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

If you have sold or transferred all your securities in China Zenith Chemical Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

- (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

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



Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A notice 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. on Tuesday, 16 May 2023 is set out on pages SGM-1 to SGM-5 of this circular. A proxy form for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM (i.e. Sunday, 14 May 2023 at 4:00 p.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire and in such case, the proxy form shall be deemed to be revoked.

28 April 2023

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DEFINITIONS

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

“2022 AGM”	the annual general meeting of the Company held on 14 December 2022
“Announcement”	the announcement of the Company dated 3 April 2023 in relation to the CB Placing, the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which licensed banks in Hong Kong are generally open for business, other than a Saturday or a Sunday or a public holiday
“Capital Reorganisation”	the capital reorganisation of the share capital of the Company approved by the Shareholders at the special general meeting of the Company on 14 December 2022
“CB Holder(s)”	holder(s) of the Convertible Bonds
“CB Placing”	the placing of the Convertible Bonds pursuant to the terms and conditions of the CB Placing Agreement under the Specific Mandate
“CB Placing Agreement”	the conditional placing agreement dated 3 April 2023 and entered into between the Company as issuer and the Placing Agent as placing agent in relation to the CB Placing
“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 (stock code: 362)
“Completion”	completion of the CB Placing
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Conversion Price”	the conversion price per Conversion Share and initially at HK\$0.21 per Conversion Share (subject to adjustments) of the Convertible Bonds
“Conversion Share(s)”	the Share(s) to be issued and allotted upon conversion of the Convertible Bonds
“Convertible Bonds”	the 3% coupon convertible bonds due on the second (2nd) anniversary of the issue date in the principal amount of up to HK\$44,100,000 to be issued by the Company to the Placees in accordance with the terms of the CB Placing Agreement
“Director(s)”	the director(s) of the Company
“Existing General Mandate”	the general mandate duly approved and granted by the Shareholders at the 2022 AGM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising of all the independent non-executive Directors to advise the Independent Shareholders in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit
“Independent Financial Advisor” or “Grand Moore Capital”	Grand Moore Capital Limited, a corporation licensed by the Securities and Futures Commission to Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 572, laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit
“Independent Shareholder(s)”	Shareholder(s) other than the controlling shareholders and their respective associates, or, if there is no controlling shareholder, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates

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“Independent Third Party(ies)”	third party(ies) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are independent of and not acting in concert or connected with the Company and its connected persons or any of their respective associates
“Latest Practicable Date”	26 April 2023, being the latest practicable date for ascertaining certain information contained in this circular
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 May 2023 (or such later date as may be agreed between the Company and the Placing Agent)
“Maturity Date”	the second (2nd) anniversary of the issue date (i.e. 24 months after the issue date) of the Convertible Bonds, being the maturity date of the Convertible Bonds
“New General Mandate”	the new mandate proposed to be sought at the SGM to authorise the Directors to allot, issue and deal with Shares not exceeding 20% of the issued share capital of the Company as at the date of passing of the relevant resolution at the SGM
“Placee(s)”	any professional, institutional and/or other investor(s) to whom the Placing Agent or its agents shall procure or, as the case may be, shall have procured to subscribe for the Convertible Bonds pursuant to the CB Placing Agreement
“Placing Agent”	Koala Securities Limited, a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“PRC”	the People’s Republic of China and for the purpose of this circular only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Refreshment of General Mandate”	the proposed refreshment of the Existing General Mandate and the grant of the New General Mandate

DEFINITIONS

“Refreshment of Scheme Mandate Limit”	the proposed refreshment of the Scheme Mandate Limit so that the Company may grant new options to subscribe for new Shares representing in aggregate up to 10% of its issued share capital as at the date of the passing of the relevant resolution approving the refreshment
“Rights Issue”	the allotment and issue of 376,820,120 Rights Shares completed on 27 January 2023
“Rights Shares”	the Shares issued under the Rights Issue
“Scheme Mandate Limit”	the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme which initially shall not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the Share Option Scheme, which may be refreshed pursuant to the terms of the Share Option Scheme but shall not exceed 10% of the Shares in issue as at the date of approval of the proposed Refreshment of Scheme Mandate Limit by the Independent Shareholders
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held to consider and approve, among others, (i) the CB Placing Agreement and the transactions contemplated thereunder including the grant of the Specific Mandate for the allotment and issue of the Conversion Shares; (ii) the proposed Refreshment of General Mandate; and (iii) the proposed Refreshment of Scheme Mandate Limit
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of issued Share(s)
“Share Option(s)”	share options to subscribe for the Shares granted and to be granted under the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 14 December 2022

DEFINITIONS

“Specific Mandate”	the specific mandate to be granted by the Shareholders at the SGM to allot and issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
“%”	per cent.

LETTER FROM THE BOARD



China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

Executive Directors:

Ms. Chan Yuk Foebe
(Chairman and Chief Executive Officer)
Mr. Gao Ran (Vice-chairman)
Mr. Law Tze Ping Eric

Registered office:

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

Non-executive Director:

Mr. Liu Yangyang

*Head office and principal place of business
in Hong Kong:*

Room 4007, 40/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Independent non-executive Directors:

Mr. Ma Wing Yun Bryan
Mr. Tam Ching Ho
Mr. Hau Chi Kit

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

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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:

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

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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.

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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

LETTER FROM THE BOARD

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.

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(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;

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- (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

LETTER FROM THE BOARD

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).

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- 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**")

LETTER FROM THE BOARD

- 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

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- (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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
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								
Placees (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).

LETTER FROM THE BOARD

- Each of Ms. Chan Yuk Foebe and Mr. Gao Ran is an executive Director and Mr. Liu Yang Yang is a non-executive Director.
- 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

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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.

LETTER FROM THE BOARD

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;

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- (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

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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.

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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

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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



China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

28 April 2023

To the Independent Shareholders,

Dear Sir or Madam,

**(1) PROPOSED REFRESHMENT OF GENERAL MANDATE; AND
(2) PROPOSED REFRESHMENT OF THE LIMIT ON THE GRANT OF
OPTIONS UNDER THE SHARE OPTION SCHEME**

We refer to the circular dated 28 April 2023 (the “**Circular**”) issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider and to advise the Independent Shareholders on the terms of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit as set out in the Circular as to the fairness and reasonableness and to recommend whether or not the Independent Shareholders should approve the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit as set out in the Circular. Grand Moore Capital has been appointed as the Independent Financial Adviser to provide advice and recommendation to the Independent Board Committee and the Independent Shareholders in this regard. Details of the independent advice of Grand Moore Capital, together with the principal factors and reasons Grand Moore Capital has taken into consideration, are set out on pages 32 to 48 of the Circular.

We wish to draw your attention to the Letter from the Board and the Letter from Grand Moore Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit. Your attention is also drawn to the additional information set out in the appendix to the Circular.

Having considered the terms of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit, the advice of Grand Moore Capital and the relevant information contained in the Letter from the Board, we consider that although the

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit are not in the ordinary and usual course of business of the Group, the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit 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 for approving the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit to be proposed at the SGM.

Yours faithfully,

The Independent Board Committee of
China Zenith Chemical Group Limited

Mr. Ma Wing Yun Bryan

Independent

Non-executive Director

Mr. Tam Ching Ho

Independent

Non-executive Director

Mr. Hau Chi Kit

Independent

Non-executive Director

LETTER FROM GRAND MOORE CAPITAL

Set out below is the text of a letter received from Grand Moore Capital, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit for the purpose of inclusion in this circular.



Unit 1401, 14/F, Lippo Sun Plaza, 28 Canton Road,
Tsim Sha Tsui, Kowloon, Hong Kong

28 April 2023

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

Dear Sirs,

(1) PROPOSED REFRESHMENT OF GENERAL MANDATE; AND (2) PROPOSED REFRESHMENT OF THE LIMIT ON THE GRANT OF OPTIONS UNDER THE SHARE OPTION SCHEME

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit, the details of which are set forth in the “Letter from the Board” (the “**Board Letter**”) contained in the circular issued by the Company to the Shareholders dated 28 April 2023 (the “**Circular**”), of which this letter forms apart. Unless the context otherwise requires. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

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.

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.

LETTER FROM GRAND MOORE CAPITAL

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 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.

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.

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.

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.

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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.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit, all being independent non-executive Directors, has been established to advise the Independent Shareholders on the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit. We, Grand Moore Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit.

In the past two years, we have not acted in any financial adviser role to the Company but we have acted as an independent financial adviser to the independent board committee and independent shareholders of the Company in connection with the Rights Issue, the details of which are set out in the Company's circular dated 21 November 2022 (the "**Previous Appointment**"). Save for the current engagement as the Independent Financial Adviser and the Previous Appointment, there was no other relationship and/or engagement between the Company and us in the past two years.

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With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence; (ii) we have maintained our independence from the Company during the Previous Appointment, and our independence from the Company has not been compromised because of the Previous Appointment; and (iii) the aggregate professional fees paid/to be paid to us do not make up a significant portion of our revenue during the relevant periods which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit pursuant to 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 (i) the information and facts contained or referred to in the Circular; (ii) the Company's interim report for the six months ended 31 December 2022 (the "**2022 Interim Report**"); (iii) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Directors and the Management; and (v) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. 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, the Directors and/or the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we 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, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Refreshment of General Mandate and the proposed

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Refreshment of Scheme Mandate Limit, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit. The Company has been separately advised by its own professional advisers with respect to the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit and the preparation of the Circular (other than this letter).

We have assumed that the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit, we have taken into account the following principal factors and reasons:

1. Background information and financial overview 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. Certain summary financial information of the Group as extracted from the 2022 Interim Report for the six months ended 31 December 2021 and 2022 (“HY2021” and “HY2022” respectively) is set out below:

	For the six months 31 December	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	95,983	299,235
Gross (loss)/profit	(2,267)	33,959
Profit for the period attributable to owners of the Company	274,468	6,306

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The Group's consolidated revenue decreased from approximately HK\$299,235,000 for HY2021 to approximately HK\$95,983,000 for HY2022, representing a decrease of approximately HK\$203,252,000 or 67.9%. As per the 2022 Interim Report, the decrease of revenue was primarily attributable to the production line of coal-related chemical in Heihe City had been suspended for three months since October 2022 due to the outbreak of COVID-19 and the utilization of production not smoothly by the impact of COVID-19. The Group turned around from a gross profit of approximately HK\$33,959,000 for HY2021 to a gross loss of approximately HK\$2,267,000 for HY2022, representing a net difference of approximately HK\$36,226,000. As stated in the 2022 Interim Report, the Group's gross loss is mainly attributable to (i) aforementioned production line suspension of coal-related chemicals, and (ii) the discontinued operation of the heat and power segment, as a result of the deconsolidation of Mudanjiang Better Day Power Limited, a wholly-owned subsidiary of the Group, on 26 August 2022, which was taken over by Mudanjiang Authority of Housing and Urban-Rural Development (the "Deconsolidation"). The Group recorded consolidated profit for the period attributable to owners of the Company of approximately HK\$274,468,000 for HY2022, representing an increase of approximately HK\$268,162,000 or 4,252.5%, as compared to the consolidated profit for the period attributable to owners of the Company of approximately HK\$6,306,000 for HY2021. Such increase in profit for the period attributable to owners of the Company was mainly derived from the Deconsolidation.

	As at 31 December 2022	As at 30 June 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(audited)
Bank and cash balances	2,654	12,874
Current assets	61,787	149,983
Net current liabilities	640,222	966,539
Total assets	1,070,562	1,238,247
Current liabilities	702,009	1,116,522
Total liabilities	1,624,969	2,063,097
Net liabilities attributable to owners of the Company	601,523	873,168

The Group's bank and cash balances amounted to approximately HK\$2,654,000 as at 31 December 2022, representing a decrease of approximately HK\$10,220,000 or 79.4%, as compared to that of approximately HK\$12,874,000 as at 30 June 2022. The Group recorded net current liabilities of approximately HK\$640,222,000 as at 31 December 2022, representing a decrease of approximately HK\$326,317,000 or 33.8% as compared to that of approximately HK\$966,539,000 as at 30 June 2022. Such decrease was mainly attributable to the combined effects from a decrease in current assets of approximately 58.8% and a decrease in current liabilities of approximately 37.1% as at 31 December 2022. We note from the 2022 Interim Report that the decrease in current assets is mainly attributable to the substantial decreases in prepayments, deposits and other receivables, inventories, trade receivables and bank and cash balances. Meanwhile, the decrease in current liabilities is

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mainly due to the combined effects of decrease in trade payables, other payables and accruals, other loans, increase in bonds payable (current portion) and decrease in convertible bonds (current portion). The deterioration in liquidity and solvency gives rise to a decrease in current ratio from approximately 0.13 times as at 30 June 2022 to approximately 0.09 times as at 31 December 2022.

The Group's total liabilities decreased by approximately HK\$438,128,000 or 21.2%, from approximately HK\$2,063,097,000 as at 30 June 2022 to approximately HK\$1,624,969,000 as at 31 December 2022. Such decrease was mainly attributable to the combined effects of the aforementioned factors related to the decrease in current liabilities. As at 31 December 2022, bonds payable of the Group amounted to approximately HK\$1,103,600,000, of which the bonds payable (non-current portion) amounted to approximately HK\$892,933,000 and bonds payable (current portion) amounted to approximately HK\$210,667,000. Apart from the above, the Group also had other debts including bank loans (non-current portion) of approximately HK\$12,290,000, convertible bonds (non-current portion) of approximately HK\$17,737,000, other loans of approximately HK\$48,308,000, and bank loans (current portion) of approximately HK\$8,812,000 as at 31 December 2022.

The Group recorded net liabilities attributable to owners of the Company of approximately HK\$601,523,000 as at 31 December 2022, which represents a decrease of approximately HK\$271,645,000 or 31.1%, from net liabilities attributable to owners of the Company of approximately HK\$873,168,000 as at 30 June 2022. This was mainly attributable to decreases in the Group's property, plant and equipment and prepayments, right-of-use assets, prepayments, deposits and other receivables, and bank and cash balances as at 31 December 2022.

Taking into account that (i) the Group was in both net current liabilities and net liabilities positions as at 30 June 2022 and 31 December 2022; and (ii) the Group's necessity in replenishing its cash reserve to sustain the smooth operations amid the significant decrease in bank and cash balances during the period from 30 June 2022 to 31 December 2022, we consider that the proposed Refreshment of General Mandate would provide the Company with an additional financing option to raise further capital to ease such liquidity pressure prior to the upcoming annual general meeting ("2023 AGM") of the Company which, based on the timing of the 2022 AGM, is expected to be held in December 2023 which is roughly 8 months away from the Latest Practicable Date.

2. The Refreshment of General Mandate

2.1 The proposed grant of New General Mandate

As mentioned above and as at 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 Refreshment of General Mandate to allot

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and issue 105,509,633 Shares, being 20% of the total number of issued share capital of the Company as at the Latest Practicable Date.

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.

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.

2.2 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 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.

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2.3 Our analysis on the Refreshment of General Mandate

In assessing the reasonableness and fairness of refreshing the Existing General Mandate prior to the 2023 AGM, we note from the Circular that the Rights Issue completed on 27 January 2023 has increased the Company's issued share capital from 150,728,048 to 527,548,168 Shares. As a result of such increase, the Existing General Mandate only represents approximately 5.7% of the existing issued share capital of the Company, and has not been utilized as at the Latest Practicable Date. Based on the closing price of HK\$0.235 per Share on the Latest Practicable Date, the 30,145,609 new Shares issuable under the Existing General Mandate can theoretically raise approximately HK\$7.1 million in proceeds (before expenses) for the Company.

Furthermore, as stated from the Board Letter, on 3 April 2023, the Company entered into the CB Placing Agreement with the Placing Agent 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. 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 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 Company's indebtedness and interest expenses (excluding those of Mudanjiang BD Power); and (ii) as to HK\$5 million for general working capital.

As mentioned in section 1 of this letter, the timing of the 2023 AGM is expected to be held around December 2023, which is about 8 months away from the Latest Practicable Date. In accordance with the Listing Rules, should there be any further funding needs in excess of the Existing General Mandate which would allow the issue of up to 30,145,609 new Shares, the Company is required to publish announcement(s), issue circular(s) and seek the Shareholders' approval in a special general meeting, which we consider to be a lengthy process and may therefore hinder the progress of any potential fund-raising exercise. If the proposed Refreshment of the General Mandate is not approved by the Independent Shareholders at the SGM, the Company lacks the flexibility and discretion to capture any appropriate capital raising or to capture any investment offers in the Shares from potential investors in excess of the Existing General Mandate in a timely manner.

We note that the Hang Seng Index increased from a recent trough of 14,687.02 on 31 October 2022 to a recent peak of 22,688.90 on 27 January 2023, representing a significant increase of approximately 54.5% in less than 3 months. The Hang Seng Index closed at 19,757.27 on 26 April 2023, being the Latest Practicable Date. The recent increase in Hang Seng Index is attributable to, among other things, the positive market sentiment over the expectation that the COVID-19 pandemic would soon be

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over, and the economic activity will gradually resume normal. The Refreshment of General Mandate allows the Company to capture equity capital raising opportunity should such funding needs arise in the positive market sentiment, and is considered beneficial to the Company and its Shareholders.

In connection with the imminency of the Company's funding needs, we have reviewed (i) the unaudited consolidated financial statements of the Group for HY2022; and (ii) the breakdown of the immediate repayment obligations of the Group as at 31 December 2022. Based on our review and discussion with the Management, we noted that (i) the Group's bank and cash balances substantially decreased from approximately HK\$12,874,000 as at 30 June 2022 to approximately HK\$1,860,000 as at 31 March 2023, being the latest bank and cash balances of the Group prior to the Latest Practicable Date as provided by the Management; and (ii) the Group's bonds payable and bank loans amounted to approximately HK\$1,103,600,000 and HK\$21,102,000, respectively, as at 31 December 2022. In particular, we note from the Board Letter that the Group has short-term repayment obligations on outstanding bonds payable of approximately HK\$170,250,000 due for repayment before the end of March 2024. We understand that 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. Nevertheless, after taking into account the possible deferment and discount on bond payables of HK\$45 million and the possible proceeds from the CB Placing of HK\$38 million, the remaining outstanding bond payable due for repayment before the end of March 2024 still amounts to approximately HK\$87.25 million and it would appear that the Group will need to diligently strengthen its financial resources so as to fulfill its contractual repayment obligations. We also note from the Board Letter that HK\$64 million out of approximately HK\$170.25 million of indebtedness will be due to settlement by December 2023. Assuming the Company and the bond holders could not reach agreements to any deferment and discount on bond payables of HK\$45 million and after taking into account the possible proceeds from the CB Placing of approximately HK\$38 million, the Company still needs to raise capital in the amount of approximately HK\$26 million by December 2023 (which is about the same timeframe as the expected timing of the 2023 AGM, which is roughly 8 months away). In that connection, we consider that having the fund-raising capability through the grant of the Refreshment of General Mandate, where the 105,509,633 new Shares issuable under the New General Mandate (assuming no change in the Company's issued share capital from the Latest Practicable Date up to the date of the SGM) can theoretically raise approximately HK\$24.8 million in proceeds (before expenses) for the Company which is approximately 3.5 times of the aforementioned theoretical fund-raising of approximately HK\$7.1 million (before expenses) under the Existing General Mandate and represents a significant improvement given the Group's imminent need for additional financing as discussed immediately above. We are also of the view that the theoretical fund-raising of approximately HK\$24.8 million (before expenses) under the New General Mandate (assuming no change in the Company's issued share capital from the Latest

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Practicable Date up to the date of the SGM) is essential to allow the Company to get the required capital of approximately HK\$26 million ready before December 2023 by utilizing the New General Mandate instead of passively waiting for the refreshment of general mandate at the 2023 AGM expected to be held around December 2023 and allowing the bond payable in the amount of approximately HK\$26 million to default.

In view of (i) the significantly enlarged issued share capital of the Company due to the Rights Issue, (ii) the 2023 AGM is expected to be held around December 2023, which is about 8 months away from the Latest Practicable Date, (iii) after taking into account the possible deferment and discount on bond payables of HK\$45 million and the possible proceeds from the CB Placing of HK\$38 million, the remaining outstanding bond payable due for repayment before the end of 31 March 2024 still amounts to approximately HK\$87.25 million; (iv) the theoretical fund-raising of approximately HK\$7.1 million (before expenses) under the Existing General Mandate has little to no meaningful value in the context of the Group's imminent need to raise capital for approximately HK\$26 million and HK\$87.25 million in outstanding bonds due for repayment by December 2023 and March 2024, respectively; (v) the theoretical fund-raising of approximately HK\$24.8 million (before expenses) under the New General Mandate (assuming no change in the Company's issued share capital from the Latest Practicable Date up to the date of the SGM) is essential to allow the Company to get the required capital of approximately HK\$26 million ready by December 2023 by utilizing the New General Mandate instead of passively waiting for the refreshment of general mandate at the 2023 AGM expected to be held around December 2023 and allowing the bond payable in the amount of approximately HK\$26 million to default; and (vi) the theoretical fund-raising of approximately HK\$24.8 million (before expenses) under the New General Mandate (assuming no change in the Company's issued share capital from the Latest Practicable Date up to the date of the SGM) represents a significant improvement over that of the Existing General Mandate, we are of the view that cost of potentially not capturing the aforementioned investment opportunities and reaping the benefits thereof far outweighs the cost of potential default of the Company's indebtedness.

As disclosed in the Board Letter and 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 fund-raising 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 fund-raising 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. We are of the view that the Refreshment of General Mandate would enable the Company to capture better timing for fund-raising before the 2023 AGM. Nevertheless, the Refreshment of General Mandate would enhance the financial flexibility of the Group to raise the necessary financing to make timely decision if attractive offer for investment in the Shares is received from potential

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investors before the 2023 AGM. Having said that, as at the Latest Practicable Date, the Group is not in negotiation (whether concluded or not) in respect of any issue of new Shares which will utilise the New General Mandate, but will be actively looking for suitable fund-raising 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 once the New General Mandate is available to ensure the bond payable in the amount of HK\$64 million falling due by December 2023 could be discharged.

Having considered (i) while the Group is already proposing the CB Placing, additional debt financing may be subject to lengthy due diligence and additional interest/principal repayment burden will be incurred on the Group, which exerts additional financial pressure to the Group's net current liabilities and net liabilities positions; and (ii) while the Company has already completed the Rights Issue on 27 January 2023, further rights issue or open offer may involve substantial time, administrative work and cost to complete, as such we are of the view that the proposed Refreshment of General Mandate will provide the Company with an additional alternative and it is reasonable for the Company to have flexibility and discretion in deciding the financing methods for its debt servicing obligations. As a result, we consider that raising funds through issue of new Shares under the New General Mandate can better control the completion risk and is more cost effective and time efficient compared to other financing alternatives.

Having considered the above, we consider that the proposed Refreshment of General Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Proposed Refreshment of Scheme Mandate Limit

3.1 Information on the proposed Refreshment of Scheme Mandate Limit

As mentioned earlier and 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.

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3.2 Reasons for the proposed Refreshment of Scheme Mandate Limit

As discussed in the section 2.2 of this letter, 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 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 the Circular).

3.3 Our analysis on the Refreshment of Scheme Mandate Limit

We are given to understand that (i) the Group completed the Rights Issue to raise further capital to ease liquidity pressure arisen from the aforementioned repayment obligations on outstanding bonds payable; (ii) the Company entered into the CB Placing Agreement with the Placing Agent to subscribe in cash for the Convertible Bonds which the net proceeds are expected to be utilised for repayment of the Company's indebtedness and interest expenses, and general working capital; (iii) the Company is in the process of negotiating, on a best effort basis, for a settlement of a bond payable to several bondholders in the amount of HK\$45 million for deferment and discount; and (iv) the Group is actively seeking for opportunity to carry out new projects and transactions which could bring economic value and benefit to Shareholders. Therefore, we consider that having the Refreshment of Scheme Mandate Limit is a prudent approach in maintaining the Group's ability to provide incentives or rewards to eligible participants for their contributions to the Group.

Upon our review of the 2022 Interim Report, we note that a total of 4,956,777 share options (the "**Old Share Options**") under the old share option scheme (the "**Old Share Option Scheme**", defined as "**Existing Share Option Scheme**" in the Company's circular (the "**2022 AGM Circular**") dated 14 November 2022 identifying the old share option scheme adopted by the Company on 20 December 2012) were granted to eligible participants and remain outstanding as at 31 December 2022. As per the 2022 AGM Circular, the Old Share Options will continue to be valid and exercisable in accordance with the provisions of the Old Share Option Scheme which already expired on 19 December 2022. However, the 2022 Interim Report also states

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that the Old Share Options shall expire on 2 November 2023 which is roughly 6 months away from the Latest Practicable Date. As the completion of the Rights Issue (i.e. 27 January 2023) occurred shortly after the date of adoption of the Share Option Scheme (i.e. 14 December 2022), this exceptional case has currently resulted in a mismatch in the maximum number of 15,072,804 Share Options that may be granted under the Share Option Scheme versus the Company's issued share capital as at the Latest Practicable Date and as enlarged by the Rights Issue. Should the Refreshment of Scheme Mandate Limit be approved by the Independent Shareholders, the maximum number of Share Options that may be granted will be refreshed to 52,754,816 Share Options, representing approximately 10% of the Company's issued share capital as at the date of the SGM (assuming no further changes in the Company's issued share capital from the Latest Practicable Date up to the date of SGM). In the event that the Refreshment of Scheme Mandate Limited is not granted and the Company refreshes the existing Scheme Mandate Limit after the 3-year period stipulated under Rule 17.03C(1), it is expected that the Company can only conduct such refreshment on or after 14 December 2025 which is roughly 2 years and 8 months away from the Latest Practicable Date which would severely limit the effectiveness and the Company's discretion in utilizing the Share Option Scheme during this prolonged period. Given the expiry of the Old Share Options in the not too distant future on 2 November 2023, this will provide the Company with more flexibility in achieving the stated purpose of the Share Option Scheme, i.e. enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group with the extent of such ability matching the scale of the Company based on its current issued share capital of the Company as enlarged by the Rights Issue in January 2023.

Having considered the above, we consider that the proposed Refreshment of Scheme Mandate Limit is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. Potential dilution of shareholding of the Shareholders

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon full utilization of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit (assuming no other Shares are issued and/or repurchased and cancelled by the Company from the Latest Practicable Date up to and including the date when the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit is utilized in full) and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares; and (iii) upon full conversion of the Convertible Bonds at the initial Conversion Price and full utilization of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit (assuming no other Shares are issued and/or repurchased and cancelled by the Company from the Latest Practicable Date up to and including the date when the Refreshment of General Mandate and the

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Refreshment of Scheme Mandate Limit is utilized in full other than full conversion of the Convertible Bonds) and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares, for illustrative and reference purpose:

Shareholders	As at the Latest Practicable Date		Upon full utilization of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit (assuming there is no other change in the shareholding structure of the Company from the Latest Practicable Date) and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares		Upon full conversion of the Convertible Bonds at the initial Conversion Price and full utilization of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit (assuming no other Shares are issued and/or repurchased and cancelled by the Company from the Latest Practicable Date up to and including the date when the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit is utilized in full other than full conversion of the Convertible Bonds) and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares	
	<i>No. of Shares held</i>	<i>Approximate % of total Shares in issue</i>	<i>No. of Shares held</i>	<i>Approximate % of total Shares in issue</i>	<i>No. of Shares held</i>	<i>Approximate % of total Shares in issue</i>
Substantial Shareholders						
Mr. Chan Yuen Tung	116,048,147	22.00	116,048,147	16.92	116,048,147	12.95
Mr. Chiau Che Kong	69,175,416	13.11	69,175,416	10.09	69,175,416	7.72
Directors						
Ms. Chan Yuk Foebe	143,000	0.03	143,000	0.02	143,000	0.02
Mr. Gao Ran	122,000	0.02	122,000	0.02	122,000	0.01
Mr. Liu Yangyang	166,000	0.03	166,000	0.02	166,000	0.02
Other public Shareholders	341,893,605	64.81	341,893,605	49.85	341,893,605	38.17
Maximum number of new Shares that can be issued under the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit	-	-	158,264,449	23.08	158,264,449	17.67
Places	-	-	-	-	210,000,000	23.44
Total	<u>527,548,168</u>	<u>100.00</u>	<u>685,812,617</u>	<u>100.00</u>	<u>895,812,617</u>	<u>100.00</u>

LETTER FROM GRAND MOORE CAPITAL

As illustrated above, the shareholding of the existing public Shareholders would be diluted from approximately 64.81% to (i) approximately 49.85% upon full utilisation of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares and (ii) approximately 38.17% upon full conversion of the Convertible Bonds at the initial Conversion Price and full utilisation of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares.

Taking into consideration that (i) the grant of the Refreshment of General Mandate will empower the Directors to issue new Shares under the refreshed limit and provide the Company with the flexibility and ability to capture any appropriate capital raising or to capture opportunities in a timely manner if attractive offer for investment in the Shares is received from potential investors before the 2023 AGM; (ii) the grant of the Refreshment of General Mandate does not create any interest paying obligations on the Group; (iii) the theoretical fund-raising of approximately HK\$24.8 million (before expenses) under the New General Mandate (assuming no change in the Company's issued share capital from the Latest Practicable Date up to the date of the SGM) is essential to allow the Company to get the required capital of approximately HK\$26 million ready by December 2023 by utilizing the New General Mandate instead of passively waiting for the refreshment of general mandate at the 2023 AGM expected to be held around December 2023 and allowing the bond payable in the amount of approximately HK\$26 million to default as discussed in section 2.3 of this letter; and (iv) the Refreshment of Scheme Mandate Limit would allow the Group to have additional flexibilities in providing incentives or rewards to eligible participants for their contributions to the Group, we consider that the dilution effect on the shareholding interests of the existing public Shareholders as a result of the grant of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit is acceptable.

5. Fund-raising in the past twelve months

In the last twelve months immediately prior to the Latest Practicable Date, the Company completed the Rights Issue on 27 January 2023, with total net proceeds raised of approximately HK\$77,600,000, of which HK\$67,600,000 was expected to be utilised for the repayment of the Group's indebtedness and interest expenses and approximately HK\$10,000,000 was expected to be utilised as general working capital of the Group. As stated in the Board Letter, the Group utilized HK\$71,500,000 for the repayment of the Group's indebtedness and interest expenses and approximately HK\$6,100,000 for the general working capital of the Group.

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OPINION AND RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that the proposed Refreshment of General Mandate and Refreshment of Scheme Mandate Limit, although not in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, we would recommend (i) the Independent Shareholders; and (ii) the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the proposed Refreshment of General Mandate and Refreshment of Scheme Mandate Limit.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited
Kevin So

Managing Director – Investment Banking Department

Note: Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 20 years of experience in the corporate finance industry in Hong Kong.

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.

1. SHARE CAPITAL

(A) Share Capital

The authorised and issued share capital of the Company:

(i) *As at the Latest Practicable Date*

<i>Authorised:</i>	<i>HK\$</i>
<u>5,000,000,000</u> Shares of HK\$0.10 each	<u>500,000,000.00</u>

Issued and fully-paid:

<u>527,548,168</u> Shares of HK\$0.10 each	<u>52,754,816.80</u>
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(ii) *Immediately following the completion of the CB Placing and full conversion of the Convertible Bonds (assuming no change in the number of issued Shares)*

<i>Authorised:</i>	<i>HK\$</i>
<u>5,000,000,000</u> Shares of HK\$0.10 each	<u>500,000,000.00</u>

Issued and fully-paid:

527,548,168 Shares of HK\$0.10 each	52,754,816.80
210,000,000 Conversion Shares to be allotted and issued upon full conversion of the Convertible Bonds	21,000,000.00
<u>737,548,168</u> Shares of HK\$0.10 each	<u>73,754,816.80</u>

All the Shares in issue are fully-paid and rank *pari passu* in all respects including all rights as to dividends, voting and return of capital.

The Conversion Shares to be issued will be listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Conversion Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there is no arrangement under which future dividends are/will be waived or agreed to be waived.

As at the Latest Practicable Date, save as disclosed, the Company had no other outstanding warrants, options or convertible or exchangeable securities in issue which would otherwise confer any right to subscribe for, convert or exchange into Shares.

(B) Share Option Scheme

As at the Latest Practicable Date, the Company has an outstanding 4,974,455 share options granted to the grantees, details of which are set out below:

Date of grant	Vesting Period	Exercise period	Exercise price at date of grant	Number of outstanding Share Options
3 November 2020	3 November 2020	3 November 2020 to 2 November 2023	7.91	4,974,455

(C) The Convertible Bonds

As at the Latest Practicable Date, the Company has outstanding convertible bonds in the amount of HK\$20,000,000, which 10,542,165 new Shares will be issued upon exercise of the conversion rights under the convertible bonds at the conversion price of HK\$1.90 per conversion Share.

The conversion period is the period commencing from (and including) the issue date of the convertible bonds, being 13 November 2020, and ending on (but excluding) the fifth day prior to the maturity date of the convertible bonds, being the date of the third anniversary of the issue date of the convertible bonds.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in shares and underlying shares

at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company and their associates 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 (i) would have to be 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 were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Long and short positions in Shares and underlying Shares

Name of Director	Nature of interest	Number of Shares/ underlying Shares held	Approximately percentage or attributable percentage of shareholding
Ms. Chan Yuk Foebe	Beneficial owner	143,000(L)	0.03%
Mr. Gao Ran	Beneficial owner	122,000(L)	0.02%
Mr. Liu Yangyang	Beneficial owner	166,000(L)	0.03%

(L) denotes long position

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at the Latest Practicable Date, none of the Directors is a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial Shareholders' interests and short positions in shares and underlying shares

As at the Latest Practicable Date, so far as any Directors are aware, the interest or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares, underlying Shares or debentures of the Company which are required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the issued voting shares of any member of the Group were as follows:

Long and short positions in Shares and underlying Shares

Name of Substantial Shareholder	Nature of interest	Number of Shares/ underlying Shares held	Approximately percentage or attributable percentage of shareholding
Mr. Chan Yuen Tung	Beneficial owner	116,048,147(L)	22.00%
Mr. Chiau Che Kong	Beneficial owner	69,175,416(L)	13.11%

(L) denotes long position

Saved as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying Shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the issued voting shares of any member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contracts with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors, directly or indirectly, had any interest in any assets which have been since 30 June 2022 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to or by any member of the Group, or are proposed to be acquired or disposed of by or leased to or by any member of the Group.

5. INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors or the controlling Shareholders or their respective associates had interests in any business which competes or may compete, either directly or indirectly, with the businesses of the Group or has or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

6. LITIGATION AND CLAIMS

As at the Latest Practicable Date, there was no litigation or claim of material importance pending or threatened against any member of the Group.

7. EXPERTS AND CONSENTS

The following sets out the qualifications of the expert(s) who have been named in this circular:

Name	Qualifications
Grand Moore Capital	a corporation licensed by the Securities and Futures Commission to Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 572, laws of Hong Kong)

Grand Moore Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report (as the case may be) and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert:

- (a) did not have any shareholding, either directly or indirectly, in any member of the Group;
- (b) did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any interest, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 30 June 2022 (the date to which the latest published audited accounts of the Company were made up).

The letter from Grand Moore Capital dated 28 April 2023 set out on pages 32 to 48 in this circular was given for incorporation in this circular.

8. CORPORATE INFORMATION

Registered office	Victoria Place, 5th Floor 31 Victoria Street Hamilton HM10 Bermuda
Head office and principal place of business	Room 4007, 40/F China Resources Building 26 Harbour Road Wanchai Hong Kong
Company secretary	Mr. Ma Kin Ling (a member of the HKICPA)
Authorised representatives	Ms. Chan Yuk Foebe Mr. Law Tze Ping Eric
Share registrar in Hong Kong	Tricor Tengis Limited 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong

Principal bankers	Bank of China (Hong Kong) Limited Bank of China Tower 1 Garden Road Central Hong Kong
	Agricultural Bank of China No. 462 Zhong Yang Road Heihe City Heilongjiang Province PRC
Auditors and reporting accountants	McMillan Woods (Hong Kong) CPA Limited <i>Certified Public Accountants</i> 24/F, Siu On Centre 188 Lockhart Road Wanchai, Hong Kong
Legal adviser to the Company as to Hong Kong laws	Michael Li & Co. 19th Floor, Prosperity Tower 39 Queen's Road Central Central, Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Grand Moore Capital Limited Unit 1401, 14/F, Lippo Sun Plaza 28 Canton Road, Tsim Sha Tsui Kowloon, Hong Kong
Placing Agent	Koala Securities Limited Units 01-02, 13/F, Everbright Centre 108 Gloucester Road Wanchai, Hong Kong

9. NO MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 30 June 2022, the date to which the latest published audited consolidated financial statements of the Group were made up.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange and the website of the Company for a period of 14 days from the date of this circular:

- (a) the CB Placing Agreement;
- (b) the letter from the Board dated 28 April 2023, the text of which is set out on pages 6 to 29 of this circular;
- (c) the letter from the Independent Board Committee dated 28 April 2023, the text of which is set out on pages 30 to 31 of this circular;
- (d) the letter from Grand Moore Capital dated 28 April 2023, the text of which is set out on pages 32 to 48 of this circular;
- (e) the letter of consent from Grand Moore Capital dated 28 April 2023 referred to in the above paragraph headed “8. Experts and Consents” in this appendix; and
- (f) this circular.

NOTICE OF SGM



China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the “**SGM**”) of China Zenith Chemical Group Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) will be held at Room 4007, 40/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong at 4:00 p.m. on Tuesday, 16 May, 2023 for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the conditional placing agreement (the “**CB Placing Agreement**”) dated 3 April 2023 and entered into between the Company as issuer and Koala Securities Limited as the placing agent in relation to the placing of the 3% coupon convertible bonds due on the second (2nd) anniversary of the issue date in the principal amount of up to HK\$44,100,000 to be issued by the Company (the “**Convertible Bonds**”) (a copy of the CB Placing Agreement having been produced to the SGM and marked “A” and initialed by the chairman of the SGM for the purpose of identification), and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Bonds and the allotment and issue of the conversion Shares (the “**Conversion Shares**”) upon exercise of conversion rights attaching to the Convertible Bonds) be and are hereby approved, confirmed and ratified;
- (b) the board of Directors be and is hereby granted a specific mandate to allot and issue the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds in accordance with the terms and conditions of the Convertible Bonds; and
- (c) any one or more Director(s) be and is/are hereby authorised to implement and take all steps and do all acts and things and execute all such documents (including under seal, where applicable) which he/she/they consider(s) necessary, desirable or expedient to give effect to the CB Placing Agreement, the

NOTICE OF SGM

Convertible Bonds the transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

2. **“THAT:**

- (a) the general mandate (the **“Existing General Mandate”**) granted to the directors of the Company (the **“Directors”**) to allot, issue and deal with the unissued shares of the Company pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 14 December 2022 (the **“2022 AGM”**) be and is hereby revoked (without prejudice to any valid exercise of the Existing General Mandate prior to the passing of this resolution);
- (b) subject to paragraph (d) below, a general mandate be and is hereby unconditionally granted to the Directors to exercise during the Relevant Period (as defined in paragraph (e) below) all the powers of the Company to allot, issue and deal with additional shares of HK\$0.10 each in the share capital of the Company (each a **“Share”**) and to make or grant offers, agreements, options (including bonds, warrants and debentures convertible into Shares) or warrants which would or might require the exercise of such powers, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time);
- (c) the mandate approved in paragraph (b) of this resolution above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements, options (including bonds, warrants and debentures convertible into Shares) and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;
- (d) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the mandate approved in paragraph (b) above, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (e) below); or (ii) any option scheme or similar arrangement for the time being adopted by the Company for the purpose of granting or issuing Shares or right to acquire Shares to the directors, officers and/or employees of the Company and/or any of its subsidiaries; or (iii) an issue of Share in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company from time to time; or (iv) pursuant to a specific authority granted by the Shareholders; or (v) an issue of Shares as scrip dividend or similar arrangement in accordance with the articles of association of the Company from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the said mandate shall be limited accordingly; and

NOTICE OF SGM

(e) for the purpose of this resolution:

“**Relevant Period**” means the period from the date of the passing of this resolution until whichever is 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 by the articles of association of the Company or any applicable laws to be held; and (iii) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution of the Company in general meeting.

“**Rights Issue**” means an offer of Shares open for a period fixed by the Directors to holders of Shares or any class thereof on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any legal restrictions or obligations under the laws of the relevant jurisdiction, or the requirements of any recognized regulatory body or any stock exchange, in any territory outside Hong Kong).”

3. “**THAT:**

conditional upon the passing of resolution no. 2 above, the mandate granted to the Directors at the 2022 AGM to extend the Existing General Mandate by the addition thereto an amount representing the aggregate nominal amount of Shares purchased or otherwise acquired by the Company be and is hereby revoked and replaced by a mandate THAT the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with Shares pursuant to paragraph (b) of resolution no.2 above be and is hereby extended by the addition thereto an amount representing the aggregate nominal amount of Shares purchased or otherwise acquired by the Company pursuant to the authority granted to the Directors pursuant to the ordinary resolution passed at the 2022 AGM, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the 2022 AGM.”

NOTICE OF SGM

4. “**THAT** the existing scheme mandate limit under the share option scheme of the Company adopted by a resolution of the Shareholders dated 14 December 2022 (the “**Share Option Scheme**”) be refreshed so that the aggregate number of shares of the Company to be allotted and issued pursuant to the grant or exercise of the options under the Share Option Scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme) shall not exceed 10% of the aggregate number of shares of the Company in issue as at the date of passing this resolution (the “**Refreshed Limit**”) and that the Directors be and are authorised, subject to compliance with the Listing Rules, to grant options under the Share Option Scheme up to the Refreshed Limit and to exercise all powers of the Company to allot, issue and deal with Shares of the Company pursuant to the exercise of such options.”

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

Hong Kong, 28 April 2023

Registered office:

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

Head office and principal place of business in Hong Kong:

Room 4007, 40/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll vote may be given either personally or by proxy. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
3. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.

NOTICE OF SGM

4. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting in cases where the SGM was originally held within 12 months from such date.
5. Where there are joint holders of any shares, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the SGM if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.
7. The Company's register of members will be closed during the period from Thursday, 11 May 2023 to Tuesday, 16 May 2023, both days inclusive, for the purpose of ascertaining the Shareholders' entitlement to attend and vote at the SGM. In order to be eligible to attend and vote at the SGM, all duly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited located at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 10 May 2023.
8. The voting at the SGM (or any adjournment thereof) shall be taken by way of poll.