

CHINA ZENITH CHEMICAL GROUP LIMITED

Room 4007, 40/F., China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong

28 April 2023

To the Shareholders,

Dear Sir or Madam,

- (1) PLACING OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;**
- (2) PROPOSED REFRESHMENT OF GENERAL MANDATE;**
- (3) PROPOSED REFRESHMENT OF THE LIMIT ON THE GRANT OF
OPTIONS UNDER THE SHARE OPTION SCHEME;**
- AND**
- (4) NOTICE OF SGM**

INTRODUCTION

Reference is made to the Announcement in relation to, among others, the CB Placing, the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit.

The purpose of this circular is to give you among other things, (i) further details of the CB Placing; (ii) further details of the proposed Refreshment of General Mandate, including the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the proposed Refreshment of General Mandate and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed Refreshment of General Mandate; (iii) further details of the proposed Refreshment of Scheme Mandate Limit, including the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the proposed Refreshment of Scheme Mandate Limit and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed Refreshment of Scheme Mandate Limit; and (iv) a notice convening the SGM.

PLACING OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

On 3 April 2023 (after trading hours), the Company entered into the CB Placing Agreement with the Placing Agent, pursuant to which the Company agreed to issue and the Placing Agent agreed to procure, on a best effort basis, not less than six (6) placees, who and whose ultimate beneficial owners will be Independent Third Parties, to subscribe in cash for the Convertible Bonds of up to an aggregate principal amount of HK\$44,100,000 at the issue price of 100% of the principal amount of the Convertible Bonds.

Set out below are the principal terms of the CB Placing Agreement:

- Date** : 3 April 2023
- Parties** : (i) the Company as issuer; and
(ii) Koala Securities Limited as the placing agent

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Placing Agent and its ultimate beneficial owner(s) are Independent Third Parties.

CB Placing commission

In consideration of the services of the Placing Agent in connection with the CB Placing, the Company shall pay the Placing Agent a placing commission of 1% of the total principal amount of the Convertible Bonds to be issued under the CB Placing Agreement. The placing commission is arrived at after arm's length negotiations between the Company and the Placing Agent.

CB Placing

Pursuant to the CB Placing Agreement, the Company agreed to issue and the Placing Agent agreed to procure, on a best effort basis, not less than six (6) placees, who and whose ultimate beneficial owners will be Independent Third Parties, to subscribe in cash for the Convertible Bonds of up to an aggregate principal amount of HK\$44,100,000 at the issue price of 100% of the principal amount of the Convertible Bonds.

Conditions of the CB Placing

The CB Placing is conditional upon:

- (i) the Listing Committee of the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Conversion Shares;

- (ii) the passing by the Shareholders who are entitled to vote and not required to be abstained from voting under the Listing Rules in the SGM to be held and convened of resolution(s) to approve the CB Placing Agreement and the transactions contemplated thereunder including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares;
- (iii) if required, all necessary consents and approvals required to be obtained on the part of the Company in respect of the CB Placing Agreement and the transactions contemplated thereunder having been obtained; and
- (iv) none of the warranties given by the Company under the CB Placing Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect.

The Company shall use its best endeavours to procure the fulfilment of the conditions precedent set out in conditions (i), (ii), (iii) and (iv) above as soon as practicable and in any event on or before the Long Stop Date. The conditions precedent set out in conditions (i), (ii) and (iii) are incapable of being waived and the Placing Agent may at any time by notice in writing waive the condition (iv).

In the event that the conditions precedent of the CB Placing are not fulfilled (or waived, if applicable) on or before the Long Stop Date, all rights, obligations and liabilities of the parties to the CB Placing Agreement shall cease and terminate and neither of the parties shall have any claim against the other save for any antecedent breach of any right or obligation under CB Placing Agreement prior to such termination.

Completion

Completion of the CB Placing shall take place within three (3) Business Days after the fulfilment (or waived, if applicable) of the above conditions precedent (or on such later date as the Company and the Placing Agent may agree in writing).

Termination

The Placing Agent shall be entitled by notice to the Company given prior to 6:00 p.m. on the Business Day immediately preceding the date of Completion to forthwith terminate the CB Placing Agreement if any specified event comes to the attention of the Placing Agent.

If notice is given pursuant to the above, the CB Placing Agreement shall terminate and be of no further effect and neither party shall be under any liability to the other party in respect of the CB Placing Agreement save for any antecedent breach under the CB Placing Agreement prior to such termination.

Principal terms of the Convertible Bonds

- Issuer : The Company
- Issue price : 100% of the principal amount
- Principal amount : Up to HK\$44,100,000
- Conversion price : The Conversion Price per Conversion Share shall be HK\$0.21, subject to adjustments as hereafter described
- Adjustment events : The Conversion Price shall from time to time be subject to adjustment upon occurrence of the following events:
- (a) if and whenever the Shares by reason of any consolidation, sub-division or re-classification become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation, sub-division or re-classification becomes effective;
 - (b) if and whenever the Company shall issue (other than in lieu of the whole or part of a cash dividend and other than issue that would amount to a capital distribution) any Shares credited as fully paid to the holders of Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{A + B}$$

where:

A = the aggregate nominal amount of the issued Shares immediately before such issue; and

B = the aggregate nominal amount of the Shares issued in such capitalisation.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day following the record date for such issue;

- (c) if and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the market price on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) next preceding day of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by the independent adviser, of the portion of the capital distribution or of such rights which is attributable to one Share. For avoidance of doubt, if the capital distribution is distributions in cash the fair market value shall be the cash value and determination by the independent adviser is not required.

Provided that:

- (aa) if in the opinion of the independent adviser, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the said market price which should properly be attributed to the value of the capital distribution or rights; and
- (bb) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day following the record date for the capital distribution or grant;

- (d) if and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares, at a price which is less than 90% of the market price on the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price per Share; and

C = the number of Shares offered for subscription or comprised in the options or warrants.

Such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer or grant;

- (e) (aa) if and whenever the Company shall issue wholly for cash or for reduction of liabilities any securities or for acquisition of asset which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 90% of the market price on the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of the issue;

B = the number of Shares which the total Effective Consideration receivable for the securities issued would purchase at such market price per Share; and

C = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective on the date of the issue.

(bb) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (aa) of this sub-paragraph (e) are modified so that the total effective consideration per Share initially receivable for such securities shall be less than 90% of the market price on the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such modification;

B = the number of Shares which the total effective consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect;

- (f) if and whenever the Company shall issue wholly for cash or for reduction of liabilities any Shares at a price per Share which is less than 90% of the market price on the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A= the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate amount payable for the issue would purchase at such market price; and

C = the number of Shares so issued.

Such adjustment shall become effective on the date of the issue;

- (g) if and whenever the Company shall issue Shares for the acquisition of asset at a total effective consideration per Share which is less than 90% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the total effective consideration receivable for the securities issued would purchase at such market price per Share; and

C = the number of Shares so issued.

Such adjustment shall become effective on the date of the issue.

- Interest rate : 3.0% per annum (payable annually)
- Conversion Shares : Based on the principal amount of the Convertible Bonds of up to HK\$44,100,000, the Convertible Bonds are convertible into 210,000,000 Conversion Shares at the initial conversion price of HK\$0.21 per Conversion Share (subject to adjustments)
- Conversion period : The period commencing from the issue date of the Convertible Bonds up to 4:00 p.m. (Hong Kong time) on the Maturity Date (as defined below)
- Conversion rights and restrictions : The CB Holder(s) shall, subject to compliance with the procedures set out in the terms and conditions thereunder, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in its name into the Conversion Shares provided further that (i) any conversion shall be made in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK\$1,000,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted; (ii) the exercise of the conversion right attached to the Convertible Bonds will not cause the Company to be unable to meet the public float requirement under the Listing Rules; and (iii) the exercise of the conversion right attached to the Convertible Bonds will not trigger a mandatory offer obligation under rule 26 of The Hong Kong Code on Takeovers and Mergers on the part of the CB Holder(s).

- Early redemption at the option of the Company : The CB Holder(s) shall, subject to compliance with the procedures set out in the terms and conditions thereunder, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in its name into the Conversion Shares provided further that (i) any conversion shall be made in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK\$1,000,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted; (ii) the exercise of the conversion right attached to the Convertible Bonds will not cause the Company to be unable to meet the public float requirement under the Listing Rules; and (iii) the exercise of the conversion right attached to the Convertible Bonds will not trigger a mandatory offer obligation under rule 26 of The Hong Kong Code on Takeovers and Mergers on the part of the CB Holder(s).
- Early redemption at the option of the CB Holder(s) : The CB Holder(s) shall be entitled at its sole discretion, by giving not less than fourteen (14) Business Days' notice to the Company, propose to the Company to redeem all or part of the outstanding Convertible Bond (in multiples of HK\$1,000,000 or such lesser amount as may represent the entire principal amount thereof) an amount equivalent to 100% of the principal amount of such outstanding Bond at any time from the date falling seven (7) months after the date of issue of the Bond up to and including the date falling seven (7) days immediately before the Maturity Date. If the CB Holder(s) exercises the above right of early redemption, CB Holder(s) will not be entitled to any interest accrued.
- Ranking : The Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the relevant conversion date including the right to all dividends or other distributions, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the relevant conversion date.
- Maturity date : The second (2nd) anniversary of the issue date of the Convertible Bonds (the "Maturity Date")

- Voting rights : The CB Holder(s) shall not have any right to attend or vote in any general meeting of the Company
- Transferability : Subject to compliance with the Listing Rules, the Convertible Bonds may be transferred or assigned in whole or in part in integral multiples of HK\$1,000,000 by the CB Holder(s) to any party, save and except that the Convertible Bonds shall not be transferred or assigned to a connected person of the Company unless with the prior written consent of the Company
- Listing : No application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares
- Event of default : Any CB Holder may at any time before the maturity date of the Convertible Bonds serve a written notice on the Company at least 7 days in advance and demand the Company to redeem the Convertible Bonds upon the occurrence of the following events:
- (a) a default is made in the payment of principal amount, interest and entitlements due in respect of any of the Convertible Bonds and such default is not cured within 30 days; or
 - (b) a default is made by the Company in the performance or observance of any covenant, condition or provision contained in the instrument or in the conditions of the Convertible Bonds and on its part to be performed or observed (other than the covenant to pay the principal, premium (if any), interest and entitlements in respect of any of the Convertible Bonds) and such default continues for the period of 30 days next following the service by any CB Holder on the Company of notice specifying brief details of such default and requiring such default to be remedied; or

- (c) a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all its assets, otherwise, in any such case, other than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by an ordinary resolution of CB Holder; or
- (d) the Shares cease to be listed on the Stock Exchange.

Security : The obligations of the Company under the Convertible Bonds are unsecured

Assuming full exercise of the conversion rights attaching to the Convertible Bonds at the initial Conversion Price of HK\$0.21 per Conversion Share, a maximum of 210,000,000 new Shares will be allotted and issued by the Company, representing (i) approximately 39.81% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 28.47% of the total number of issued Shares as enlarged by the issue of 210,000,000 Conversion Shares (assuming there is no other change in the issued share capital of the Company between the Latest Practicable Date and the full conversion of the Convertible Bonds).

The maximum aggregate nominal value of the Conversion Shares is HK\$21,000,000.

Conversion Price

The initial Conversion Price of HK\$0.21 per Conversion Share represents:

- (a) a discount of approximately 10.6% over the closing price of HK\$0.235 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 10.3% to the closing price of HK\$0.234 per Share as quoted on the Stock Exchange on the date of the CB Placing Agreement;
- (c) a discount of approximately 8.3% to the average closing prices of HK\$0.229 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the CB Placing Agreement;
- (d) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 3.0%, represented by the theoretical diluted price of approximately HK\$0.227 per Share to the benchmarked price of approximately HK\$0.234 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the Last Trading Day of

HK\$0.234 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the date of the Announcement of HK\$0.229 per Share); and

- (e) a cumulative theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) in aggregation with the Rights Issue represented by a discount of approximately 17.5%, represented by the cumulative theoretical diluted price of approximately HK\$0.231 per Share to the theoretical benchmarked price of HK\$0.28 per Share in respect of the Rights Issue (as defined under Rule 7.27B of the Listing Rules, taking into account the benchmarked price of the Rights Issue, being HK\$0.28 per Share).

The net Conversion Price, after deduction of relevant expenses, is approximately HK\$0.205 per Conversion Share.

The Conversion Price was arrived at after arm's length negotiations between the Company and the Placing Agent, taking into account of, among others, (i) the recent trading performance of the Shares; and (ii) the reason and benefits of the issue of the Convertible Bonds and the recent financial performance and the current debt position of the Group, which will be further discussed in the section headed "Reasons for the CB Placing and use of proceeds" in this circular. The Directors consider that the Conversion Price and the terms and conditions of the CB Placing Agreement and the Convertible Bonds are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mandate to issue the Conversion Shares

The Conversion Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Shareholders at the SGM.

Application for listing

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

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon full conversion of the Convertible Bonds at the initial Conversion Price (assuming that there are no other changes to the shareholding structure of the Company from the Latest Practicable Date up to the full conversion of the Convertible Bonds); (iii) immediately upon full utilisation of the New General Mandate and the refreshed Scheme Mandate Limit (assuming that there are no other changes to the shareholding structure of the Company from the Latest Practicable Date up to the date of the SGM); and (iv) immediately upon full conversion of the Convertible Bonds at the initial Conversion Price (assuming that there are no other changes to the shareholding structure of the Company from the Latest Practicable Date up to the full conversion of the Convertible Bonds) and full utilisation of the New General Mandate and the refreshed Scheme Mandate Limit (assuming that there are no other changes to the shareholding structure of the Company from the Latest Practicable Date up to the date of the SGM) are as follows:

	(i) As at the Latest Practicable Date		(ii) Immediately upon full conversion of the Convertible Bonds at the initial Conversion Price		(iii) Immediately upon full utilisation of the New General Mandate and the refreshed Scheme Mandate Limit		(iv) Immediately upon full conversion of the Convertible Bonds at the initial Conversion Price and full utilisation of the New General Mandate and the refreshed Scheme Mandate Limit	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Chan Yuen Tung (Note 1)	116,048,147	22.00	116,048,147	15.73	116,048,147	16.92	116,048,147	12.95
Chiau Che Kong (Note 1)	69,175,416	13.11	69,175,416	9.38	69,175,416	10.09	69,175,416	7.72
Chan Yuk Foebe (Note 2)	143,000	0.03	143,000	0.02	143,000	0.02	143,000	0.02
Gao Ran (Note 2)	122,000	0.02	122,000	0.02	122,000	0.02	122,000	0.01
Liu Yangyang (Note 2)	166,000	0.03	166,000	0.02	166,000	0.02	166,000	0.02
Public Shareholders								
Places (Note 3)	-	-	210,000,000	28.47	-	-	210,000,000	23.44
Allottees to be issued with securities under the New General Mandate	-	-	-	-	105,509,633	15.38	105,509,633	11.78
Grantees of the Share Option Scheme	-	-	-	-	52,754,816	7.69	52,754,816	5.89
Other public Shareholders	341,893,605	64.81	341,893,605	46.36	341,893,605	49.85	341,893,605	38.17
Total	527,548,168	100.00	737,548,168	100.00	685,812,617	100.0	895,812,617	100.0

Notes:

- Each of Mr. Chan Yuen Tung and Mr. Chiau Che Kong is a substantial Shareholder (as defined under the Listing Rules).

2. Each of Ms. Chan Yuk Foebe and Mr. Gao Ran is an executive Director and Mr. Liu Yang Yang is a non-executive Director.
3. On the assumption that the Convertible Bonds are placed to six Placees equally, each Placee will hold Convertible Bonds in the amount of HK\$7,350,000 and upon full conversion of the Convertible Bonds, each Placee will hold 35,000,000 Shares, representing approximately 4.75% of the total number of issued Shares as enlarged by the full conversion.

FUND-RAISING DURING THE PAST TWELVE MONTHS

The Company has conducted the following fund-raising activity involving issue of securities in the twelve (12) months before the date of the Announcement:

Date of announcement/ circular/prospectus	Fund-raising activity	Net proceeds (approximate)	Intended use of proceeds as announced	Actual use of proceeds
18 October 2022, 21 November 2022, 30 December 2022 and 26 January 2023	Rights issue	HK\$77.6 million	Approximately HK\$67.6 million for the repayment of the Group's indebtedness and interest expenses and approximately HK\$10 million as general working capital of the Group	HK\$71.5 million for the repayment of the Group's indebtedness and interest expenses and HK\$6.1 million as general working capital of the Group

Save as disclosed above, the Company had not conducted any other equity fund-raising activities in the past twelve months immediately prior to the date of the Announcement.

INFORMATION OF THE GROUP

The Group is principally engaged in the manufacturing and sales of coal-related chemical products, the generation and supply of electricity and thermal energy and construction services.

REASONS FOR THE CB PLACING AND USE OF PROCEEDS

Assuming all the Convertible Bonds are successfully placed by the Placing Agent, the net proceeds from the CB Placing will be approximately HK\$43 million, which will be used by the Company (i) as to HK\$38 million for repayment of the Group's indebtedness and interest expenses (excluding those of Mudanjiang Better Day Power Limited ("Mudanjiang BD Power")); and (ii) as to HK\$5 million for general working capital.

As disclosed in the 2022 interim report of the Company for the six months ended 31 December 2022, the operation of Mudanjiang BD Power was temporarily taken-over by Mudanjiang Authority of Housing and Urban-Rural Development and upon the cease of control

over Mudanjiang BD Power, Mudanjiang BD Power should be deemed as deconsolidated from the consolidated financial statements of the Group and be classified as a discontinued operation as from 26 August 2022.

None of the net proceeds of the CB Placing will be utilised for repayment of the indebtedness of Mudanjiang BD Power.

As disclosed in the interim report of the Company for the six months ended 31 December 2021, the Company has issued bonds in 2013 and the aggregate principal amount of the bonds outstanding was HK\$276 million with the maturity date on 11 September 2021. A settlement has been reached between the Company and bondholders to extend the maturity date of the bonds outstanding to 10 September 2025, and the bonds shall bear interest at the rate of 7.5% per annum from 11 September 2021 to 10 September 2025. The interest of the bonds shall accrue and be paid, together with the principal amount of the bonds, on the new maturity date, being 10 September 2025.

As at 31 March 2023, the bonds payable within one year amounted to approximately HK\$170,250,000 and these bonds payable are unsecured and interest bearing at coupon rates of 0% to 12%.

The Company is in the process of negotiating for a settlement of a bond payable to several bondholders in the amount of HK\$45 million. In the event that a settlement is reached between the Company and bondholders, the Company expects the relevant bond payable in the amount of HK\$45 million to be deferred or discounted.

In particular, the Company intends to utilise the net proceeds from the CB Placing to repay the following indebtedness and interest expenses: (i) the bond with principal amount of HK\$32,750,000 and interest of HK\$1,725,000; (ii) the loan with principal amount of approximately HK\$689,000 and interest of HK\$97,000; (iii) loan interest of approximately HK\$2,098,000; and (iv) other payables (including legal and professional fee) of HK\$700,000.

Furthermore, the issue of the Convertible Bonds will not have an immediate dilution effect on the shareholding of the existing Shareholders and will provide an opportunity for the Company, if the conversion rights attached to the Convertible Bonds are exercised, to strengthen the capital base and reduce the liability of the Company, and thus improve the financial position of the Company.

Hence, after considering the current market conditions and the latest financial position of the Group, the Directors consider that the terms and conditions of the CB Placing Agreement and the Convertible Bonds are fair and reasonable and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

In the event the placing of the Convertible Bonds is undersubscribed, the use of proceeds will scale down and will be arranged as follows:

- (i) if the proceeds is equal to or less than HK\$25 million, it will be fully allocated to repayment of the Group's indebtedness and interest expenses; or
- (ii) if the proceeds is more than HK\$25 million, at least HK\$23 million will be allocated to repayment of the Group's indebtedness and interest expenses and the remaining (up to HK\$5 million) to the general working capital.

PROPOSED REFRESHMENT OF GENERAL MANDATE

The Board proposes to refresh the Existing General Mandate for the Directors to allot, issue and deal with new Shares up to 20% of the issued share capital of the Company as at the date of passing of the relevant resolution at the SGM.

Existing General Mandate

At the 2022 AGM, the Shareholders approved, among other things, an ordinary resolution to grant to the Directors the Existing General Mandate to allot, issue and deal with up to 602,912,195 Shares (equivalent to 30,145,609 new Shares taking into account of effect of the Capital Reorganisation), representing approximately 20% of the issued share capital of the Company as at the date of granting of the Existing General Mandate.

As at the Latest Practicable Date, no Share was issued under the Existing General Mandate and the Company has not made any refreshment of the Existing General Mandate since the 2022 AGM.

Proposed Grant of New General Mandate

The Board proposes to convene the SGM at which an ordinary resolution will be proposed to the Independent Shareholders for approving the proposed Refreshment of General Mandate that:

- (i) the Directors be granted the New General Mandate to allot and issue Shares up to 20% of the issued share capital of the Company as at the date of the SGM; and
- (ii) the New General Mandate be extended to Shares repurchased by the Company pursuant to the repurchase mandate granted to the Directors at the 2022 AGM.

The New General Mandate will, if granted, be valid until the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;

- (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable laws or the bye-laws of the Company; or
- (iii) the revocation or variation of the authority given to the Directors by passing an ordinary resolution by the Shareholders at a general meeting.

As of the Latest Practicable Date, the Company has an aggregate of 527,548,168 Shares in issue. Subject to the passing of the ordinary resolution for the approval of the Refreshment of General Mandate at the SGM by the Independent Shareholders and assuming that no further Shares are issued and/or repurchased by the Company from the Latest Practicable Date to the date of the SGM, the Company would be allowed under the New General Mandate to allot and issue 105,509,633 Shares, being approximately 20% of the total number of issued share capital of the Company as at the Latest Practicable Date.

Reasons for the Refreshment of General Mandate

On 27 January 2023, the Rights Issue was completed, details of which are set out in the prospectus of the Company dated 30 December 2022. Dealing in Rights Shares on the Stock Exchange commenced on 30 January 2023. Due to the Rights Issue, the issued share capital of the Company has been increased from 150,728,048 to 527,548,168 Shares. Further details have been set out in the "Next Day Disclosure Return" published by the Company on the website of the Stock Exchange on 27 January 2023.

As a result of such increase, the Existing General Mandate (which has not been utilised up to the Latest Practicable Date) only represents approximately 5.7% of the existing issued share capital of the Company as at the Latest Practicable Date. The Directors consider that the proposed Refreshment of General Mandate will give the Board the required flexibility for any future allotment and issue of Shares on behalf of the Company as and when considered necessary. If the proposed Refreshment of the General Mandate is approved by the Independent Shareholders at the SGM, when there are any further funding needs or if attractive offer for investment in the Shares is received from potential investors before the next annual general meeting, the Board will be able to respond to the market or such investment offer promptly by considering the issue of Shares at the maximum of 20% of the issued share capital of the Company as at the date of the SGM. The Board is of the view that fund-raising exercises conducted under a general mandate are simpler and faster than other types of fund-raising exercises and remove uncertainties in the circumstances when specific mandate may not be obtained in a timely manner. Accordingly, the Directors (excluding the independent non-executive Directors, whose view is set out in the letter from the Independent Board Committee included in this circular) consider that the Refreshment of General Mandate is fair and reasonable and is in the best interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Company has not yet formulated any concrete plan or agreement with any party to issue Shares by utilising the New General Mandate. However, given that the Company still has an indebtedness in the amount of approximately HK\$170 million, of

which HK\$64 million will become due by December 2023, the Company foresees that there will be a compelling need to utilise the New General Mandate for fundraising purpose by the Company before the annual general meeting to be held in December 2023 and by having the New General Mandate, the Company will be actively looking for suitable fundraising activities including but not limited to placing and/or subscription of new Shares and/or convertible securities of the Company to settle the indebtedness of the Company.

Listing Rules Implications

Pursuant to Rule 13.36(4) of the Listing Rules, the approval of the proposed Refreshment of General Mandate will be subject to Independent Shareholder's approval at a general meeting of the Company. Any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the resolution to approve the proposed Refreshment of General Mandate.

As at the Latest Practicable Date, to the best knowledge, belief and information of the Directors having made all reasonable enquiries, the Company has no controlling Shareholder. Accordingly, Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Liu Yangyang, all being executive Directors or non-executive Director (as the case may be) with interests in the Shares, together with their associates are required to abstain from voting in favour of the resolution(s) to approve the proposed Refreshment of General Mandate.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, save as disclosed and as at the Latest Practicable Date, no Shareholder is required to abstain from voting on the proposed resolution(s) on the proposed Refreshment of General Mandate at the SGM.

PROPOSED REFRESHMENT OF THE LIMIT ON THE GRANT OF OPTIONS UNDER THE SHARE OPTION SCHEME

Background of the existing Scheme Mandate Limit

The Share Option Scheme was approved and adopted by the Shareholders at the 2022 AGM. Pursuant to the existing Scheme Mandate Limit, the maximum number of Shares that may be issued upon exercise of all the Share Options granted under the Share Option Scheme shall not exceed 301,456,097 Shares (equivalent to 15,072,804 new Shares taking into account of effect of the Capital Reorganisation), representing approximately 10% of the then issued share capital of the Company on the date of the 2022 AGM.

Proposed Refreshment of Scheme Mandate Limit

At the SGM, an ordinary resolution will be proposed to the Independent Shareholders to approve the proposed Refreshment of Scheme Mandate Limit so as to allow the Company to grant further Options under the Share Option Scheme for subscription of up to 10% of the

Shares in issue as at the date of passing the resolution. If the proposed Refreshment of Scheme Mandate Limit is approved at the SGM, based on 527,548,168 Shares in issue as at the Latest Practicable Date and assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the date of the SGM, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme will be 52,754,816 Shares, being approximately 10% of the Shares in issue as at the date of the SGM.

There has not been any refreshment of the Scheme Mandate Limit since the adoption of the Share Option Scheme. Apart from the Share Option Scheme, the Company has no other share option scheme currently in force.

Reasons for the proposed Refreshment of Scheme Mandate Limit

As disclosed in the section headed "Reasons for the Refreshment of General Mandate" above, the issued share capital of the Company has been increased from 150,728,048 to 527,548,168 Shares due to the Rights Issue. In view of the increase of issued share capital of the Company, the Directors consider that the Company should refresh the Scheme Mandate Limit so that the Company will have more flexibility to provide incentives or rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high quality personnel and attract human resources that are valuable to the Group.

Accordingly, the Directors (excluding the independent non-executive Directors, whose view is set out in the letter from the Independent Board Committee included in this circular) consider that the Refreshment of Scheme Mandate Limit is fair and reasonable and is in the best interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Company has not yet identified any specific eligible participant, of whom the Company considers to be necessary to grant options to under the Share Option Scheme (as may be refreshed with new Scheme Mandate Limit as proposed in this circular).

Conditions of the proposed Refreshment of Scheme Mandate Limit

The proposed Refreshment of Scheme Mandate Limit is conditional upon:

- (a) the Independent Shareholders passing the relevant resolution at the SGM to approve the proposed Refreshment of Scheme Mandate Limit; and
- (b) the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of share options that may be granted pursuant to the Share Option Scheme under the proposed Refreshment of Scheme Mandate Limit not exceeding 10% of the number of Shares in issue as at the date of approval of the proposed Refreshment of Scheme Mandate Limit by the Independent Shareholders.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Shares to be issued pursuant to the exercise of the Share Options to be granted under the Share Option Scheme under the refreshed limit.

Listing Rules Implications

Pursuant to Rule 17.03C(1)(b) of the Listing Rules, any refreshment of the existing Scheme Mandate Limit within any three year period from the date of adoption of the scheme is subject to the Independent Shareholders' approval by way of an ordinary resolution at the SGM. Any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the resolution to approve the proposed Refreshment of Scheme Mandate Limit.

As at the Latest Practicable Date, to the best knowledge, belief and information of the Directors having made all reasonable enquiries, the Company has no controlling Shareholder. Accordingly, Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Liu Yangyang, all being executive Directors or non-executive Director (as the case may be) with interests in the Shares, together with their associates are required to abstain from voting in favour of the resolution(s) to approve the proposed Refreshment of Scheme Mandate Limit.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, save as disclosed and as at the Latest Practicable Date, no Shareholder is required to abstain from voting on the proposed resolution(s) on the proposed Refreshment of Scheme Mandate Limit at the SGM.

Pursuant to Rule 17.03C(2) of the Listing Rules, the total number of shares which may be issued in respect of all options and awards to be granted under all of the schemes of the listed issuer under the scheme mandate as "refreshed" must not exceed 10% of the relevant class of shares in issue as at the date of approval of the refreshed scheme mandate.

As at the Latest Practicable Date, the Company has no concrete plan or intention to grant any Share Options under the Share Option Scheme immediately after obtaining the Shareholders' approval for the proposed Refreshment of the Scheme Mandate Limit. However, the Board does not rule out the possibility that the Company will grant any Share Options under the Share Option Scheme in future when such need arises in order to incentivize the selected eligible participants under the Share Option Scheme. The Company will make further announcement in this regard in accordance with the Listing Rules as and when appropriate.

SGM

A SGM will be held and convened for the purpose of considering and, if thought fit, (i) approving the CB Placing Agreement and the transaction contemplated thereunder, including issue of the Convertible Bonds, allotment and issue of the Conversion Shares, and grant of the

Specific Mandate; (ii) the proposed Refreshment of General Mandate; and (iii) the proposed Refreshment of Scheme Mandate Limit.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have a material interest in the CB Placing and no Shareholders is required to abstain from voting at the SGM approving the CB Placing.

Pursuant to Rule 13.36(4) of the Listing Rules, the approval of the proposed Refreshment of General Mandate will be subject to Independent Shareholder's approval at a general meeting of the Company. Any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the resolution to approve the proposed Refreshment of General Mandate.

As at the Latest Practicable Date, to the best knowledge, belief and information of the Directors having made all reasonable enquiries, the Company has no controlling Shareholder. Accordingly, Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Liu Yangyang, all being executive Directors or non-executive Director (as the case may be) with interests in the Shares, together with their associates are required to abstain from voting in favour of the resolution(s) to approve the proposed Refreshment of General Mandate.

Pursuant to Rule 17.03C(1)(b) of the Listing Rules, any refreshment of the existing Scheme Mandate Limit within any three year period from the date of adoption of the scheme is subject to the Independent Shareholders' approval by way of an ordinary resolution at the SGM. Any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the resolution to approve the proposed Refreshment of Scheme Mandate Limit.

As at the Latest Practicable Date, to the best knowledge, belief and information of the Directors having made all reasonable enquiries, the Company has no controlling Shareholder. Accordingly, Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Liu Yangyang, all being executive Directors or non-executive Director (as the case may be) with interests in the Shares, together with their associates are required to abstain from voting in favour of the resolution(s) to approve the proposed Refreshment of Scheme Mandate Limit.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, save as disclosed and as at the Latest Practicable Date, no other Shareholder is required to abstain from voting on the proposed resolution(s) on the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit at the SGM.

A notice for convening the SGM to be held at Room 4007, 40/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong at 4:00 p.m. is set out on pages SGM-1 to SGM-5 of this circular. A form of proxy for the SGM is also enclosed with this circular. Whether or not you intend to be present at the SGM, you are requested to complete the form of proxy and return

it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time fixed for the SGM. The completion of a form of proxy will not preclude you from attending and voting at the SGM in person.

CLOSURE OF REGISTER OF MEMBERS

In order to determine members who are entitled to attend the SGM, the transfer books and register of members will be closed from Thursday, 11 May 2023 to Tuesday, 16 May 2023, both days inclusive, during which period no share transfers can be registered. In order to be eligible to attend and vote at the SGM, all registered holders of shares of the Company should ensure that all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4.30 p.m. on Wednesday, 10 May 2023.

RECOMMENDATION

The Board are of the view that the terms of the CB Placing and the transactions contemplated thereunder, which have been agreed after arm's length negotiations are on normal commercial terms and such terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Board also considers that the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders and/or the Independent Shareholders to vote in favour of the resolutions for approving the CB Placing and the transactions contemplated thereunder, the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter of advice from Grand Moore Capital to the Independent Board Committee and the Independent Shareholders, the additional information as set out in the appendix to this circular and the notice of the SGM.

By order of the Board
China Zenith Chemical Group Limited



Chan Yuk Foebe
Chairman and Chief Executive Officer