

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

DISCLOSEABLE TRANSACTION IN RELATION TO

THE ACQUISITION OF THE EQUITY INTEREST IN 牡丹江金陽市政工程有限公司 (MUDANJIANG JINYANG MUNICIPAL ENGINEERING COMPANY LIMITED*)

THE ACQUISITION

The Board is pleased to announce that on 5 June 2017 (after trading hours), the Purchaser (an indirect wholly-own subsidiary of the Company) and the Vendors entered into the Equity Transfer Agreement pursuant to which the Purchaser has agreed to acquire and Vendors have agreed to sell 100% of the Equity Interest at a total consideration of RMB64,000,000 (equivalent to approximately HK\$71,910,000).

Upon completion of the Acquisition, the Purchaser will own 100% of the Equity Interest in the Target Company and the Target Company will become an indirect wholly-owned subsidiary of the Company, and the financial results of the Target Company will be consolidated into the Group from the Completion Date.

LISTING RULES IMPLICATIONS

As the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but exempted from shareholders' approval requirement under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 5 June 2017 (after trading hours), the Purchaser (an indirect wholly-own subsidiary of the Company) and the Vendors entered into the Equity Transfer Agreement pursuant to which the Purchaser has agreed to acquire and Vendors have agreed to sell 100% of the Equity Interest at a total consideration of RMB64,000,000 (equivalent to approximately HK\$71,910,000).

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are as follows:

Date: 5 June 2017 (after trading hour)

Parties: (1) The Purchaser; and
(2) The Vendors.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendors are Independent Third Parties.

Assets to be acquired

100% of the Equity Interest.

Consideration and payment terms

Subject to the adjustment as set out in the section headed “Completion” below, the Consideration shall be settled by the Purchaser in cash as follows:

- (1) the Consideration shall be payable by the Purchaser in instalments following one year after of the Completion Date. The Purchaser will provide a guarantee to the Vendors for one year to guarantee the full settlement of the Consideration.
- (2) the amount of the unpaid Consideration shall be regarded as a loan granted by the Vendors in favour of the Purchaser, and the Purchaser shall pay an interest to the Vendors for a rate of 2% per annum which will accrue from the Completion Date.

Basis of the Consideration

The Consideration was determined based on the arm’s length negotiations between the Vendors and the Purchaser after taking into account the financial information of the Target Company and development strategies of the Group.

The Company intends to utilise its internal resources to finance the Consideration.

Completion

After the signing of the Equity Transfer Agreement, the Vendor shall deliver all necessary documents for registration of the transfer of the Equity Interest, and the Vendor and the Purchaser shall attend the registration of transfer of the Equity Interest and change of directors and supervisors at the Administration of Industry and Commerce of Mudanjiang City, Heilongjiang Province, the PRC within 10 Working Days after the signing of the Equity Transfer Agreement.

Upon completion of the Acquisition, the Purchaser will own 100% of the Equity Interest and the Target Company will become an indirect wholly-owned subsidiary of the Company, and the financial results of the Target Company will be consolidated into the Group from the Completion Date.

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.

The Purchaser, an indirect wholly-owned subsidiary of the Company, was established in the PRC with limited liability and is principally engaged in manufacture and sale of Calcium Carbide and investment holding activities.

INFORMATION OF THE TARGET COMPANY

The Target Company was established in the PRC with limited liability on 12 April 2010 and is principally engaged in public facilities construction in Mudanjiang City, Heilongjiang Province, the PRC. The Target Company obtained the “Qualification Certificate for Construction Enterprises” (建築業企業資質證書) in respect of Main Contractor for Building Construction — Second Grade (建築工程施工總承包二級), Main Contractor for Municipal Public Works — Second Grade (市政公用工程師工總承包二級) and Professional Contractor for Urban and Street Lighting Projects — Third Grade (道路照明工程專業承包三級) in 2016. From 2014, it has been engaged by the Group to construct the heat exchange stations and facilities and pipeline networks for heat supply in Mudanjiang City, Heilongjiang Province, the PRC.

Set out below is a summary of the financial information extracted from the unaudited financial statements of the Target Company for the financial year ended 31 December 2015 and 31 December 2016:

	For the year ended	
	31 December	
	2015	2016
	unaudited	unaudited
	RMB'000	RMB'000
Net profit before taxation	6,362	7,069
Net profit after taxation	5,853	6,864
	As at 31 December	
	2015	2016
	unaudited	unaudited
	RMB'000	RMB'000
Total assets	124,876	101,690
Net assets	53,444	59,297

REASONS FOR AND BENEFIT OF THE PROPOSED ACQUISITION

Supply of heat and power is one of the important business segments of the Company and the Board believes that this segment will be the growth driver of the Group provided that the coal price remains stable. To further develop this area, the Group will need to expand heat supply network, and therefore will need to construct heat exchange stations and facilities and pipeline networks to support the expansion. Besides, the Board believes that the Heilongjiang Province will be a key window in the Belt and Road Initiative and plays a pivotal role for the China-Mongolia-Russia Economic Corridor, and as such the Heilongjiang Province will experience a rapid growth in demand for infrastructure projects, and the Target Company, being a company principally engaged in public facilities construction in Heilongjiang Province, is able to capture the opportunities arising from the Belt and Road Initiative.

The Board believes that the Acquisition will provide an investment opportunity for the Group to enter into the construction industry in the PRC, which will diversify the business stream of the Group and benefit from the growth and opportunities arising from the Belt and Road Initiative.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Transfer Agreement are fair and reasonable and the entering into the Equity Transfer Agreement is in the interests of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but exempted from shareholders' approval requirement under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings ascribed to them below:

“Acquisition”	the acquisition of 100% of the Equity Interest by the Purchaser pursuant to the Equity Transfer Agreement
“Board”	the board of Directors
“Company”	China Zenith Chemical Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Completion Date”	the completion of the registration of transfer of the Equity Interest at the Administration of Industry and Commerce of Mudanjiang City, Heilongjiang Province, the PRC and 60 Working Days after the signing of the Equity Transfer Agreement
“Consideration”	RMB64,000,000 (equivalent to approximately HK\$71,910,000), being the total consideration for the Acquisition under the Equity Transfer Agreement
“Directors”	the directors of the Company
“Equity Interest”	the equity interest in the Target Company
“Equity Transfer Agreement”	the equity transfer agreement dated 5 June 2017 entered into between the Purchaser and Vendors in relation to the Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administration Region of the People's Republic of China

“Independent Third Party(ies)”	Third parties who are independent of and not connected with the Company or its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Purchaser”	牡丹江日達化工有限公司 (Mudanjiang Daytech Chemical Limited*), a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 30 December 2006 and an indirect wholly-own subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	牡丹江金陽市政工程有限公司 (Mudanjiang Jinyang Municipal Engineering Company Limited*), a company established in the PRC with limited liability on 12 April 2010
“Vendors”	Mr. Zhu Changjun (朱長軍) and Ms. Zhu Aiying (朱愛影)
“Working Day(s)”	Monday to Friday, excluding public holidays and statutory holidays in the PRC
“%”	per cent.

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

Hong Kong, 5 June 2017

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.

* *for identification purpose only*