Forecast and the pricing basis (i.e. retail market price less discount of more than 50%) as discussed in this section above, together with buffer of approximately 20% added. We have examined the calculation for reaching the annual caps based on the above formula and have not found any discrepancy. As advised by the management of the Company, a buffer of 20% is included for any unexpected growth of sales in some shopping festivals including but not limited to Chinese New Year and Double Eleven. In the event that not enough products are provided by the Suppliers, the Target Company cannot deliver products to its customers and the creditability of the Target Company will be adversely affected. As such, we consider such buffer ensure the capability of the Target Group to deliver products to customers due to unexpected growth of sales in some shopping festivals.

Taking into account (i) the fair and reasonableness of the pricing basis as discussed above; (ii) that the annual caps are based on the Forecast and such growth rates are based on the Forecast growth rate; and (iii) the buffer of 20% can ensure the capability of the Target Group to deliver products to customers due to unexpected growth of sales in some shopping festivals, we consider the annual caps are fair and reasonable.

The Company will set the new annual caps for the remaining period of the China Xinyang Agreement when the annual cap for the year ending 30 June 2021 expires and will comply with all applicable requirements under Chapter 14A of the Listing Rules.

8.2 ***Xinyang Overseas Agreement***

Under the Xinyang Overseas Agreement, the Suppliers agreed to supply Xinyang Maojian Tea Leaves to Xinyang Overseas for sale in places outside the PRC, and authorized Xinyang Overseas to act as its exclusive global distributor (outside of the PRC).

The Suppliers have undertaken to supply Xianyang Maojian Tea Leaves representing a value not less than RMB200 million per year to Xinyang Overseas. Xinyang Overseas shall place the individual orders with the Suppliers by issuing a written order to the Suppliers stating the quantity, price and details of delivery. The Suppliers shall arrange for the manufacturing and delivery of products after receiving such orders from Xinyang Overseas.

Under the Xinyang Overseas Agreement, Xinyang Overseas agreed to promote the products supplied by the Suppliers and to bear the advertising costs.

The Suppliers agreed to provide the suggested retail price of the various Xinyang Maojian products to Xinyang Overseas. Xinyang Overseas may adjust the retail price of the Xinyang Maojian products in accordance with the circumstances of the market, and shall report the adjusted retail price of the Xinyang Maojian products to the Suppliers.

Xinyang Overseas has been authorized to use trademarks (trade names and logos), patents, copyrights and trade secrets owned by the Suppliers at nil consideration for the purpose of sales of Xinyang Maojian products.

(i) *Term*

The term of the Xinyang Overseas Agreement shall be 10 years, commencing on 5 January 2018 to 5 January 2028.

As advised by the management of the Company, to make sure the continuous and stable supply of the products from the Suppliers and to give more flexibility and control to the Company on the pricing, the parties further agreed that the pricing mechanism would be reviewed once every three years taking into account the then situation of the tea market. As set out in paragraph headed "(iii) Annual caps" in this section below, the proposed annual caps for Xinyang Overseas Agreement are for each of the period commencing on the Sale Share Transfer Date to 30 June 2019 and for the two years ending 30 June 2021. The Company will set the new annual caps for the remaining period of the Xinyang Overseas Agreement when the annual cap for the year ending 30 June 2021 expires and will comply with all applicable requirements under Chapter 14A of the Listing Rules.

(ii) *Pricing basis*

The Suppliers shall supply the Xinyang Maojian Tea Leaves to Xinyang Overseas at the ex-factory price. The ex-factory price constitutes the cost of production, the value-added tax and the packaging costs. As advised by the Company and based on information available from the Vendor and the Target Group, the above pricing basis was determined at cost plus a markup of no more than 10% as determined after arm's length negotiation between the parties.

We are given to understand from the management of the Company that the products purchased in Xinyang Overseas Agreement is for wholesaling. As such, the pricing basis is based on the practice in wholesale market.

As discussed above, Xinyang Overseas shall be act as the exclusive global distributor of Xinyang Maojian Tea Leaves (outside of the PRC). We understood from the management of the Company that it has obtained a cost range regarding the Suppliers' cost of production. Based on such cost range, the Company will monitor the purchase price of the products once a month. If it is noted that the purchase price does not meet with the pricing basis and the cost range of the Suppliers, the management of the Company will request the Suppliers to provide supporting for the Suppliers' cost for the Company's reference.

Based on the above, we consider the pricing basis is fair and reasonable and the procedures to be adopted by the Company can ensure the pricing basis as discussed above.

(iii) *Annual caps*

The proposed annual caps for the Xinyang Overseas Agreement for each of the period commencing on the Sale Share Transfer Date to 30 June 2019 and for the two years ending 30 June 2021 are RMB25,500,000 (equivalent to approximately HK$30,600,000), RMB32,300,000 (equivalent to approximately HK$38,760,000) and RMB47,175,000 (equivalent to approximately HK$56,610,000) respectively.

The annual caps are determined with reference to the following factors:

(a) the estimated purchase for the period commencing on the Sale Share Transfer Date to 30 June 2019 and for each of the year ending 30 June 2020 and 30 June 2021. As advised by the management of the Company, as referred to the Vendor, the Target Company has already approached the tea wholesalers in Japan and Taiwan and the Target Company proposes to contact Korea wholesaler later. The Target Company has not entered into agreements or intention letters with the overseas tea wholesalers. The estimated purchase is based on the preliminary negotiations between the Target Company and the overseas tea wholesalers; and

(b) the estimated growth rates for each of the year ending 30 June 2020 and 30 June 2021 are expected to be 26% and 46% respectively. As advised by the management of the Company, the growth rates are based on estimation of growth in sales in various locations.

Taking into account (i) the fair and reasonableness of the pricing basis as discussed above; (ii) the growth in volume and value of export of tea leaves from the PRC of approximately 1.15% and 7.45% respectively from 2015 to 2016 as discussed in paragraph headed "2.3 Industry overview on the e-commerce and tea leaves market and export in the PRC" above and the business of the Target Group is in start-up stage, which may have higher growth potential; (iii) the Target Company will only purchase from the Suppliers after receiving orders from overseas wholesalers, which ensures that the Target Company can obtain profit from the overseas wholesalers; and (iv) a cap on the tea business relating to the transactions between the Group and the Suppliers so that the revenue to be derived from the tea business with the Suppliers shall not be more than 45% of the total revenue of the Group as shown in the consolidated audited financial statements of the Company for each of the three years ending 30 June 2021 as disclosed in the Board's Letter, we consider the annual caps are fair and reasonable.

The Company will set the new annual caps for the remaining period of the Xinyang Overseas Agreement when the annual cap for the year ending 30 June 2021 expires and will comply with all applicable requirements under Chapter 14A of the Listing Rules.

8.3 *Internal control*

As advised by the management of the Company, the Company has assigned the Account Department to review, on a monthly basis, the Non-exempt Continuing Connected Transactions to make sure all transactions are conducted in accordance to the agreed terms including the pricing policy and within annual caps.

For internal control procedures on pricing basis, please refer to the paragraph headed "(ii) Pricing basis" under section headed "8.1 China Xinyang Agreement" and "8.2 Xinyang Overseas Agreement" for details.

For internal control procedures on annual caps, we understood from the management of the Company that monthly purchases were set according to the Forecast. Once the actual purchases amount was higher than the estimated amount, the Account Department should notify the executive of the Company, and the executive of the Company would keep monitoring the purchase amount. If the actual purchase amount is higher than the estimated amount by more than 20%. The executive should notify the Board to consider if the pricing policy and the cap should be revised and whether approval is required.

As disclosed in the Board's Letter, the Company considers that the business of the Target Group (distributing Chinese tea), which would contribute RMB90 million in revenue the first year of the valuation period (from 1 July 2018 to 30 June 2019), would provide business diversity, great potential and more long-term development, and such revenue which would supplement the Group's financial performance. To reduce the potential reliance on the tea business, the revenue to be derived from the tea business with the Suppliers shall not be more than 45% of the total revenue of the Group as shown in the consolidated audited financial statements of the Company for each of the three years ending 30 June 2021 and the Company will announce its plan to explore opportunities to diversify its suppliers base (other than the Suppliers) for the tea business as and when appropriate. If the revenue to be derived from the Suppliers exceeds the aforesaid proposed cap, the Company will inform the Stock Exchange and comply with the applicable Listing Rules at the relevant time.

As disclosed in the Board's Letter, the Company will review the Group's management accounts on a monthly basis to ensure that the 45% cap would not be exceeded. If the Company becomes aware that 45% cap is so exceeded, the Company shall stop selling those tea products from the Suppliers immediately till the revenue percentage from the tea products sourced from the Suppliers drops below 45% again. We consider the above internal control procedure can ensure the revenue to be derived from the Target Group is monitored by the Company and such internal control procedure is able to comply with the 45% cap as mentioned above.

Based on the above, we consider the internal control procedures of the Company enable the actual purchase price of the products is in line with the pricing basis, and that the annual caps are being monitored.

Having taken into account (i) the reasons for entering into the Acquisition; (ii) the positive prospect of e-commerce and tea leaves market; (iii) that the entering into the China Xinyang Agreement and the Xinyang Overseas Agreement is a must for the Target Company to conduct business and thus, achieving the Guaranteed Financial Performance; (iv) that the terms of the China Xinyang Agreement and the Xinyang Overseas Agreement (including the pricing basis and determination of the annual caps) are fair and reasonable; and (v) internal controls to be performed by the Company to ensure the pricing basis and the annual caps, we consider the Non-Exempt Continuing Connected Transactions and the proposed annual caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, despite the possible dilution effect to the existing public Shareholder, after taking into account:

(i) the negative financial performance and position of the Group, which indicates no obvious sign of turnaround;

(ii) the positive prospect of e-commerce and tea leaves market;

(iii) the long history and reputation of Xinyang Maojian Tea Leaves in the PRC, in particular, based on our understanding from the Internet, Xinyang Maojian Tea Leaves ranked top ten of the tea leaves in the PRC;

(iv) that the deferred payment of the Consideration, the Guaranteed Financial Performance and the Put Option limit the Company's risk of losing from the Acquisition in the event that the future financial performance of the Target Group is not as anticipated;

(v) that regarding the capability of the Suppliers for providing products to the Target Group, the Directors will monitor the status of the Suppliers (including but not limited to the status of their litigation and the status of operation) from time to time and report to the Board. Thus, it is assumed that the Company shall ensure the Suppliers being able to continue to perform its duty under the China Xinyang Agreement and the Xinyang Overseas Agreement for not exercising the Put Option and issuing the Consideration Shares;

(vi) that assuming the promotion plan of the Target Group will be success, and thus the Guaranteed Financial Performance, which is a result of the net of revenue and costs of the Target Group, will be achieved, we noted that (a) the percentage of costs (including costs of goods sold and selling and distribution expenses) to revenue of the Target Group is within the range and close to the average of that of the Comparable Companies; and (b) the P/E Ratio of the Target Company of approximately 5.5 times at the time of the payment of Consideration is expected to be far below that of the Comparable Company which recorded profit attributable to owners of the Company for the latest financial year. As such, the Consideration (taking into account the payment terms) and the Issue Price are fair and reasonable;

(vii) the positive cash flow and earnings to be brought to the Group if the Guaranteed Financial Performance materialises;

(viii) that the entering into the China Xinyang Agreement and the Xinyang Overseas Agreement is a must for the Target Company to conduct business and thus, achieving the Guaranteed Financial Performance;

(ix) that the terms of the China Xinyang Agreement and the Xinyang Overseas Agreement (including the pricing basis and determination of the annual caps) are fair and reasonable; and

(x) internal controls to be performed by the Company to ensure the pricing basis and the annual caps of the Non-exempt Continuing Connected Transactions,

although the entering into the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the Non-Exempt Continuing Connected Transactions is not in the ordinary and usual course of business of the Group, we consider that (i) the terms of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate), are on normal commercial terms, are fair and reasonable so far as the Independent shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) the Non-Exempt Continuing Connected Transactions and the proposed annual caps are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise (i) the Independent Board Committee to recommend the Independent Shareholders and (ii) the Independent Shareholders to vote in favour of the ordinary resolutions to approve relevant resolutions at the SGM.

Yours faithfully,
For and on behalf of
Nuada Limited
Kim Chan
Executive Director

Mr. Kim Chan is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 16 years of experience in corporate finance industry.

The following is the text of a letter from the Board in respect of the Profit Forecast.

5 January 2018

Listing Department
The Stock Exchange of Hong Kong Limited
11th Floor,
One International Finance Centre
1 Harbour View Street
Hong Kong

Dear Sirs,

Discloseable Transaction — Acquisition of Xinyang Maojian International Holding Limited (the "Target Company") by Prosper Path Limited involving the issue of Consideration Shares under Specific Mandate

We refer to the announcement of the Company dated 5 January 2018 in relation to, among other things, the captioned transaction (the "**Announcement**"). Unless the context otherwise requires, defined terms used herein shall have the same meanings as those defined in the Announcement.

We refer to the valuation report dated 5 January 2018 issued by the Valuer regarding the valuation of 100% equity interests in the Target Company as at 15 December 2017 (the "**Valuation**"), which constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the Valuer about different aspects including the bases and assumptions based upon which the Valuation has been prepared, and reviewed the Valuation for which the Valuer is responsible. We have also considered the report dated 5 January 2018 from Elite Partners CPA Limited, our reporting accountants, regarding the discounted future estimated cash flows, so far as the calculations are concerned, has been properly complied with the bases and assumptions. We have noted that the Profit Forecast in the Valuation are mathematically accurate and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

On the basis of the foregoing, we are of the opinion that the Profit Forecast prepared by the Valuer has been made after due and careful enquiry.

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

The following is the text of a letter from the Company's reporting accountants in respect of the Profit Forecast.

5 January 2018

The Board of Directors
China Zenith Chemical Group Limited
Room 4007, 40/F.,
China Resources Building,
26 Harbour Road, Wanchai, Hong Kong

Dear Sirs,

China Zenith Chemical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group")

Comfort letter on profit forecast underlying the valuation of the acquisition of the 100% equity interest of Xinyang Maojian International Holding Limited (the "Target Company") and its subsidiaries (the "Target Group") (the "Acquisition") in connection with discloseable and connected transaction of the Group

We report on the calculations of the discounted future estimated cash flows on which the valuation (the "**Valuation**") report dated 5 January 2018 prepared by Rivia Global Appraisal Advisory Limited in respect of the Valuation of the transaction in connection with proposed acquisition of the 100% equity interest of the Target Company and its subsidiaries, as published in the Company's announcement dated 5 January 2018 (the "**Announcement**"). Capitalised terms used in this letter have the same meanings as defined in the Announcement of the Company dated 5 January 2018 unless the context otherwise requires.

The Valuation which is determined based on the discounted cash flows and is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND THE REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows for the Valuation which is regarded as a profit forecast under Rule 14.62 of the Listing Rules.

It is our responsibility to report, as required by Rule 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. The discounted future estimated cash flows do not involve the adoption of accounting policies.

The discounted future estimated cash flows depend on future events and on a number of bases and assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Consequently, we have not reviewed, considered or conducted any work on the appropriateness and validity of the bases and assumptions and express no opinion on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows, and thus the Valuation, are based.

BASIS OF OPINION

We carried out our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Forecast in accordance with the assumptions made by the directors and as to whether the Profit Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We accept no responsibility to any other person in respect of, arising out of in connection with our work. Our work does not constitute any valuation of the Acquisition. Accordingly, we do not express an audit opinion.

OPINION

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company.

Yours faithfully,

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Interests in Shares of the Company (Long Position):

Name	Capacity	Number of Shares held	Approximate percentage of issued capital of the Company
Ms. Chan Yuk Foebe	Beneficial Interest	7,170,000	0.65%

Interests in Share Options of the Company:

Name	Capacity	Number of Shares held	Approximate percentage of issued capital of the Company
Ms. Chan Yuk Foebe	Beneficial Interest	10,780,000	0.97%
Mr. Law Tze Ping Eric	Beneficial Interest	10,780,000	0.97%

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or proposed Director and chief executives of the Company and their respective associates had or was deemed to have any interests or short positions in any Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

The Directors confirm that there is no contract or arrangement subsisting at the date hereof in which a Director is materially interested and which was significant in relation to the business of the Group.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or proposed Director had any interest, direct or indirect, in any asset which, since 30 June 2017, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or proposed Director was a director or employee of a company which had any interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors, the interests of substantial shareholders (as defined in the Listing Rules) in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long Position in Shares:

Name	**Capacity**	**Number of Shares held (Long Position)**	**Approximate percentage interest**
Mr. Chan Yuen Tung	Beneficial owner	288,721,111	26.00%

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, Mr. Chan Yuen Tung (other than Directors or chief executives of the Company) was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Save as disclosed herein, there is no person known to the Directors, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors has entered or proposed to enter into a service contract with any member of the Group which is not terminable by the employer within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 30 June 2017, the date to which the latest published audited financial statements of the Group were made up.

6. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the experts who have given an opinion or advice contained in this circular:

Name	**Qualification**
Nuada Limited	A licensed corporation under the SFO licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ravia Global Appraisal Advisory Limited	Professional valuer
Elite Partners CPA Limited	Certified Public Accountants

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, each of Nuada Limited, the Valuer and Elite Partners is a third party independent of the Group and is not a connected person of the Group. As at the Latest Practicable Date, neither Nuada

Limited, the Valuer nor Elite Partners has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group.

Each of Nuada Limited, the Valuer and Elite Partners has given and has not withdrawn its respective written consent to the publication of this circular with inclusion of its opinion, advice, letters, reports and/or all references to its name included in this circular in the form and context in which it appears in this circular.

As at the Latest Practicable Date, none of the Directors or experts had any interest, direct or indirect, in any assets which since 30 June 2017, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or proposed Director and his/her respective associates has an interest in a business apart from the Company's business which competes or may compete, either directly or indirectly, with the Company's business.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of China Zenith Chemical Group Limited at Room 4007, 40/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the SGM:

(i) the Share Transfer Agreement;

(ii) the Supplemental Agreement;

(iii) the letter from the Vendor dated 18 July 2018 waiving its right to nominate a Director;

(iv) letter from Nuada Limited, the text of which is set out on pages 42 to 83 of this circular;

(v) the China Xinyang Agreement;

(vi) the Xinyang Overseas Agreement;

(vii) the letters on profit forecast from the Board and Elite Partners as set out in Appendix I to this circular;

(viii) the letter from the Board, the text of which are set out on pages 8 to 39 of this circular;

(ix) the letter from the Independent Board Committee, the text of which are set out on pages 40 to 41 of this circular;

(x) the written consents of the experts referred to in the section headed "Experts and Consents" in this appendix; and

(xi) this circular.

10. MISCELLANEOUS

In case of any discrepancy, the English text of this circular and the form of proxy shall prevail over the Chinese text.

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

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

(Stock Code: 362)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT a special general meeting of China Zenith Chemical Group Limited (the "**Company**") will be held at Room 4007, 40/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, on Wednesday, 15 August 2018 at 4:00 p.m. for the purpose of considering and, if though fit, pass with or without amendments, the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the entering into of the share transfer agreement dated 5 January 2018 (the "**Share Transfer Agreement**" and the supplemental agreement dated 11 June 2018 (the "**Supplemental Agreement**"), a copy of each has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) between Prosper Path Limited as the Purchaser (the "**Purchaser**") and Dragon Wise Group Limited as the Vendor (the "**Vendor**") pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire share capital of Xinyang Maojian International Holding Limited (the "**Target Company**") as are more particularly described in the circular of the Company dated 23 July 2018 (the "**Circular**") at a consideration of HK$85,800,000, which shall be paid by allotment and issue of 220,000,000 shares of the Company of HK$0.10 each (the "**Consideration Shares**" and each a "**Consideration Share**") by the Company to the Vendor respectively at an issue price of HK$0.39 per Consideration Share through a delayed settlement mechanism as described in more details in the Supplemental Agreement, and the transactions contemplated thereunder be approved, confirmed and ratified;

(b) the allotment and issue of the Consideration Shares by the Company to the Vendor on the terms and subject to the conditions of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) be approved and subject to the Listing Committee of The Stock Exchange of Hong Kong Limited having granted the listing of, and permission to deal in, the Consideration Shares, the directors of the Company be hereby granted the specific mandate (the "**Specific Mandate**") which shall entitle the directors of the Company (the "**Directors**") to allot and issue the Consideration Shares credited as fully paid, on the terms and subject to the conditions of the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement), provided that the grant of the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the directors of the Company prior to the passing of this resolution; and

(c) the Directors be and are hereby authorized for an on behalf of the Company to do all such acts and things and to sign and execute (under hand, under the common seal of the Company or otherwise as a deed) all such documents which he/she may in his/her sole and absolute discretion consider necessary, desirable or expedient to implement or give effect to any matters arising from, relating to or incidental to the Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares."

2. "**THAT**:

(a) the China Xinyang Agreement (as defined in the Circular, a copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be approved;

(b) the annual caps in relation to the China Xinyang Agreement as stated in the Circular, for each of the period commencing on the Sale Share Transfer Date (as defined in the Circular) until 30 June 2019 and for the two years ending 30 June 2021, be approved; and

(c) the Directors be and are hereby authorised to execute all such documents and do all such acts and things and to sign all documents and to take any steps as they consider desirable, necessary or expedient in connection with and to give effect to the China Xinyang Agreement and the transactions contemplated thereunder."

3. "**THAT**:

(a) the Xinyang Overseas Agreement (as defined in the Circular, a copy of which has been produced to the meeting marked "C" and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be approved;

(b) the annual caps in relation to the Xinyang Overseas Agreement as stated in the Circular, for each of the period commencing on the Sale Share Transfer Date (as defined in the Circular) until 30 June 2019 and for the two years ending 30 June 2021, be approved; and

(c) the Directors be and are hereby authorised to execute all such documents and do all such acts and things and to sign all documents and to take any steps as they consider desirable, necessary or expedient in connection with and to give effect to the Xinyang Overseas Agreement and the transactions contemplated thereunder."

SPECIAL RESOLUTIONS

4. "**THAT**:

(a) subject to and conditional upon the necessary approval of the Registrar of Companies in Bermuda having been obtained and the completion of the Share Transfer Agreement, the existing primary name of the Company be changed to "Xinyang Maojian Group Limited" from "China Zenith Chemical Group Limited" and the existing secondary name of the Company be changed to "信陽毛尖集團有限公司" from "中國天化工集團有限公司" (collectively, the "**Change of Company Name**"); and

(b) any Director be and is hereby authorized to arrange for the implementation and giving effect to the Change of Company Name, deal with and handle the compliance with the related legal and regulatory requirements (including all necessary registration and filing) and all related and incidental matters and do all acts, deeds and things which he/she deems necessary, desirable, appropriate or expedient for such purpose, including the making of any necessary certification, signing for and on behalf of the Company any related document, notice and correspondence, and where necessary affixing the common seal of the Company thereto."

Yours faithfully,
For and on behalf of the Board
China Zenith Chemical Group Limited
Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong, 23 July 2018

As at the date hereof, 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.

Notes:

(i) Unless otherwise defined in this notice or the context requires otherwise, terms defined in the Circular shall have the same meanings when used in this notice.

(ii) Members of the Company whose names appear on the register of members maintained by the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 22/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at 4:30 p.m. on Friday, 10 August 2018 shall qualify for attending and voting at the special general meeting. The register of members of the Company will be closed from Saturday, 11 August 2018 to Wednesday, 15 August 2018 (both days inclusive), during which period no share transfer will be registered. In order to qualify to attend and vote on the proposed resolutions set out in this notice, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch Share registrar in Hong Kong, Tricor Tengis Limited at 22/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Friday, 10 August 2018.

(iii) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if he is a holder of more than one share) to attend and vote on his behalf. A proxy needs not be a member of the Company.

The instrument appointing a proxy and the power of attorney or other, if any, under which it is signed, or a notarially certified copy of such power of attorney or other authorisation document(s), must be lodged with the Company's branch Share registrar in Hong Kong, Tricor Tengis Limited, at 22/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

(iv) Completion and return of the proxy form will not preclude shareholders of the Company from attending and voting in person at the SGM, or any adjourned meeting, should they so wish.

(v) Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), all votes of shareholders at the SGM will be taken by poll except where the chairman of the SGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Company will announce the results of the poll in the matter prescribed under Rule 13.39(5) of the Listing Rules.