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HUAFENG  
華 豐

## **Huafeng Group Holdings Limited** **華豐集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 364)**

- (1) VERY SUBSTANTIAL ACQUISITION AND  
CONNECTED TRANSACTION;**
- (2) PROPOSED GRANT OF SPECIFIC MANDATE TO  
ISSUE SHARES;**
- (3) PROPOSED INCREASE IN  
AUTHORIZED SHARE CAPITAL;**
- (4) APPLICATION FOR WHITEWASH WAIVER; AND**
- (5) TRADING HALT AND RESUMPTION OF TRADING**

**Financial Adviser to Huafeng Group Holdings Limited**



### **THE ACQUISITION**

On 17 January 2013, the Purchaser, a wholly-owned subsidiary of the Company, the Company as the Purchaser's guarantor and the Vendors, among others, entered into the Sale and Purchase Agreement pursuant to which the Purchaser has conditionally agreed to purchase from the Vendors, and the Vendors have conditionally agreed to sell to the

Purchaser, the Sale Shares, representing the entire issued share capital of the Target Company, at a total Consideration (as defined below) of HK\$2,487.48 million, which will be satisfied partly in cash and partly by the allotment and issue of the Consideration Shares and the issue of the Convertible Bonds. Subject to and in accordance with the terms and conditions of the Sale and Purchase Agreement, the Target Company shall become a wholly-owned subsidiary of the Purchaser and the Company upon completion of the Acquisition.

## **IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. In addition, Exalt Wealth, Shine Strategy and Smart Fujian, each being one of the Vendors, holds 13.07%, 9.07% and 45.57% of the issued share capital of the Target Company, respectively, as at the date of this announcement. Exalt Wealth is wholly-owned by Mr. Cai Zhenyao, a Director and a director of the Target Company; Shine Strategy is wholly-owned by Mr. Ng, nephew of both Mr. Cai Zhenrong (the controlling shareholder of the Company and a Director) and Mr. Cai Zhenyao; and Ms. Ng, the daughter-in-law of Mr. Cai Zhenrong, indirectly holds the entire issued share capital of Smart Fujian. Ms. Ng, in turn, holds shares in the Target Company through Smart Fujian by acting as the sole beneficiary of the Greatlink Trust. Ms. Ng and Mr. Cai Zhenrong entered into a declaration of trust dated 9 October 2012. Under such arrangement, Ms. Ng holds the shares of the Target Company as well as any shares of the holding companies of the Target Company on trust and for the benefit of Mr. Cai Zhenrong. Mr. Cai Zhenrong is, therefore, the sole ultimate beneficial owner of the shares of the Target Company held by Smart Fujian. Accordingly, Exalt Wealth, Shine Strategy, Smart Fujian, Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Ng and Ms. Ng are connected persons of the Company, and the Acquisition constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. Therefore, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. Accordingly, the Company will seek the approval of the Independent Shareholders at the EGM by way of poll for approving the Sale and Purchase Agreement and the transactions contemplated thereunder. Mr. Cai Zhenrong, Mr. Cai Zhenyao and their respective associates are required to abstain from voting on the relevant resolutions to be proposed at the EGM.

After the execution of the New Transfer Agreements (as defined below) and the obtaining of the Additional Forest Lands Approval (as defined below), the Target Group Controlling Shareholders would procure Mr. Cai Zhenying or any other person nominated by the Target Group Controlling Shareholders to enter into a contracting agreement with Fujian Daping (the “**New Contracting Agreement**”), pursuant to which the Target Group will acquire the right to operate all the plantations on the Additional Forest Lands (as defined below) and will be entitled to the incomes derived therefrom (collectively, the “**New Rights**”) at nil consideration until the earlier of the date when the relevant forest rights certificates of the 8K mu Ecological Forest Lands (as defined below) are issued or the expiry date of the duration of the respective Contracting Agreements (as defined below). As the Target Group Controlling Shareholders and Mr. Cai Zhenying or any other person nominated by the Target Group Controlling Shareholders are connected persons of the Company, the contemplated transactions will constitute continuing connected transactions of the Group upon the completion of the Acquisition. The applicable percentage ratios under Rule 14.07 of the Listing Rules for the contemplated transactions are expected to be less than 0.1% and they will be exempted from the requirements of reporting, announcement and independent shareholders’ approval under the Rule 14A.33(3)(a) of the Listing Rules.

## **PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES**

The Company will seek the grant of a specific mandate from the Independent Shareholders to allot and issue new Shares to satisfy the allotment and issue of the Consideration Shares and the Conversion Shares which fall to be issued upon conversion of the Convertible Bonds.

## **PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL OF THE COMPANY**

As at the date of this announcement, the authorized share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each. At the EGM, the Company will seek the approval of the Shareholders to increase the authorized share capital of the Company to HK\$200,000,000 divided into 20,000,000,000 Shares of HK\$0.01 each so that there will be adequate authorized share capital to issue the Consideration Shares and the Conversion Shares.

## **IMPLICATIONS OF THE ACQUISITION UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER**

As at the date of this announcement, Mr. Cai Zhenrong and parties acting in concert with him hold 523,563,000 Shares representing approximately 34.47% of the total Shares in issue. Immediately following the allotment and issue of the Consideration Shares to the Vendors, the shareholding of Mr. Cai Zhenrong and parties acting in concert with him will increase to approximately 73.93% of the total Shares in issue as enlarged by the allotment and issue of the Consideration Shares but before conversion or exercise of any Convertible Bonds, Other Convertible Bonds and Outstanding Share Options. Under Rule 26.1 of the Takeovers Code, Mr. Cai Zhenrong and parties acting in concert with him would be required to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be acquired by Mr. Cai Zhenrong and parties acting in concert with him, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive.

An application will therefore be made by Mr. Cai Zhenrong to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to, among other things, (i) approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM where voting on the relevant resolutions shall be taken by poll, (ii) Mr. Cai Zhenrong and parties acting in concert with him not having acquired any voting rights of the Company for the six months before the execution of the Sale and Purchase Agreement and up to the date of this announcement, and (iii) Mr. Cai Zhenrong and parties acting in concert with him not having any acquisitions or disposals of voting rights of the Company between the date of this announcement and completion of the issue of the Consideration Shares to the Vendors unless with the prior consent of the Executive.

Except for the disposal of 1,000,000 Shares by Mr. Choi Wing Toon on 20 July 2012 through the market, Mr. Cai Zhenrong and parties acting in concert with him have not acquired any voting rights of the Company or dealt with any Relevant Securities for the six months before the execution of the Sale and Purchase Agreement and up to the date of this announcement.

**The Executive may or may not grant the Whitewash Waiver. It is one of the conditions precedent to completion of the Acquisition that the Whitewash Waiver has been obtained. In the event that the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders, the Sale and Purchase Agreement will lapse and the Acquisition will not proceed.**

## **GENERAL**

**It should be noted that the Acquisition is subject to a number of conditions, which may or may not be fulfilled. In addition, the Whitewash Waiver may or may not be granted. Shareholders and potential investors should exercise caution when they deal or contemplate dealing in the Shares or other securities of the Company.**

## **TRADING HALT AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was halted from 9:00 a.m. on 17 January 2013 pending the release of this announcement. The Company has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 18 January 2013.

## **INTRODUCTION**

Reference is made to the announcements of the Company dated 7 February 2012, 2 May 2012 and 29 November 2012 in relation to negotiation with connected persons and independent third parties on possible acquisition. The relevant parties entered into the Sale and Purchase Agreement in respect of the said acquisition on 17 January 2013.

## **THE ACQUISITION**

### **The Sale and Purchase Agreement**

***Date:*** 17 January 2013

#### ***Parties***

**Purchaser:** Wide Lucky Asia Pacific Limited, a wholly-owned subsidiary of the Company

**Guarantor:** the Company

**Vendors:**

- 1) Ample Gold, which holds 3,968,359 shares of the Target Company as at the date of this announcement, representing approximately 3% of the total issued share capital of the Target Company as at the date of this announcement;
- 2) Exalt Wealth, which holds 17,285,695 shares of the Target Company as at the date of this announcement, representing approximately 13.07% of the total issued share capital of the Target Company as at the date of this announcement;

- 3) Great Vantage, which holds 8,445,833 shares of the Target Company as at the date of this announcement, representing approximately 6.38% of the total issued share capital of the Target Company as at the date of this announcement;
- 4) Shine Strategy, which holds 12,003,955 shares of the Target Company as at the date of this announcement, representing approximately 9.07% of the total issued share capital of the Target Company as at the date of this announcement;
- 5) Smart Fujian, which holds 60,266,852 shares of the Target Company as at the date of this announcement, representing approximately 45.57% of the total issued share capital of the Target Company as at the date of this announcement;
- 6) Templeton, which holds 10,102,646 shares of the Target Company as at the date of this announcement, representing approximately 7.64% of the total issued share capital of the Target Company as at the date of this announcement; and
- 7) Teya, which holds 20,205,292 shares of the Target Company as at the date of this announcement, representing approximately 15.27% of the total issued share capital of the Target Company as at the date of this announcement.

Other parties:

- 1) The Target Company;
- 2) China Tea BVI, a subsidiary of the Target Company;
- 3) Citiasia, a subsidiary of the Target Company;
- 4) Mr. Cai Zhenrong;
- 5) Ms. Ng;
- 6) Mr. Cai Zhenyao;
- 7) Mr. Ng; and
- 8) Mr. Cai Yangbo, a Director.

Exalt Wealth is wholly-owned by Mr. Cai Zhenyao, a Director and a director of the Target Company; Shine Strategy is wholly-owned by Mr. Ng, nephew of both Mr. Cai Zhenrong (the controlling shareholder of the Company and a Director) and Mr. Cai Zhenyao; and Ms. Ng, the daughter-in-law of Mr. Cai Zhenrong, indirectly holds the entire issued share capital of Smart Fujian. Ms Ng, in turn, holds shares in the Target Company through Smart Fujian by acting as the sole beneficiary of the Greatlink Trust. Ms. Ng and Mr. Cai Zhenrong entered into a declaration of trust dated 9 October 2012. Under such arrangement, Ms. Ng holds the shares of the Target Company as well as any shares of the holding companies of the Target Company on trust and for the benefit of Mr. Cai Zhenrong. Mr. Cai Zhenrong is, therefore, the sole ultimate beneficial owner of the shares of the Target Company held by Smart Fujian. Accordingly, Exalt Wealth, Shine Strategy, Smart Fujian, Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Ng and Ms. Ng are connected persons of the Company. Save as disclosed above, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Vendors, each of the Target Group companies and their respective ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

### ***Subject matter***

The Sale and Purchase Agreement sets out the terms and conditions upon which the Purchaser has conditionally agreed to purchase from the Vendors, and the Vendors have conditionally agreed to sell to the Purchaser, the Sale Shares, representing the entire issued share capital of the Target Company.

### ***Consideration***

The consideration for the sale and purchase of the Sale Shares is in aggregate HK\$2,487.48 million (the "**Consideration**"), representing approximately HK\$18.8 per Sale Share, of which approximately HK\$1,684.10 million is payable to Exalt Wealth, Smart Fujian and Shine Strategy, representing approximately 67.70% of the Consideration, and approximately HK\$803.38 million is payable to the Financial Investors and Ample Gold, representing approximately 32.30% of the Consideration, being an amount based on a profit earning ratio of approximately 10.5 times of the audited net profit attributable to the parent company of the Target Company for the year ended 31 December 2011.

The Consideration payable by the Purchaser to each of the Vendors is listed as follows:

| <b>Vendors</b> | <b>Amount of<br/>Consideration<br/>to be settled<br/>in cash<br/>(approximately<br/>HK\$ million)</b> | <b>Amount of<br/>Consideration<br/>to be settled<br/>by the issue<br/>of the<br/>Consideration<br/>Shares<br/>(approximately<br/>HK\$ million)</b> | <b>Amount of<br/>Consideration<br/>to be settled<br/>by the issue<br/>of the<br/>Convertible<br/>Bonds<br/>(approximately<br/>HK\$ million)</b> | <b>Total<br/>Consideration<br/>(approximately<br/>HK\$ million)</b> |
|----------------|---|--|---|---|
| Exalt Wealth   | –   | 260.04   | 65.01   | 325.05  |
| Smart Fujian   | –   | 906.65   | 226.66  | 1,133.31  |
| Shine Strategy | –   | 180.59   | 45.15   | 225.74  |
| Teya           | 91.68   | 156.82   | 131.45  | 379.95  |
| Templeton      | 45.84   | 78.41  | 65.73   | 189.98  |
| Great Vantage  | 38.32   | 65.55  | 54.95   | 158.82  |
| Ample Gold     | 18.01   | 30.80  | 25.82   | 74.63   |
| <b>Total</b>   | <b>193.85</b>   | <b>1,678.86</b>  | <b>614.77</b>   | <b>2,487.48</b>   |

The Consideration will be satisfied in the following manner:

- (a) for Teya, Templeton, Great Vantage and Ample Gold, an aggregate of approximately HK\$193.85 million of their portion of the Consideration shall be paid in cash and their remaining portion of the Consideration will be settled by the issue of the Consideration Shares and Convertible Bonds. The portion of the Consideration to be settled in cash (approximately HK\$193.85 million) will be paid in two installments to Teya, Templeton, Great Vantage and Ample Gold, calculated based on the proportion of their respective shareholding in the Target Company. The first installment which represents 50% of the cash Consideration will be settled at the completion of the Acquisition and the second installment which represents 50% of the cash Consideration will be settled six months after the completion of the Acquisition together with an interest at a simple interest rate of 4% per annum; and
- (b) for Exalt Wealth, Shine Strategy and Smart Fujian, their portion of the Consideration will be settled by the issue of the Consideration Shares and Convertible Bonds.



The Company has unconditionally and irrevocably guaranteed to the Vendors the due and punctual payment of all amounts payable by the Purchaser under the Sale and Purchase Agreement, including but not limited to its obligation to settle the Consideration.

Further details of the Consideration Shares and the Convertible Bonds are set out in the section headed “Information on the Consideration Shares and Convertible Bonds” below.

For the avoidance of doubt, after completion of the Acquisition, the Vendors shall have all rights, benefits, interests and privileges attaching to the Consideration Shares and the Conversion Shares, credited as fully paid, to be issued and allotted upon the exercise of the conversion rights of the Convertible Bonds.

The portion of the Consideration to be settled in cash will be satisfied by the internal resources of the Group and/or proceeds from possible fund raising activities as may be conducted by the Company, such as placing of new Shares to independent third parties, loan or other credit facilities to be extended to the Company, or a combination of any of the above which the Board considers as appropriate and in the best interest of the Company and Shareholders under the then market condition. Taking into account of the financial position of the Group as at the date of this announcement, the Directors are of the view that the Purchaser is able to proceed with the Acquisition even without any fund raising activities. As at the date of this announcement, the Company has not identified any fund raising activities or signed any contract in relation to the Acquisition and the transactions contemplated thereunder. Should the Directors agree to conduct any fund raising activities in relation to the Acquisition and the transactions contemplated thereunder, the Company will publish an announcement where required under the Listing Rules.

The Consideration was arrived at after arm’s length negotiations among the Purchaser, the Company and the Vendors having regard to a number of factors including the historical profitability, financial performance and operational track record of the Target Group, the industry prospects in which the Target Group operates in, and the reasons and benefits for the Acquisition as described below.

### ***Original purchase cost and purchase date of the Sale Shares***

The Vendors have acquired the Sale Shares as a result of the reorganization undergone by the Target Group or by subscription of the shares of the Target Group. The investment cost paid by each of the Vendors is summarized as follows:

| <b>Vendors</b> | <b>Investment cost</b>               | <b>Date of purchase</b>                                  |
|----------------|--------------------------------------|--|
| Exalt Wealth   | Approximately                        | 23 April 2007,   |
| Shine Strategy | HK\$45.635 million ( <i>note 1</i> ) | 21 December 2009,  |
| Smart Fujian   |                                      | 7 September 2010 and<br>22 August 2011 ( <i>note 1</i> ) |
| Teya           | US\$18.779 million ( <i>note 2</i> ) | 4 October 2010 ( <i>note 2</i> )                         |
| Templeton      | US\$9.389 million ( <i>note 2</i> )  | 4 October 2010 ( <i>note 2</i> )                         |
| Great Vantage  | US\$15.000 million ( <i>note 1</i> ) | 22 August 2011   |
| Ample Gold     | ( <i>note 3</i> )                    | 1 April 2011 ( <i>note 3</i> )                           |

*Note 1:* The first Target Group company, namely Citiasia was incorporated on 17 April 2007 and on 23 April 2007 one subscriber share was transferred to and 99 new shares were issued to Lian Bi Yu, who held the shares on trust and for the benefit of Mr. Cai Zhenyao, Mr. Ng and Ms. Ng. Immediately after the allotment of 99,900 shares on 21 December 2009 and the transfer of 100 shares on 22 December 2009, Citiasia was owned as to 69.5%, 18%, and 12.5% by Ms. Ng, Mr. Cai Zhenyao and Mr. Ng, respectively. The then total issued share capital of Citiasia was HK\$0.1 million. On 7 September 2010, Ms. Ng, Mr. Cai Zhenyao, Mr. Ng, China Tea BVI and Citiasia entered into a deed of assignment for the assignment and transfer of a debt (“**Debt**”) in the sum of HK\$20,000,000 (owed by Citiasia to them) to China Tea BVI. On the same day, the Debt was capitalized for the allotment and issue of 20,000,000 ordinary shares of HK\$1.00 each in Citiasia to China Tea BVI. As a result of the capitalization, the total issued share capital of Citiasia amounted to HK\$20.1 million. After that, as a result of the reorganization undergone by the Target Group, investment by Teya, Templeton and Great Vantage in the Target Group and transfer of shares in the Target Company from Smart Fujian to Ample Gold, the Target Group was owned as to 45.57%, 13.07% and 9.07% by Ms. Ng, Mr. Cai Zhenyao and Mr. Ng through their respective wholly-owned companies, namely Smart Fujian, Exalt Wealth and Shine Strategy.

Immediately before investment of Great Vantage, the aggregate number of shares of the Target Company owned by Exalt Wealth, Shine Strategy and Smart Fujian was 96,031,641, which represents investment cost in the Target Company of Exalt Wealth, Shine Strategy and Smart Fujian of approximately HK\$0.209 per share calculated based on the original investment cost of HK\$20.1 million set out in this note 1. On 5 August 2011, Ms. Ng, Mr. Cai Zhenyao, Mr. Ng, Smart Fujian, the Target Company, China Tea BVI, Citiasia, Exalt Wealth, Shine Strategy and Great Vantage entered into a sale and purchase agreement (the “**Agreement**”) in relation to Great Vantage’s purchase of 8,445,833 shares in the Target Company (the “**Purchase Shares**”) from Smart Fujian for an aggregate purchase price of US\$15,000,000, i.e. at a price of US\$1.776 (or equivalent to approximately HK\$13.85) per Purchase Share. Such transfer was completed on 22 August 2011. On 22 August 2011, Smart Fujian acquired 1,313,796 shares and 656,898 shares in the Target Company from Teya and Templeton respectively for a total consideration of US\$3.5 million, representing approximately US\$1.776 (or equivalent to approximately HK\$13.85) per share of the Target Company. Accordingly, the total investment costs incurred by Exalt Wealth, Shine Strategy and Smart Fujian in the Target Company of HK\$20.1 million were reduced by approximately HK\$1.765 million (being the number of shares of the Target Group sold to Great Vantage by Smart Fujian multiplied by the investment cost of approximately HK\$0.209 per Purchase Share by Exalt Wealth, Shine Strategy and Smart Fujian) and increased by US\$3.5 million, and arrive at the sum of approximately HK\$45.635 million.

*Note 2:* On 4 October 2010, Teya and Templeton subscribed for 21,519,088 shares and 10,759,544 shares (collectively, the “**Subscription Shares**”) in the Target Company, respectively, for US\$20 million and US\$10 million, which represents the investment costs of approximately US\$0.9294 per share (or equivalent to approximately HK\$7.25 per share). On 22 August 2011, Teya and Templeton disposed 1,313,796 shares and 656,898 shares (collectively, the “**Disposed Shares**”) in the Target Company, respectively, to Smart Fujian for a consideration of US\$2,333,333 and US\$1,166,667. Accordingly, the total investment costs incurred by Teya and Templeton in the Target Company of US\$20 million and US\$10 million respectively were reduced by approximately US\$1,221,042 and approximately US\$610,521 respectively (being the number of the Disposed Shares multiplied by the investment cost of approximately US\$0.9294 per Subscription Share by Teya and Templeton) and arrive at the sum of approximately US\$18,778,958 and approximately US\$9,389,479 respectively.

The purpose of the investment in the Target Company by the Financial Investors is to seek acceptable returns on their financial investment. The sale of the Target Company’s shares by Teya and Templeton is driven from the commercial decision to partially realize their financial investment.

*Note 3:* On 1 April 2011, 3,968,359 shares in the Target Company, representing 3% of the then issued share capital of the Target Company was transferred to Ample Gold by Smart Fujian in recognition of the arrangement by Mr. Wong Hung Yu (“**Mr. Wong**”), the sole shareholder of Ample Gold, of the investment by Teya and Templeton into the Target Company. Ample Gold, an independent third party to the Target Group, the other Vendors and the Company, introduced to Smart Fujian the Financial Investors for investment in the Target Company. Ample Gold does not give any advice to Smart Fujian in respect of the investment by the Financial Investors nor in relation to the shareholdings held by Smart Fujian. There is no service agreement signed between Ample Gold and Smart Fujian. After the investment by Teya and Templeton has been completed, Smart Fujian agreed to transfer 3% of the issued share capital of the Target Company as consideration with reference to the value of the investment brought into the Target Group. As confirmed by Mr. Wong and Mr. Cai Zhenrong, Mr. Wong is a social acquaintance of Mr. Cai Zhenrong. To the best knowledge of the Board, having made all reasonable enquiries, save as disclosed in this announcement, Mr. Wong has no other relationships with any directors, senior management, substantial or controlling shareholders of the Target Group. As Mr. Wong is familiar with the investment environment in the Fujian province and has broad connection with investment banks, Mr. Cai Zhenrong asked Mr. Wong to introduce financial investors to the Target Group.

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquires, the respective original acquisition cost per share of the Target Company of Smart Fujian and Great Vantage in 2011 was arrived at after arm’s length negotiations between the parties of the respective agreements thereof. The Directors are aware of the considerable premium when comparing the Consideration per Sale Share of approximately HK\$18.8 with the original cost per share of Target Company of approximately HK\$13.85 paid by Smart Fujian and Great Vantage. However, the Directors are of the view that the respective original acquisition cost per share of the Target Company of Smart Fujian and Great Vantage in 2011 is irrelevant to the determination of the Consideration which was the result of the arm’s length negotiations among the Purchaser, the Company and the Vendors having regard to a number of factors including the historical profitability, financial performance and operational track record of the Target Group, the industry prospects in which the Target Group operates, and the reasons and benefits for the Acquisition as described below. Taking into account the abovementioned, the Directors (excluding all the independent non-executive Directors, who will give their opinion based on the recommendation from the Joint Independent Financial Advisers) are of the view that the Acquisition is fair and reasonable.

### ***Conditions precedent***

Completion of the sale and purchase of the Sale Shares is conditional upon, among other things, the satisfaction (or, if applicable, the waiver) of certain conditions precedent. Such conditions precedent include the following:

- (a) the approval of the Independent Shareholders at the EGM of (i) the terms of the Sale and Purchase Agreement; (ii) the proposal for grant of the specific mandate to allot and issue Shares to satisfy the allotment and issue of the Consideration Shares and the Conversion Shares which fall to be issued upon conversion of the Convertible Bonds; and (iii) the Whitewash Waiver having been obtained;
- (b) completion of legal, financial, accounting, tax, and business due diligence of the Target Group by the Purchaser, its legal counsel and other professional advisers to the satisfaction of the Purchaser;
- (c) completion of legal, financial, accounting, tax, technical and business due diligence of the Purchaser and the Company by the Vendors, their legal counsel and other professional advisers to the satisfaction of the Vendors;
- (d) the Target Company, the Purchaser and the Company having obtained all required governmental and third party approvals, consents and waivers in connection with the Acquisition, if any;
- (e) key members of the existing management of the Target Group continuing to be employed by the Target Group at completion of the Acquisition;
- (f) no material adverse change having occurred to the business, assets, financial position, performance, operations, properties or conditions (financial or otherwise) of the Target Group, the Purchaser and the Company;
- (g) approval by the board of directors of each of the Target Company, the Purchaser and the Company having been obtained;
- (h) approval by the Financial Investors' respective investment committee (where applicable) having been obtained;

- (i) the warranties on the Company given by the Purchaser, the Company, Mr. Cai Zhenrong and Mr. Cai Yangbo, an executive Director, the son of Mr. Cai Zhenrong, the brother-in-law of Ms. Ng, the nephew of Mr. Cai Zhenyao and the cousin of Mr. Ng, being true and accurate when made, and being true and accurate on and as of the date of completion of the Acquisition;
- (j) the warranties on the Target Company given by the Target Company, Mr. Cai Zhenrong, Smart Fujian, China Tea BVI, Citiasia, Exalt Wealth, Shine Strategy, Ms. Ng, Mr. Cai Zhenyao and Mr. Ng being true and accurate when made, and being true and accurate on and as of the date of completion of the Acquisition;
- (k) the Listing Committee having unconditionally granted the listing and permission to deal in the Consideration Shares and the Conversion Shares on the Main Board of the Stock Exchange and such permission not subsequently being revoked or withdrawn;
- (l) the Whitewash Waiver having been granted by the Executive to Mr. Cai Zhenrong and such waiver not having been revoked or withdrawn;
- (m) Mr. Cai Zhenying, a Director and a brother of Mr. Cai Zhenrong, or any other person nominated by the Target Group Controlling Shareholders, having executed the New Transfer Agreements (as defined below) with the relevant individual villagers to the satisfaction of the Purchaser, the Company and the Target Group Controlling Shareholders for the acquisition of the land use rights of the Additional Forest Lands (as defined below) and the ownership and use rights of the tea trees thereon, and having obtained the Additional Forest Lands Approval (as defined below);
- (n) Mr. Cai Zhenying or any other person nominated by the Target Group Controlling Shareholders having executed the New Contracting Agreement (as defined below) with Fujian Daping in form and substance to the satisfaction of the Purchaser, the Company and the Target Group Controlling Shareholders;
- (o) the Purchaser having received the Deed of Indemnity duly executed by the Target Group Controlling Shareholders; and
- (p) the Purchaser having received the Deed of Non-Competition duly executed by the Target Group Controlling Shareholders and Mr. Cai Zhenying or any other person nominated by the Target Group Controlling Shareholders.

The above conditions precedent are required to be fulfilled or waived on or before the Long Stop Date. The above conditions precedent (a), (d), (g), (h), (k), (l), (m) and (n) cannot be waived. The Purchaser is entitled to exercise its discretion to waive the fulfillment of the above conditions precedent (b), (e), (f) (in respect of the business, assets, financial position and performance of the Target Company), (j), (o) and (p). As part of the above conditions, the Purchaser is entitled to conduct legal, financial, accounting, tax and business due diligence of the Target Group, which includes but is not limited to obtaining and reviewing of (1) business scope under the business licenses; (2) material contracts; (3) taxation, (4) litigation and (5) the audited financial report covering 3 years financial period ended 31 December 2011. Therefore, the Group has engaged the PRC legal advisers, auditors and valuers to perform the legal and accounting (including the biological assets) due diligence works on the Target Group and they are in the process of obtaining and reviewing the business, legal and financial documents/information of the Target Group. As at the date of this announcement, the Purchaser has no intention to waive any of such conditions. The waiver of such conditions is subject to the findings of the due diligence and/or the status of the Target Group as at the date of the completion of the Acquisition, which is sought for the purpose that the Acquisition will not fall through as a result of insignificant divergence from such conditions. In the event that such conditions could not be fully satisfied, the waiver of any of such conditions is to be determined by the Purchaser after consideration of the interests of the Purchaser, the Company and the Shareholders as a whole. The Board is of the view that the term entitling the Purchaser to exercise its discretion to waive such conditions is fair and reasonable and in the interests of the Purchaser, the Company and the Shareholders as a whole.

The Vendors are entitled to exercise their discretion to waive the fulfillment of the above conditions precedent (c), (f) (in respect of the business, assets, financial position and performance of the Purchaser and the Company) and (i). If the above conditions precedent (a) to (p) have not been fulfilled (or, if applicable, waived) on or before the Long Stop Date, (1) the completion of the Acquisition shall be deferred to a later date, (2) the completion of the Acquisition shall be proceeded so far as practicable but subject to such conditions as agreed by the parties to the Sale and Purchase Agreement in writing and in any event the conditions precedents (a), (d), (g), (h), (k), (l), (m) and (n) shall not be waived, or (3) the Sale and Purchase Agreement shall terminate. In the event that the Sale and Purchase Agreement terminates, it shall be of no further effect and all rights and obligations of the parties to the Sale and Purchase Agreement shall cease and lapse without prejudice to the rights of any parties in respect of certain continuing provisions or any antecedent breach of the Sale and Purchase Agreement.

Each of Templeton, Teya, Great Vantage and Ample Gold has not provided any warranties on the Target Company except for the warranties relating to confidentiality based on the following reasons:

- (a) each of Templeton, Teya and Great Vantage is a passive financial investor who has not and will not participate in the day-to-day management and operations of the Target Group in any respect;
- (b) although each of Templeton and Teya has nominated its representative to the board of the Target Company as non-executive director, Mr. Cai Zhenyao and Mr. Ng are the executive directors of the Target Group. Mr. Cai Zhenyao and Mr. Ng are responsible for the day-to-day management of the Target Group and they are in a better position to give warranties on the Target Company; and
- (c) Ample Gold is not entitled to nominate any representative on the board of the Target Company and is therefore a passive minority shareholder with no participation in the day-to-day management and operations of the Target Group in any respect. Accordingly, Ample Gold is not in the capacity to give warranties on the Target Company.

### ***Completion***

Completion of the Acquisition is scheduled to take place on the business day when all the conditions precedent to which completion is subject have been fulfilled (or, if applicable, waived) or such other day to be agreed by the parties to the Sale and Purchase Agreement.

### ***Lock-up Undertakings***

#### *In respect of the Consideration Shares*

Each of Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Ng, Ms. Ng, Exalt Wealth, Smart Fujian and Shine Strategy has undertaken to the Purchaser and the Company that he/she/it will not (a) dispose of nor (b) enter into any agreement to dispose of or (c) otherwise create any encumbrances in respect of any direct or indirect interest in the Consideration Shares at any time during the 12-month period starting from the completion of the Acquisition.



Each of Teya, Templeton, Great Vantage and Ample Gold has undertaken to the Purchaser and the Company that it will not (a) dispose of nor (b) enter into any agreement to dispose of or (c) otherwise create any encumbrances in respect of any direct or indirect interest in the Consideration Shares at any time during the first 6-month period starting from the completion of the Acquisition.

Each of the Vendors undertakes that:

- a) at the time of the issuance date of the Consideration Shares and within one year thereof, it shall not directly transfer the Consideration Shares to any person who is, to the Vendor's actual knowledge, a Korean Resident based on public information available to the Vendor or confirmation by the transferee of the Consideration Shares; and
- b) if any of the Consideration Shares are deposited in an officially recognized depository, the relevant depository contract shall contain the condition that such Consideration Shares shall not be withdrawn or transferred to any Korean Resident (to the Vendor's actual knowledge based on public information available to the Vendor or confirmation by the transferee of the Consideration Shares) within one year from the date of issuance of the Consideration Shares.

*In respect of the Convertible Bonds*

Each of Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Ng, Ms. Ng, Exalt Wealth, Smart Fujian and Shine Strategy has undertaken to the Purchaser and the Company that he/she/it will not (a) exercise his/her/its rights to convert all or any part of the outstanding principal amount of the Convertible Bonds into Conversion Shares (i) at any time during the 12-month period starting from the issue date, and (ii) at any time if such conversion will result in the Company not being able to comply with the minimum public float requirement under the Listing Rules; or (b) assign or transfer all or any part of the outstanding principal amount of the Convertible Bonds to any third parties at any time during the 12-month period starting from the issue date of the Convertible Bonds.

Each of Teya, Templeton, Great Vantage and Ample Gold has undertaken to the Purchaser and the Company that it will not (a) exercise its rights to convert all or any part of the outstanding principal amount of the Convertible Bonds into Conversion Shares at any time during the first six-month period starting from the issue date of the Convertible Bonds (the “**First Six-Month Period**”); or (b) assign or transfer all or any part of the outstanding principal amount of the Convertible Bonds to any third parties at any time during the First Six-Month Period.

At any time starting from the expiry of the First Six-Month Period, if Teya intends to exercise its rights to convert all or any part of the Convertible Bonds into Conversion Shares and the sum of (i) Consideration Shares then being held by Teya and (ii) the maximum number of Conversion Shares that could be issued and allotted to Teya upon the exercise of its rights to convert all or any part of the then principal amount of the Convertible Bonds being held by Teya into Conversion Shares represents at least 10% of the then total issued share capital of the Company, Teya shall, subject to compliance with the applicable laws, first dispose of such number of Shares then held (the number of which shall be equivalent to the number of the Conversion Shares to be issued and allotted upon the exercise of the conversion rights of the respective Convertible Bonds) to independent third parties in order to help the Company to satisfy the public float requirement at all times as long as Teya is the holder of any Convertible Bonds.

The Company has undertaken that, at the time of the issuance of the Convertible Bonds and within one year thereof, if any part of the Convertible Bonds is converted into Conversion Shares, such Conversion Shares shall not be subdivided or subject to any share split.

Each of the Vendors has undertaken that:

- a) at the time of the issuance of the Convertible Bonds and within one year thereof, if any part of the Convertible Bonds is converted into Conversion Shares, the Vendor shall not directly transfer the Conversion Shares to any person who is, to the Vendor's actual knowledge, a Korean Resident based on public information available to the Vendor or confirmation by the transferee of the Conversion Shares; and
- b) if any of the Conversion Shares are deposited in an officially recognized depository, the relevant depository contract shall contain the condition that such Conversion Shares shall not be withdrawn or transferred to any Korean Resident (to the Vendor's actual knowledge based on public information available to the Vendor or confirmation by the transferee of the Conversion Shares) within one year from the date of issuance of the Convertible Bonds.

The aforesaid lock-up undertakings in respect of the Consideration Shares and the Convertible Bonds are included in the Sale and Purchase Agreement.

## ***Information on the Consideration Shares and Convertible Bonds***

### ***(1) Consideration Shares***

The Consideration Shares to be allotted and issued by the Company pursuant to the Sale and Purchase Agreement represent (i) approximately 625.11% of the total Shares in issue as at the date of this announcement, (ii) approximately 86.21% of the total Shares in issue as enlarged by the allotment and issue of the Consideration Shares but before conversion or exercise of any convertible bonds (including the Convertible Bonds) or share options outstanding as at the date of this announcement, (iii) approximately 65.52% of the total Shares in issue as enlarged by the issue of the Consideration Shares and Conversion Shares (assuming full conversion of the Convertible Bonds) but before conversion or exercise of any Other Convertible Bonds or Outstanding Share Options, and (iv) approximately 62.25% of the total Shares in issue as enlarged by the issue of the Consideration Shares and Conversion Shares (assuming full conversion of the Convertible Bonds) and upon conversion of all Other Convertible Bonds but before exercise of any Outstanding Share Options. Further details of the effect of the Acquisition on the shareholding structure of the Company are set out in the section headed “Effect of the Acquisition on the Shareholding Structure of the Company” below.

The Consideration Shares shall rank *pari passu* with all other Shares in issue as at the date of their allotment. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The issue and allotment of the Consideration Shares are subject to the approval by the Independent Shareholders at the EGM.

The issue price of the Consideration Shares was arrived at after arm’s length negotiations among the parties to the Sale and Purchase Agreement, taking into account of the following principal factors:

- (a) effect of the volatility and fluctuations of the closing price of the Share; and

- (b) the total number of Shares to be adjusted on an as-converted and fully diluted basis, taking into account of all the convertible bonds (other than the Convertible Bonds) issued by the Company;

and was determined with reference to a 19% discount to the price per Share of the Company to be calculated based on the average market capitalization of the issued Shares of the Company on “in the money”<sup>1</sup> basis for the 90 trading days immediately preceding the signing date of the Sale and Purchase Agreement.

The gross reference price before the 19% discount based on the above calculation is approximately HK\$0.2182 per Share. The gross reference price is determined among the Purchaser, the Company and the Vendors after arm’s length negotiations and on normal commercial terms, taking into account of the aforesaid principal factors.

The issue price of HK\$0.1768 per Consideration Share represents:

- a) a discount of approximately 29.28% to the closing price of HK\$0.2500 per Share as quoted on the Stock Exchange on the Last Trading Day (16 January 2013);
- b) a discount of approximately 29.28% to the average of the closing prices of approximately HK\$0.2500 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day (10 January 2013 to 16 January 2013);
- c) a discount of approximately 29.56% to the average of the closing prices of approximately HK\$0.2510 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day (3 January 2013 to 16 January 2013); and
- d) a discount of approximately 80.51% to the net asset value per Share as of 30 September 2012.

<sup>1</sup> *It is assumed that all the existing convertible bonds issued by the Company (other than the Convertible Bonds to be issued as part of the Acquisition) have been fully converted.*

The Directors consider that in order to maintain the financial flexibility of the Group, the issue of the Consideration Shares or Convertible Bonds to the Vendors is the more efficient way than alternate types of fund raising (such as placing or bank borrowings) in terms of the cost of fundraising for the Group. Having considered the current unfavorable market conditions, relatively thin trading volume of the Shares and the amount of the Consideration, the Board (excluding all the independent non-executive Directors, who will give their opinion based on the recommendation from the Joint Independent Financial Advisers) is of the view that, in order to enhance the willingness of the Vendors to receive the Consideration Shares as part of the Consideration, the issue price of HK\$0.1768 per Consideration Share is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(2) *Convertible Bonds*

The principal terms of the Convertible Bonds are as follows:

Principal Amount:

The aggregated principal amount of the Convertible Bonds to be issued is approximately HK\$614.77 million, of which approximately HK\$65.01 million shall be issued to Exalt Wealth, approximately HK\$45.15 million shall be issued to Shine Strategy, approximately HK\$226.66 million shall be issued to Smart Fujian, approximately HK\$131.45 million shall be issued to Teya, approximately HK\$65.73 million shall be issued to Templeton, approximately HK\$54.95 million shall be issued to Great Vantage and approximately HK\$25.82 million shall be issued to Ample Gold.

**Maturity:**

The maturity date of the Convertible Bonds issued to each of Teya, Templeton, Great Vantage and Ample Gold is the earlier of (i) the date falling on the expiry of the thirty (30)-month period commencing from the issue date of the respective Convertible Bonds, or (ii) 31 December 2015.

The maturity date of the Convertible Bonds issued to each of Exalt Wealth, Shine Strategy and Smart Fujian is the date falling on the fourth anniversary of the issue date of the respective Convertible Bonds.

Upon the maturity date of the Convertible Bonds, subject to the minimum public float requirement under the Listing Rules and the restrictions that no holder of the Convertible Bonds could exercise its rights of conversion if such conversion would trigger any mandatory offer obligation under Rule 26 of the Takeovers Code, each of the holders of the Convertible Bonds shall, at its sole discretion, convert all or part of the outstanding principal amount of the Convertible Bonds into Conversion Shares and the balance of the outstanding principal amount of the Convertible Bonds not being converted into Conversion Shares shall be settled by way of cash by the Company at price equal to 100% of the outstanding principal and outstanding interest (if any) of the Convertible Bonds.

Coupon and conversion price:

The Convertible Bonds issued to each of Teya, Templeton, Great Vantage and Ample Gold are issued at the interest rate of 4% per annum, payable semi-annually, and the Convertible Bonds issued to each of Exalt Wealth, Shine Strategy and Smart Fujian are issued at zero coupon and the conversion price of the Convertible Bonds is the same as the issue price of the Consideration Shares, subject to adjustments in certain events, including but not limited to consolidation, or sub-division of Shares or capitalization issues. If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, or subdivision, the conversion price shall be adjusted by multiplying the conversion price in force immediately before such alteration by the following fraction:

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

Where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

For the avoidance of doubt, no adjustment to the conversion price is necessary for a change in the nominal value of the Shares resulting from the capital reorganization which will not lead to any adjustment of the market price of one Share quoted on the Stock Exchange.

No adjustment shall be made which would result in the conversion price being reduced to below the nominal value of a Share and in such case an adjustment shall be made to the effect that the conversion price will be reduced to the nominal value of a Share.

Conversion rights and transferability:

Subject to the lock-up undertakings as mentioned in the section headed “Lock-up Undertakings” above, each of Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Ng, Ms. Ng, Exalt Wealth, Smart Fujian, Shine Strategy, Teya, Templeton, Great Vantage and Ample Gold shall be entitled, at his/her/its sole discretion, to exercise his/her/its rights to convert all or any part of the outstanding principal amount of the Convertible Bonds into Conversion Shares at any time; and/or assign or transfer all or any part of the outstanding principal amount of the Convertible Bonds to any third parties at any time.

The Company is entitled not to allow the holder of the Convertible Bonds to exercise its right of conversion if it would trigger any mandatory offer obligation under Rule 26 of the Takeovers Code,

Redemption and repurchase:

Holders of Convertible Bonds are not entitled to request the Company to redeem any Convertible Bonds before the maturity date.

The Company may not elect to redeem the whole or part of the Convertible Bonds before the maturity date.



The Company may not at any time and from time to time purchase the Convertible Bonds or any part thereof at any price as agreed between the Company and the holders of the Convertible Bonds.

Dividend entitlement:

Holders of Convertible Bonds are not entitled to participate *pari passu* in any dividends payable to holders of Shares on a *pro rata as-if-converted* basis.

Voting rights:

Holders of Convertible Bonds will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being a holder of any of the Convertible Bonds.

Ranking:

The Conversion Shares to be issued upon conversion of the Convertible Bonds shall rank *pari passu* in all respects with all other Shares in issue and the Convertible Bonds shall rank *pari passu* in all respects with (i) all other convertible bonds of the Company outstanding on the date of issue and (ii) all other present and future direct, unsubordinated, unconditional and unsecured obligations of the Company. Without prior written consent from the Financial Investors (whose consent cannot be unreasonably withheld or delayed), the Company shall not incur any additional secured or unsecured obligations that rank prior or senior to the Convertible Bonds.

Listing:

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

Events of default:

Holders of any of the Convertible Bonds may give notice to the Company that such Convertible Bond is immediately due and payable at its principal amount then outstanding plus any interest payment if any of the events of default as stipulated in the terms and conditions of such Convertible Bond occurs which includes but are not limited to:

- (i) any failure by the Company to deliver Shares as and when the Shares are required to be delivered following conversion of the Convertible Bonds;
- (ii) the Company does not perform or comply with one or more of its other obligations under the Convertible Bonds or the Sale and Purchase Agreement or the default is not remedied within 30 days after written notice of such default shall have been given to the Company by the holders of the Convertible Bonds;

- (iii) the Company or any of its subsidiaries is insolvent or bankrupt or unable to pay its debts;
- (iv) an administrator or liquidator of the Company or any of its subsidiaries or the whole or any part of the assets and turnover of the Company or any of its subsidiaries is appointed;
- (v) any other present or future indebtedness (whether actual or contingent), guarantee or indemnity of the Company or any of its subsidiaries for or in respect of moneys borrowed or raised of an aggregate amount which equals or exceeds the relevant threshold amount becomes due and payable prior to its stated maturity by reason of any actual or potential default or event of default or is not paid when due;
- (vi) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any material part of the property, assets or turnover of the Company or any of its subsidiaries and is not discharged or stayed within 90 days;

- (vii) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Company or any of its subsidiaries (except for a members' voluntary solvent winding-up), or the Company or any of its subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations and except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation;
  
- (viii)(a) any step is taken by any Governmental Authority which is likely to result in seizure, compulsory acquisition, expropriation or nationalization of all or a material part of the assets of the Company or any of its subsidiaries; or (b) the Company or any of its subsidiaries is prevented from exercising normal control over all or any substantial part of its property, assets and turnover;
  
- (ix) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval or authorization, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Convertible Bonds and the Sale and Purchase Agreement and (b) to ensure that those obligations are legally binding and enforceable and (c) to make the Convertible Bond and the Sale and Purchase Agreement admissible in evidence in the courts of the Cayman Islands or Hong Kong is not taken, fulfilled or done;

- (x) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the Convertible Bonds or the Sale and Purchase Agreement;
- (xi) if the trading of the Shares on the Stock Exchange is suspended as a result of any reason and such suspension continues for 20 consecutive trading days;
- (xii) the Shares cease to be listed or admitted to trading on the Stock Exchange;
- (xiii) if there is, or is agreed to be, any transfer of all or substantially all of the assets of the Group as a whole; and
- (xiv) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

Public float:

The Company shall at all times ensure that the minimum public float requirement under the Listing Rules is complied with, and in the event that such requirement is not complied with upon the conversion of any part of the Convertible Bonds, the Company is entitled not to allow the holder of the Convertible Bonds to exercise its right of conversion.

The Convertible Bonds issued to Teya, Templeton, Great Vantage and Ample Gold bear a different coupon rate and maturity dates as compared with those Convertible Bonds issued to Exalt Wealth, Shine Strategy and Smart Fujian. The different coupon rates and maturity dates of the Convertible Bonds among the Vendors are entirely based on the commercial decision among the Purchaser, the Company and the Vendors. Teya, Templeton, Great Vantage and Ample Gold, being the passive shareholders without any participation in the day-to-day management and operations of the Target Group, seek to find acceptable return from their shareholdings in the Target Company by realizing their investment partially in the form of interest in the short run. Since the Consideration payable to the Financial Investors and Ample Gold is settled by way of cash, the Consideration Shares and the Convertible Bonds, Teya, Templeton, Great Vantage and Ample Gold consider that their investment in the Target Company is realized in part by receiving cash and interest accrued on the Convertible Bonds. For Exalt Wealth, Shine Strategy and Smart Fujian, being the controlling shareholders of the Target Company, the parties acting in concert of the Target Group and the shareholding vehicles of the two executive directors of the Target Company, namely Mr. Cai Zhenyao and Mr. Ng who participate in the day-to-day management and operations of the Target Company, seek to find return in the form of dividends and/or the capital gains from the increased value of the Target Company arising from a combination of organic growth and/or mergers and acquisitions in the longer run. Although the holders of the Convertible Bonds are not entitled to any dividends payable to the Shareholders, as the Consideration payable to Exalt Wealth, Shine Strategy and Smart Fujian is settled by way of the Consideration Shares and the Convertible Bonds, Exalt Wealth, Shine Strategy and Smart Fujian, being the controlling shareholders of the Group after the completion of the Acquisition, are seeking the return of their investment in the Target Company in the longer run, mainly in the form of dividends arising from the holding of the Consideration Shares and the Conversion Shares when they exercise their rights to convert the Convertible Bonds and in the form of capital gains upon the disposal of Shares after the respective lock-up period has been passed.

### *(3) Conversion Shares*

The Conversion Shares to be allotted and issued by the Company pursuant to the Sale and Purchase Agreement represent (i) approximately 228.90% of the total Shares in issue as at the date of this announcement, (ii) approximately 31.57% of the total Shares in issue as enlarged by the allotment and issue of the Consideration Shares but before conversion or exercise of any convertible bonds (including the Convertible Bonds)

or share options outstanding as at the date of this announcement, (iii) approximately 23.99% of the total Shares in issue as enlarged by the issue of the Consideration Shares and Conversion Shares (assuming full conversion of the Convertible Bonds) but before conversion or exercise of any Other Convertible Bonds or Outstanding Share Options, and (iv) approximately 22.80% of the total Shares in issue as enlarged by the issue of the Consideration Shares and Conversion Shares (assuming full conversion of the Convertible Bonds) and upon conversion of all Other Convertible Bonds but before exercise of any Outstanding Share Options. Further details of the effect of the Acquisition on the shareholding structure of the Company are set out in the section headed “Effect of the Acquisition on the Shareholding Structure of the Company” below.

The conversion price of the Conversion Shares represents:

- a) a discount of approximately 29.28% to the closing price of HK\$0.2500 per Share as quoted on the Stock Exchange on the Last Trading Day (16 January 2013);
- b) a discount of approximately 29.28% to the average of the closing prices of approximately HK\$0.2500 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day (10 January 2013 to 16 January 2013);
- c) a discount of approximately 29.56% to the average of the closing prices of approximately HK\$0.2510 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day (3 January 2013 to 16 January 2013); and
- d) a discount of approximately 80.51% to the net asset value per Share as of 30 September 2012.

The conversion price of the Conversion Shares is the same as the issue price of the Consideration Shares and was arrived at after arm’s length negotiations among the parties to the Sale and Purchase Agreement and was determined with reference to the same basis in determining the issue price of the Consideration Shares as mentioned above. Accordingly, the Board (excluding all the independent non-executive Directors, who will give their opinion based on the recommendation from the Joint Independent Financial Advisers) is of the view that the conversion price of the Conversion Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(4) *Guarantee given by the Company*

The Company irrevocably and unconditionally:

- a) guarantees to each Vendor the punctual performance by the Purchaser all of its obligations under the Sale and Purchase Agreement and other transaction documents in relation to the Acquisition (the “**Transaction Documents**”);
- b) undertakes with each Vendor that whenever the Purchaser does not pay any amount when due under or in connection with any Transaction Document, that the Company shall immediately on demand pay that amount as if it was the principal obligor; and
- c) indemnifies each Vendor immediately on demand against any cost, loss or liability suffered by that Vendor if any obligation guaranteed by it (or anything which would have been an obligation if not unenforceable, invalid or illegal) is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which that Vendor would otherwise have been entitled to recover.



## Application for listing

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares to be allotted and issued pursuant to the Sale and Purchase Agreement.

## EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (i) as at the date of this announcement; (ii) upon issue and allotment of the Consideration Shares but before conversion or exercise of any convertible bonds (including the Convertible Bonds) or share options outstanding as at the date of this announcement; (iii) upon issue and allotment of the Consideration Shares and the Conversion Shares (assuming full conversion of the Convertible Bonds) but before conversion or exercise of any Other Convertible Bonds or Outstanding Share Options, and (iv) upon issue and allotment of the Consideration Shares and Conversion Shares (assuming full conversion of the Convertible Bonds) and upon conversion of all Other Convertible Bonds but before exercise of any Outstanding Share Options:

|   | As at the date of this announcement |               | Upon allotment and issue of the Consideration Shares but before conversion or exercise of any outstanding convertible bonds (including the Convertible Bonds) or share options |               | Upon allotment and issue of the Consideration Shares and Conversion Shares but before conversion or exercise of any Other Convertible Bonds or Outstanding Share Options<br>(Note 4) |               | Upon allotment and issue of the Consideration Shares and conversion of all outstanding convertible bonds (including the Convertible Bonds) but before exercise of any Outstanding Share Options<br>(Note 4) |               |
|---|-------------------------------------|---------------|--|---------------|--|---------------|---|---------------|
|   | Number of Shares                    | Approximate % | Number of Shares   | Approximate % | Number of Shares   | Approximate % | Number of Shares  | Approximate % |
| Mr. Cai Zhenrong (Notes 1 and 2)                                    | 463,041,000                         | 30.48%        | 463,041,000  | 4.20%         | 463,041,000  | 3.20%         | 463,041,000   | 3.04%         |
| Mr. Cai Zhenyao   | 45,252,000                          | 2.98%         | 45,252,000   | 0.41%         | 45,252,000   | 0.31%         | 45,252,000  | 0.30%         |
| Mr. Cai Yangbo  | 14,270,000                          | 0.94%         | 14,270,000   | 0.13%         | 14,270,000   | 0.10%         | 14,270,000  | 0.09%         |
| Exalt Wealth (Note 2)   | –                                   | 0.00%         | 1,470,836,758  | 13.35%        | 1,838,545,947  | 12.69%        | 1,838,545,947   | 12.05%        |
| Smart Fujian (Notes 1 and 2)  | –                                   | 0.00%         | 5,128,095,873  | 46.56%        | 6,410,119,840  | 44.22%        | 6,410,119,840   | 42.02%        |
| Shine Strategy (Note 2)   | –                                   | 0.00%         | 1,021,414,427  | 9.27%         | 1,276,768,034  | 8.81%         | 1,276,768,034   | 8.37%         |
| Other Directors   | 1,000,000                           | 0.07%         | 1,000,000  | 0.01%         | 1,000,000  | 0.01%         | 1,000,000   | 0.01%         |
| Sub-Total (Mr. Cai Zhenrong and parties acting in concert with him) | 523,563,000                         | 34.47%        | 8,143,910,058  | 73.93%        | 10,048,996,821   | 69.34%        | 10,048,996,821  | 65.88%        |
| Mr. Wong Siu Hong (Note 5)  | 1,200,000                           | 0.08%         | 1,200,000  | 0.01%         | 1,200,000  | 0.01%         | 1,200,000   | 0.01%         |
| <b>Public</b>   |                                     |               |  |               |  |               |   |               |
| Teya (Note 3)   | –                                   | 0.00%         | 887,005,857  | 8.05%         | 1,630,525,473  | 11.25%        | 1,630,525,473   | 10.69%        |
| Templeton (Note 3)  | –                                   | 0.00%         | 443,502,929  | 4.03%         | 815,262,737  | 5.63%         | 815,262,737   | 5.34%         |
| Great Vantage (Note 3)  | –                                   | 0.00%         | 370,769,368  | 3.37%         | 681,561,338  | 4.70%         | 681,561,338   | 4.47%         |
| Ample Gold (Note 3)   | –                                   | 0.00%         | 174,209,691  | 1.58%         | 320,238,403  | 2.21%         | 320,238,403   | 2.10%         |
| Other Public Shareholders (Note 3)                                  | 994,297,801                         | 65.45%        | 994,297,801  | 9.03%         | 994,297,801  | 6.86%         | 1,755,408,912   | 11.51%        |
| Sub-Total of the Public Shareholders                                | 994,297,801                         | 65.45%        | 2,869,785,646  | 26.06%        | 4,441,885,752  | 30.65%        | 5,202,996,863   | 34.11%        |
| Total:  | 1,519,060,801                       | 100.00%       | 11,014,895,704   | 100.00%       | 14,492,082,573   | 100.00%       | 15,253,193,684  | 100.00%       |

*Notes:*

- 1) Ms. Ng and Mr. Cai Zhenrong entered into a declaration of trust dated 9 October 2012. Under such arrangement, Ms. Ng holds the shares of the Target Company as well as any shares of the holding companies of the Target Company on trust and for the benefit of Mr. Cai Zhenrong. Smart Fujian is, therefore, ultimately, wholly and beneficially owned and controlled by Mr. Cai Zhenrong and the aggregate interest in the Company held by Mr. Cai Zhenrong and Smart Fujian is 50.76% upon the completion of the Acquisition, allotment and issue of the Consideration Shares but before conversion or exercise of any outstanding convertible bonds (including the Convertible Bonds) or Outstanding Share Options.
- 2) Mr. Cai Zhenrong, Exalt Wealth, Smart Fujian, Shine Strategy, Mr. Cai Zhenyao, Mr. Cai Yangbo, Mr. Ng, Ms. Ng, and other Directors are regarded as parties acting in concert under the Takeovers Code and their aggregate interest in the Company amounts to 73.93% upon the completion of the Acquisition, allotment and issue of the Consideration Shares but before conversion or exercise of any outstanding convertible bonds (including the Convertible Bonds) or Outstanding Share Options.
- 3) None of Teya, Templeton, Great Vantage or Ample Gold is a party to the Deed of Acting in Concert (as defined below), and each of them is an independent third party acting independently of the other Vendors, Mr. Cai Zhenrong and the parties acting in concert with him. In addition, the Financial Investors are passive financial investors of the Target Group, and Ample Gold is a passive minority shareholder with no participation in the day-to-day management and operations of the Target Company in any respect. Each of the Financial Investors is owned and managed by different entities without any cross ownership or management amongst them. No consensus building process was adopted to arrive at voting or business decisions by the Financial Investors in respect of the Target Company, and there is no understanding or arrangement (formal or otherwise) that the Financial Investors would vote in any coordinated manner. Ample Gold is wholly-owned by Mr. Wong who is an independent third party of the Target Group, the Company, the Financial Investors and the other Vendors. Ample Gold exercises its voting rights independently without the concurrence of the other Vendors including Mr. Cai Zhenrong and parties acting in concert with him and there is no understanding or arrangement (formal or otherwise) that Ample Gold would vote in any coordinated manner. None of Teya, Templeton, Great Vantage and Ample Gold falls within any of the 9 classes of the definition of acting in concert under the Takeovers Code with (1) Mr. Cai Zhenrong and (2) parties acting in concert with him under the Takeovers Code. In addition, none of Teya, Templeton, Great Vantage or Ample Gold is, as a matter of fact, a party acting in concert with (1) Mr. Cai Zhenrong and (2) parties acting in concert with him. As none of Teya, Templeton, Great Vantage or Ample Gold is a party acting in concert, and each of them holds, and will at all times hold, less than 10% of the issued share capital of the Company, their shareholding in the Company constitutes public float.

- 4) For illustration purpose only, pursuant to the terms of the Convertible Bonds, each of Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Ng, Ns. Ng, Exalt Wealth, Smart Fujian and Shine Strategy has undertaken, amongst other matters, not to exercise his/her/its rights to convert all or part of the outstanding principal amount of the Convertible Bonds into Conversion Shares at any time if such conversion will result in the Company not being able to comply with the minimum public float requirement under the Listing Rules. In addition, Teya has undertaken that, in the event that Teya intends to exercise its rights to convert all or any part of the Convertible Bonds into Conversion Shares at any time after the expiry of the First Six-Month Period, and the sum of (i) Consideration Shares then being held by Teya and (ii) the maximum number of Conversion Shares that could be issued and allotted to Teya upon the exercise of its rights to convert all or any part of the then principal amount of the Convertible Bonds being held by Teya into Conversion Shares represents at least 10% of the then total issued share capital of the Company, Teya would, subject to applicable laws, first dispose of such number of Shares then held (the number of which shall be equivalent to the number of the Conversion Shares to be issued and allotted upon the exercise of the conversion rights of the respective Convertible Bonds) to independent third parties in order to help the Company to satisfy the public float requirement under the Listing Rules at all times as long as Teya is the holder of any Convertible Bonds.
- 5) Mr. Wong Siu Hong, a former Director, resigned from the position with effect from 31 July 2012.

## **INFORMATION ABOUT THE TARGET GROUP**

### **Business**

The Target Company was incorporated in the Cayman Islands and through different wholly-owned subsidiaries, engages principally in the production, marketing and sale of tea in the PRC. The major operating subsidiary of the Target Company is a wholly foreign owned enterprise which was established in the PRC in 2007.

The Target Group is principally engaged in the production and sale of a range of oolong teas, in the form of both raw teas, where fresh tea leaves are picked at the cultivation bases and processed into raw teas, and refined teas, where a selected portion of the raw teas are further processed into refined teas by removing visible impurities, fine powder and small broken tea leaves.

The Target Group has its own tea cultivation bases, production facilities, established brand and sales network in the PRC. A majority of the raw teas are sold on a wholesale basis and the refined teas are sold on a retail basis through an established retail network. A small portion of the refined teas are sold on a non-branded basis to bulk-purchase customers. All the wholesalers and bulk-purchase customers are independent third parties to the Target Group and the Company.

The brand of the Target Group is Ping Shan Famous Tea (坪山名茶), which has been registered as trademark in Hong Kong and the PRC. As at the date of this announcement, the Target Group owns 14 trademarks and 2 trademark application rights which have all been registered in the PRC and 1 trademark (with 9 classes) which has been registered in Hong Kong. The registered trademark will not be transferred to the Group and will remain under the name of the Target Group. If the sale and purchase of the Sale Shares is completed, the Company will become the ultimate beneficial owner of these trademarks.

## **Cultivation bases**

### ***770 mu Forest Lands***

The Target Group started its tea cultivation business upon the establishment of its major subsidiary, Fujian Nature, in 2007. On 20 September 2007, Fujian Nature and Mr. Cai Yanghang, acquired 80% and 20% of the equity interests in Fujian Daping from the then sole shareholder of Fujian Daping (an independent third party to the Target Group and the Group) for a consideration of RMB960,000 and RMB240,000, respectively, based on the then registered capital of Fujian Daping. On 23 August 2008, Fujian Nature acquired the remaining 20% equity interests in Fujian Daping from Mr. Cai Yanghang for a consideration of RMB240,000, which was equal to 20% of the then registered capital of Fujian Daping. After the transfer, Fujian Daping was wholly-owned by Fujian Nature.

In June 2007, before Fujian Daping becomes a subsidiary of the Target Group, Fujian Daping entered into an asset transfer agreement with the then sole shareholder of Fujian Daping (an independent third party to the Target Group and the Group) to acquire, among others, the land use rights of the 770 mu forest lands for a consideration of RMB1.46 million. The Target Group acquired the land use rights of the 770 mu forest lands when Fujian Daping became a subsidiary of the Target Group in 2007. In 2008, the Target Group obtained the relevant forest rights certificate (the “**770 mu Forest Rights Certificate**”) issued by the government of the Anxi County in respect of the entire 770 mu forest lands, of which 72 mu falls under the economical forest lands and 698 mu falls under protective forest lands (防護林), and derived its incomes, among others, from the tea cultivation on the 72 mu economical forest lands since then. Under the 770 mu Forest Rights Certificate, the Target Group is allowed to conduct tea plantation and tea leaves harvest in the 72 mu economical forest lands only whereas for the 698 mu protective forest lands, the Target Group is responsible for the preservation of the plantations for the purposes of protection of the forest lands as opposed to tea leaves harvest. Pursuant to the 770 mu Forest Rights Certificate, the Target Group owns the land use rights,

the ownership and use right of the trees on the entire 770 mu forest lands while the relevant villagers collectively own the 770 mu forest lands under the name of the relevant village. The duration of the 770 mu Forest Rights Certificate is 40 years and will expire in the year 2048. As advised by Grandall Law Firm (Beijing) (“**Grandall**”), the PRC legal advisers to the Company, there are no restrictions which would interfere with the Target Group’s land use rights, the ownership and use rights of the tea trees thereon, but the Target Group shall not unilaterally change the use of the forest lands without the prior approval of the relevant Governmental Authorities. The Target Group has its own staff to operate the tea plantation on the 72 mu economical forest lands while the Target Group does not employ the 698 mu protective forest lands for tea leaves harvest. Since the Target Group uses the 770 mu forest lands in accordance with the 770 mu Forest Rights Certificate, the current use of the 770 mu forest lands complies with the applicable laws and regulations in the PRC and does not constitute any unilateral change of the use of the forest lands without the relevant government approval.

In addition to the above lands, the Target Group’s tea cultivation bases comprise two categories of collectively-owned forest lands, namely economical forest lands of approximately 29,520.7 mu (the “**29.5K mu Economical Forest Lands**”) and ecological forest lands of approximately 8,479.3 mu (the “**8K mu Ecological Forest Lands**”).

### ***29.5 K mu Economical Forest Lands***

The Target Group, through Fujian Daping, its wholly-owned subsidiary, entered into contracting agreements, supplemental agreements and amended and restated contracting agreements (collectively, the “**Contracting Agreements**”) with the relevant village committees, pursuant to which, the Target Group agreed to purchase from the relevant village committees the use rights of the tea trees and plantations at a fixed rate and the land use rights at an annual fee for the entire contracting period in respect of the 29.5K mu Economical Forest Lands and the 8K mu Ecological Forest Lands, before the Target Group obtained a total of 126 relevant forest rights certificates issued by the government of Anxi County in respect of the entire 29.5K mu Economical Forest Lands (“**29.5K mu Forest Rights Certificates**”) in 2011.

In order to apply for the 29.5K mu Forest Rights Certificates, the Target Group, through Fujian Daping, entered into various tea plantation contracting rights transfer agreements and supplemental agreements with individual villagers and village committees (collectively, the “**Transfer Agreements**”), pursuant to which the Target Group acquired the land use rights of the 29.5K mu Economical Forest Lands, the ownership and use rights of the tea trees thereon by paying a fixed rate for the use rights of the tea trees and plantations and an annual fee for the land use rights. Upon the execution of the Transfer Agreements, the provisions under the Contracting Agreements in relation to the 29.5K mu Economical Forest Lands are invalid and severed from the Contracting Agreements while the provisions in relation to the 8K mu Ecological Forest Lands remain in full force and effect and will not be affected by the invalid provisions or by their severance from the Contracting Agreements. Such remaining effective provisions were then set out in the amended and restated contracting agreements. In accordance with the 29.5K mu Forest Rights Certificates, the Target Group owned the land use rights, and the ownership and use rights of tea trees and the Target Group is allowed to plant tea trees on the 29.5K mu Economical Forest Lands. Accordingly, the Target Group has the legal rights to use the 29.5K mu Economical Forest Lands for tea cultivation purposes. The duration of 29.5K mu Forest Rights Certificates is 30 years and will expire in the year 2041. The forest land ownership rights (林地所有權) are collectively owned by the villagers under the name of the relevant villages. As advised by Grandall, there are no restrictions which would interfere with the Target Group’s land use rights, the ownership and use rights of the tea trees thereon, but the Target Group shall not unilaterally change the use of the forest land without the prior approval of the relevant Governmental Authorities. The Target Group uses the 29.5K mu Economical Forest Lands for tea cultivation purposes which are consistent with and in compliance with the 29.5K mu Forest Rights Certificates and do not constitute any unilateral change of the use of the forest lands without the prior approval of the relevant Governmental Authorities.

Before the 29.5K mu Forest Rights Certificates were issued under the name of the Fujian Daping, pursuant to the Contracting Agreements and the Transfer Agreements, the Target Group acquired the land use rights of the 29.5K mu Economical Forest Lands, the ownership and use rights of the tea trees, harvested the tea leaves thereon and processed them for sale. Accordingly, the Target Group derived its income from the tea cultivation on the 29.5K mu Economical Forest Lands. After the 29.5K mu Forest Rights Certificates were issued under the name of Fujian Daping, the Target Group recognized the tea trees on the 29.5K mu Economical Forest Lands as its biological assets and derives incomes from the sales of tea leaves thereon.

## 8K mu Ecological Forest Lands

With respect to the 8K mu Ecological Forest Lands, the Contracting Agreements contain, among others, the following major terms and conditions:–

| Dates of the Contracting Agreements   | Location                  | Contracting parties                          | Area<br>(mu)   | Duration range                    | Consideration for applying for forest lands certificates<br>(Note 2) | Contracting fees for the use of tea trees and plantations (Note 1 & 2)                                    | Contracting fees for the land use rights of the cultivation land<br>(Note 1 & 2) |
|---|---------------------------|--|----------------|-----------------------------------|--|---|--|
| 2 July 2007, 13 September 2009, 28 September 2011, 24 October 2012 (Note 3), 21 December 2012 (Note 4)      | Pingzhou Village<br>(萍州村) | Pingzhou Village Committee and Fujian Daping | 1,462.0        | 1 July 2007 – 30 June 2048        | RMB7,310,000   | RMB80 per mu payable in three installments, namely by 31 December 2009, 30 June 2010 and 31 December 2015 | RMB8 per mu per annum payable by 31 December each year                           |
| 30 June 2008, 13 September 2009, 28 September 2011, 24 October 2012 (Note 3), 21 December 2012 (Note 4)     |                           |  | 1,907.0        | 1 July 2008 – 30 June 2048        | RMB9,535,000   |   |  |
| 25 December 2008, 13 September 2009, 28 September 2011, 24 October 2012 (Note 3), 21 December 2012 (Note 4) | Da Ping Village<br>(大坪村)  | Daping Village Committee and Fujian Daping   | 2,016.3        | 1 January 2009 – 31 December 2038 | RMB10,081,500  | RMB80 per mu payable in three installments, namely by 31 December 2009, 30 June 2010 and 31 December 2015 | RMB8 per mu per annum payable by 31 December each year                           |
| 13 March 2010, 10 March 2011, 28 September 2011, 25 October 2012, 21 December 2012 (Note 4)                 | Chishui Village<br>(赤水村)  | Chishui Village Committee and Fujian Daping  | 1,287.0        | 13 March 2010 – 12 March 2060     | RMB6,435,000   | RMB80 per mu payable in three installments, namely by 31 March 2011, 30 June 2011 and 31 December 2011    | RMB8 per mu per annum payable by 31 December each year                           |
|   |                           |  | 1,807.0        | 10 March 2011 – 9 March 2060      | RMB9,035,000   |   |  |
|   | Total                     |  | <u>8,479.3</u> |                                   | <u>RMB42,396,500</u>   |   |  |

**Note 1:** Pursuant to the Contracting Agreements, the relevant villagers collectively own the 8K mu Ecological Forest Lands under the name of the relevant villages and the Target Group acquired the rights to operate and derive incomes or benefits from the plantation on the 8K mu Ecological Forest Lands by paying the contracting fees which are charged separately for the use of the tea trees and plantations as well as the use of the cultivation land itself. During the term of Contracting Agreements, with respect to the contracting fees for the use of the tea trees and plantation, the Target Group can use the tea trees without any further payments after the full settlement of the three installments. With respect to the contracting fees for the use of the cultivation land itself, the Target Group has agreed to pay annual contracting fee for the use of such cultivation lands.

**Note 2:** The consideration and the contracting fees which have become due have been paid in full to the relevant village committees in accordance with each of the Contracting Agreements.

*Note 3:* The contracting agreements dated 2 July 2007, 30 June 2008 and 25 December 2008 were superseded by the contracting agreements dated 13 September 2009. The aforesaid contracting agreements were executed in order to formalize and confirm the contracting arrangement previously agreed between the Target Group and the relevant village committees, among which, the contracting period under the contracting agreement dated 2 July 2007 commenced one day earlier than the date of the said contracting agreement.

*Note 4:* The amended and restated contracting agreements dated 21 December 2012 superseded all the previous contracting agreements in order to formalize and confirm the contracting agreements previously agreed between the Target Group and the relevant village committees.

Under each of the Contracting Agreements above, the Target Group has the right to operate all the plantations on the forest lands and is entitled to the incomes derived therefrom. Upon the expiry of the term, the Target Group is entitled to the right of first refusal to the contracting rights. The relevant village committee has agreed to compensate the Target Group for all the losses (including expected profits) arising from the fact that the relevant forest rights certificates have not been obtained, the Governmental Authority demands the return of the forest lands, or without the prior consent from the Target Group, the relevant village committee has contracted, leased, transferred or otherwise to a third party such that the Target Group is unable to use the respective lands to exercise its rights to operate (經營權) and to derive incomes or benefits therefrom (收益權).

For the 8K mu Ecological Forest Lands, since it is in close proximity to the 29.5K Economical Forest Lands, it is used for better management and protection of the 29.5K Economical Forest Lands, as opposed to tea leaves harvest, and to prevent the land from being used by third parties in ways that would adversely affect the 29.5K mu Economical Forest Lands. For historical reasons, which are unknown to the Target Group, the 8K mu Ecological Forest Lands had been converted into tea plantation without the relevant government approval well before the execution of the Contracting Agreements. In order to impose better control over the use of the 8K mu Ecological Forest Lands and restrict any third party (including the villagers or farmers) from mis-using the 8K mu Ecological Forest Lands which would adversely affect the 29.5K mu Economical Forest Lands in future, the Target Group acquired the land use rights of the 8K mu Ecological Forest Lands from the relevant village committees.



Pursuant to the Contracting Agreements, the contracting fees for the use of tea plantation and the land use rights of the cultivation land payable every year is less than 1% of the Target Group's profit for each of the years ended 31 December 2009, 2010 and 2011. The Company is fully aware of the fees under the Contracting Agreements since the commencement of the negotiations among the Purchaser, the Company and the Vendors in respect of the Acquisition, and the Consideration was arrived at after arm's length negotiations thereof. Before the issue of relevant forest right certificates of the Ecological Forest Lands, such lands are intended to be used by the Group for their original purpose being better management and protection of the entire cultivation bases and to prevent the land being used by third parties in ways that would adversely affect the 29.5K Economical Forest Lands. Should forest rights certificates be obtained for the 8K mu Ecological Forest Lands, the Group will proceed with the tea leaves harvest on the 8K mu Ecological Forest Lands and will be entitled to income derived therefrom. In consideration of the relatively low amount of the contracting fees, the protective use of the 8K mu Ecological Forest Lands and potential incomes derived therefrom, the Board (excluding all the independent non-executive Directors, who will give their opinion based on the recommendation from the Joint Independent Financial Advisers) is of the view that the Consideration is still fair and reasonable even if the Group has to continue bearing the fees under the Contracting Agreements.

To the knowledge of the Target Group, the related village committees have not obtained government approvals for conversion of the 8K mu Ecological Forest Lands to the use of tea plantation and the corresponding forest rights certificates. The relevant village committees have submitted their applications for the conversion of land use and the corresponding forest rights certificates to the Bureau of Forestry of the Anxi County which will seek the approval from higher level of Governmental Authorities. This will take a considerable amount of time which is difficult to estimate at this stage.

### *Legal implication in relation to the Contracting Agreements*

According to Article 52 of the Contract Law of the PRC, a contract will be held unenforceable and void if the contract violates any mandatory rules under the relevant laws or administrative regulations. The approval for the conversion of the 8K mu Ecological Forest Lands into economical forest lands which must be granted by the relevant Governmental Authorities of the provincial and state council level has not been obtained in accordance with the related forest law while the village committees entered into Contracting Agreements with the Target Group in respect of the 8K mu Ecological Forest Lands. As such, the Contracting Agreements may be held unenforceable and void by the People's Court. Similarly, according to Article 6 of Property Law of the PRC, the creation, change or transfer of the rights of non-movable properties requires registration. Without the registration of the land use rights of the 8K mu Ecological Forest Lands, the ownership and the use rights of the trees thereon, the Target Group is not protected against a bona fide third party, if such third party obtains the forest rights certificates with regard to the 8K mu Ecological Forest Lands before the Target Group does (the “**Third Party Occurrence**”).

In the event that the Contracting Agreements were held unenforceable and void or there would be any Third Party Occurrence, the Target Group shall return the respective 8K mu Ecological Forest Lands to the relevant village committees or the bona fide third party and the village committees shall return the contracting consideration to the Target Group.

### *Legal consequences and risks in relation to the Target Group's operations*

In accordance with Article 48 of Law of the PRC on the Contracting of Rural Land 《中華人民共和國農村土地承包法》，where the contract-letting party (發包方) contracts rural land to units or individuals other than those of the collective economic organization (集體經濟組織) concerned, the prior consent of not less than two-thirds of the members at a villagers assembly, or not less than two-thirds of the villagers' representatives of the collective economic organization concerned, and the approval of the township (town) government shall be obtained.

As advised by Grandall, according to the Contracting Agreements, which have been approved by more than two thirds of the members of relevant village committees and the township government of such village, the Target Group has the rights to operate and is entitled to the incomes derived from the 8K mu Ecological Forest Lands until the Contracting Agreements are held unenforceable and void or the Third Party Occurrence occurs. With respect to the Third Party Occurrence, the approval of the conversion of use of the 8K mu Ecological Forest Lands must first be obtained before the grant of the relevant forest rights certificate. To the best knowledge of the Target Group, the approval of the conversion of the land use of the 8K mu Ecological Forest Lands into tea plantation has not been obtained by any third party, and it is unlikely that any third party had obtained the forest rights certificates in respect of the 8K mu Ecological Forest Lands before the Target Group does. Accordingly, the risk of the Third Party Occurrence would be remote. As at the date of this announcement, the Contracting Agreements have not been held unenforceable and void and the Third Party Occurrence has not occurred. As advised by Grandall, the sales of tea leaves obtained thereon by the Target Group before the occurrence of the aforesaid events has not violated any PRC rules or regulations.

Furthermore, as advised by Grandall, according to the forest rights certificates provided by the relevant village committees, the 8K mu Ecological Forest Lands are collectively owned by such relevant village committees. As such, the relevant village committees shall be responsible for any unilateral conversion of use of the 8K mu Ecological Forest Lands without the required government approval under the Forestry Law Regulation.

As further advised by Grandall, the relevant village committees should be the parties who will be directly challenged by the relevant Governmental Authorities and therefore should be directly responsible for the legal defects of the 8K mu Ecological Forest Lands. In other words, the business operation of the Target Group will not be directly challenged by the relevant Governmental Authorities which, in turn, will not directly compel Fujian Daping to terminate its contracting and operation rights under the Contracting Agreements in respect of the 8K mu Ecological Forest Lands.

According to Article 58 of the Contract Law of the PRC, after a contract becomes void or is rescinded, any property acquired pursuant to the contract shall be returned. If it is impossible or unnecessary to return the property, compensation shall be made at an estimated price. The default party, which are held to contribute to the contract being void or rescinded, shall compensate the other party for the losses caused by the default. If both parties are in default, they shall bear their respective responsibilities. As advised by Grandall, since the unapproved conversion of the land use of the 8K mu Ecological Forest Lands into tea plantation is the basis of the unenforceability and voidance of the Contracting Agreements, the relevant village committees are likely to be held by the People's Court to be the default parties and shall return the contracting consideration to the Target Group. If the Target Group has incurred any losses arising from the Contracting Agreements being held unenforceable and void, the relevant village committees should be fully responsible for the said losses. In light of the aforesaid, as further advised by Grandall, the Target Group should not be regarded as the default party contributing to the Contracting Agreements being unenforceable and void, albeit this depends on the ruling of the People's Court.

In addition, the directors of the Target Group confirm that there are no penalties imposed or court orders received in respect of the 8K mu Ecological Forest Lands as at the date of this announcement. In view of that the impact of the 8K mu Ecological Forest Lands to the Target Group's business and operation is not material and the 8K mu Ecological Forest Lands are not recognized as biological assets owing to the relevant forest rights certificates yet to be obtained, the 8K mu Ecological Forest Lands and the benefits arising therefrom are not regarded as a substantial part of the property, assets and turnover. Accordingly, the probable loss of the rights over the 8K mu Ecological Forest Lands would not lead to an event of default under the Convertible Bonds.

In view of the above, the Directors consider that it is unlikely to have any legal consequences that would materially affect the Target Group.

***Possible financial and operational impact arising from the legal defects of the 8K mu Ecological Forest Lands***

To the best knowledge of the Directors, there is sufficient supply of raw tea leaves near the cultivation bases of the Target Group. Notwithstanding that the Contracting Agreements may be held unenforceable and void or not, the Target Group can purchase the raw tea leaves from the farmers nearby as an alternative source.

As raw tea leaves are considered homogeneous within the same category and when picked from nearby cultivation bases, the Target Group is of the view that the raw tea leaves grown on the 8K mu Ecological Forest Lands are comparable with the raw tea leaves provided by tea farmers from other cultivation bases nearby. Assuming the operating capacity of the Target Group and market condition remain the same as those in 2011, based on the composition of each kind of tea leaves cultivated on the 8K mu Ecological Forest Lands, the directors of the Target Group estimate that a maximum additional cost of approximately RMB9,604,000 per annum will be incurred, representing approximately 2.35% and 4.94% of the total turnover and net profit after taxation of the Target Group for the year ended 31 December 2011, respectively.

With respect to the revenue and profit attributable to the 8K mu Ecological Forest Lands, to the best estimate of the directors of the Target Group, albeit the difficulties in segregating from each other the amount and type of tea leaves extracted from the 8K mu Ecological Forest Lands and 29.5K mu Economical Forest Lands, the maximum impact on the revenue in respect of the 8K mu Ecological Forest Lands for the three years ended 31 December 2011 is estimated to be approximately RMB38.1 million, RMB51.8 million and RMB70.6 million, respectively, representing approximately 16.90%, 16.69% and 17.29% of the total turnover of the Target Group for the same periods. The net profit in respect of the 8K mu Ecological Forest Lands for the three years ended 31 December 2011 is estimated to be approximately RMB18.1 million, RMB24.3 million and RMB34.0 million, respectively, representing approximately 19.72%, 19.19% and 17.50% of the net profit of the Target Group for the same periods.

In the event that the Contracting Agreements were held unenforceable and void and the 8K mu Ecological Forest Lands are returned to the relevant village committees, the Target Group would have lost its dominant control over the 8K mu Ecological Forest Lands. However, since the nature of the 8K mu Ecological Forest Lands is protective forest lands, the relevant village committees shall maintain the 8K mu Ecological Forest Lands in a condition not to be detrimental to both the 8K mu Ecological Forest Lands and the 29.5K mu Economical Forest Lands which are in close proximity to each other. Such arrangement would still serve the original purpose of acquiring the 8K mu Ecological Forest Lands being better management and protection of the 29.5K mu Economical Forest Lands though the Target Group may have attained a passive role. The operational effect arising from the legal defects is considered immaterial.

As advised by Grandall, the Target Group could seek recourse against the relevant village committees to request compensation for all the losses arising from the legal defects in the 8K mu Ecological Forest Lands. Such compensation arrangement agreed by the relevant village committees relating to the losses arising from the legal defects of the 8K mu Ecological Forest Lands was included in the terms of the Contracting Agreements. In the event that the Contracting Agreements are held unenforceable and void by the People's Court, the Target Group can pursue to claim compensation from the relevant village committees in accordance with Article 58 of the Contract Law of the PRC as described above.

In the event that the People's Court does not accept the Target Group's complaint ( 訴狀 ) against the relevant village committees or gives rulings in favour of the relevant village committees or the relevant village committees are not able to pay for the compensation, the Target Group Controlling Shareholders have agreed to provide indemnities in favour of the Company on a joint and several basis for all claims, damages, losses and costs arising from the legal defects of the 8K mu Ecological Forest Lands (including but not limited to penalties and fines imposed by the relevant Governmental Authorities).

In addition, the Target Group Controlling Shareholders would procure Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders to execute tea plantation contracting rights transfer agreements (the “**New Transfer Agreements**”) with the relevant individual villagers to acquire the land use rights of additional parcels of cultivation bases of not less than 8,500 mu economical forest lands (the “**Additional Forest Lands**”) with the relevant forest rights certificates granted by the relevant Governmental Authority, the ownership and the use rights of the tea trees thereon. The Target Group Controlling Shareholders would further procure Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders to apply for the new forest rights certificates for the Additional Forest Lands (the “**Additional Forest Rights Certificates**”) from the relevant Governmental Authority, pursuant to which Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders will own the land use rights of the Additional Forest Lands, the ownership and the use rights of the tea trees thereon. As advised by Grandall, based on the forest rights certificates provided by the Target Group, the Additional Forest Lands are all economical forest lands. If the New Transfer Agreements are duly executed and delivered, the relevant village committees agree to such transfers and the villagers under the same collective economic organization do not object such transfers or exercise their right of first refusal to purchase the relevant parcels of the Additional Forest Lands during the stipulated period as required under the published notice of such transfers (collectively, the “**Additional Forest Lands Approval**”), there is no significant legal impediment for Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders to obtain the Additional Forest Rights Certificates. Upon the New Transfer Agreements being effective and before the Additional Forest Rights Certificates are issued, Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders is entitled to utilize the Additional Forest Lands and derive incomes therefrom in accordance with the New Transfer Agreements and the applicable laws and regulations in the PRC.

The Target Group Controlling Shareholders would also procure Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders to enter into the New Contracting Agreement, pursuant to which the Target Group will acquire the right to operate all the plantations on the Additional Forest Lands and will be entitled to the incomes derived therefrom at nil consideration until the earlier of the date when the relevant forest rights certificates of the 8K mu Ecological Forest Lands are issued or the expiry date of the duration of the respective Contracting Agreements. As the volume and quality of the tea leaves harvested on the Additional Forest Lands vary from time to time depending on the weather conditions, soil quality, natural disaster or other external factors such as fertilizers and pesticides applied. There is no assurance that the tea leaves output derived from the Additional Forest Lands is the same as that from the 8K mu Ecological Forest Lands.

If the relevant forest rights certificates of the 8K mu Ecological Forest Lands are obtained by the Target Group in future, the Company will have a call option (the “**Call Option**”) and the right of first refusal (the “**Right of First Refusal**”) granted by the Target Group Controlling Shareholders and Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders (collectively, the “**Covenantors**”) to acquire the land use rights of the Additional Forest Lands, the ownership and the use rights of the tea trees thereon. Under the Call Option, the Company has the right to purchase the Additional Forest Lands at the price with reference to the prevailing market price as determined by an independent valuation company mutually selected by the Covenantors and the Company during the period commencing from the date on which the relevant forest rights certificates of the 8K mu Ecological Forest Lands are issued and expiring on the date on which the Covenantors cease to be interested in the Additional Forest Lands (the “**Option Period**”). Under the Right of First Refusal, during the Option Period, if Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders receives any offer to purchase the whole or any part of the Additional Forest Lands from any third party, the Covenantors would first offer to the Company the right to purchase the whole of the Additional Forest Lands on the same terms and conditions as offered by such third party. If the Company decides not to purchase the Additional Forest Lands, the Covenantors may proceed to sell such part of the Additional Forest Lands to the third party on terms no more favourable than the terms offered to the Company. Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders would undertake that he or it will not and each of the Target Group Controlling Shareholders would undertake to procure Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders will not, sell, transfer, encumber or otherwise dispose of his interests in the Additional Forest Lands except pursuant to the terms under the Call Option and the Right of First Refusal.

The Call Option and the Right of First Refusal are available upon the issue of the relevant forest rights certificates of the 8K mu Ecological Forest Lands to the Target Group. The intention of granting such rights to the Company is to give the Company the right to elect to expand its capacity by acquiring the land use rights of the Additional Forest Lands, the ownership and the use rights of the tea trees thereon through the exercise of the Call Option or the Right of First Refusal. After completion of the Acquisition, the Group intends not to proceed with the tea leaves harvest on the 8K mu Ecological Forest Lands until and



unless the relevant forest rights certificates have been obtained. Accordingly, during the intervening period between the completion of the Acquisition and before the relevant forest rights certificates of the 8K mu Ecological Forest Lands are obtained, the New Contracting Agreement would become effective with the New Rights being contracted to the Target Group at nil consideration. After the issue of the relevant forest rights certificates and the legal defects of the 8K mu Ecological Forest Lands have been rectified, the Target Group can elect to expand its capacity by acquiring the land use rights of the Additional Forest Lands, the ownership and the use rights of the tea trees thereon through the exercise of the Call Option or the Right of First Refusal.

As the execution of the New Transfer Agreements and the New Contracting Agreement which shall be in form and substance to the satisfaction of the Purchaser, the Company and the Target Group Controlling Shareholders (the major terms for the New Transfer Agreements are namely Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders would acquire the land use rights of the Additional Forest Lands, the ownership and the use rights of the tea trees thereon and for the New Contracting Agreement are namely the Target Group would acquire the right to operate all the plantations on the Additional Forest Lands and would be entitled to the incomes derived therefrom at nil consideration until the earlier of the date when the relevant forest rights certificates of the 8K mu Ecological Forest Lands are issued or the expiry date of the duration of the respective Contracting Agreements) and the obtaining of the Additional Forest Lands Approval are conditions precedent of the Acquisition, all the Target Group Controlling Shareholders, the Purchaser and the Company will have control over the terms of the New Transfer Agreements and the New Contracting Agreement. In the event that the transactions under the New Transfer Agreements and the New Contracting Agreement are not materialized or the Additional Forest Lands Approval could not be obtained, the Company will not proceed with the Acquisition.

Given that (1) the maximum additional cost incurred for purchasing the raw tea leaves from other alternative sources to substitute the tea leaves from the 8K mu Ecological Forest Lands only accounted for approximately 2.35% and 4.94% of the total turnover and the net profit after taxation of the Target Group for the year ended 31 December 2011, respectively; (2) the relevant village committees are likely to be the default parties for the Contracting Agreements being held unenforceable and void and they should be fully responsible for the compensation; (3) the Target Group Controlling Shareholders agreed to compensate the

Company for all losses arising from the legal defects of the 8K mu Ecological Forest Lands in the event that the People's Court does not accept the Target Group's complaint against the relevant village committees or gives rulings in favour of the relevant village committees or the relevant village committees are unable to pay the compensation as well as to acquire the land use rights of the Additional Forest Lands, the ownership and the use rights of the tea trees thereon and to contract the New Rights at nil consideration to the Target Group until the earlier of the date when the relevant forest rights certificates of the 8K mu Ecological Forest Lands are issued or the expiry date of the duration of the respective Contracting Agreements; and (4) the management and protection of the 29.5K mu Economical Forest Lands would still be maintained by the Target Group, the Directors are of the view that there is no material financial and operational impact on the Group arising from the legal defects of the 8K mu Ecological Forest Lands after the Acquisition.

***Application for the relevant forest rights certificates of the 8K mu Ecological Forest Lands***

To the knowledge of the Target Group, in order to comply with the PRC laws and regulations, the relevant village committees have submitted their applications for the land use conversion of the 8K mu Ecological Forest Lands and the relevant forest rights certificates to the Bureau of Forestry of the Anxi County which will seek approval from higher level of Governmental Authorities. After the approval of such conversion is granted, the relevant village committees and the Target Group will apply for the forest rights certificates, pursuant to which tea plantation will be allowed on the 8K mu Ecological Forest Lands. As advised by Grandall, if all the conditions and requirements as specified by related laws and regulations for such conversion and issuance of forest rights certificates are fulfilled, there is no legal impediment for the village committees and the Target Group to obtain the approvals and the forest rights certificates. Such conditions and requirements mainly include, among others, that the use conversion shall conform to forest land plan of the related area, the village committee can produce the original approval regarding the protective forest lands. The approval of the land use conversion and the grant of the relevant forest rights certificates in respect of the 8K mu Ecological Forest Lands are under the sole discretion of the relevant Governmental Authorities and the actual implementation practices on the forest land planning. It is impracticable to predict the outcome of the application.

## Financial information on the Target Group

The audited net asset value of the Target Group as at 31 December 2011 was approximately RMB676.64 million.

Upon completion of acquisition of the land use rights of 29.5K mu Economical Forest Lands from the relevant village committees in 2011, the value of biological assets of Target Group increased to RMB255,663,000 as at 31 December 2011 from RMB1,095,000 as at 31 December 2010.

The audited net profits before and after taxation and extraordinary items of the Target Group for each of the two years ended 31 December 2010 and 2011 prepared in accordance with the International Accounting Standards are set out below:

|   | Year ended 31 December          |                                 |
|---|---------------------------------|---------------------------------|
|   | 2010                            | 2011                            |
| Net profits before taxation and extraordinary items | Approximately RMB131.26 million | Approximately RMB204.74 million |
| Net profits after taxation and extraordinary items  | Approximately RMB126.63 million | Approximately RMB194.25 million |

The Target Company will become a wholly-owned subsidiary of the Company and the financial information of the Target Group will be consolidated into the accounts of the Group upon completion of the Acquisition.

## Outstanding licences or permits or rights

As at the date of this announcement, the Target Group has yet to obtain the licences or permits or registration of certain subsidiaries and retail outlets. As such, the Target Group may be subject to a maximum penalty, in aggregate, amounted to approximately RMB0.3 million, representing approximately 0.2% of the net profit after taxation of the Target Group for the year ended 31 December 2011 and is considered immaterial to the Target Group.

### ***Establishment of subsidiaries and retail outlets***

Pursuant to the Measures for the Administration on Foreign Investment in Commercial Fields (《外商投資商業領域管理辦法》) and the Notice on Decentralization of the Authority to Examine and Approve Foreign-invested Commercial Enterprises (《關於下放外商投資商業企業審批事項的通知》), foreign-invested commercial enterprises, which intend to establish new retail subsidiaries and retail outlets in respect of the tea business in the PRC, shall obtain approval from competent commerce departments at the provincial level. The Target Group has commenced the operations of retail subsidiaries and outlets in the PRC without obtaining the relevant approvals from Fujian MOFCOM, the competent authority to approve establishment of retail subsidiaries and retail outlets by the Target Group. As at the date of this announcement, the Target Group had not obtained such approvals for all the retail subsidiaries and retail outlets, namely 5 retail subsidiaries and 27 retail outlets (either operated under the retail subsidiaries or the branch of the retail subsidiaries), representing all the Target Group's retail subsidiaries and retail outlets.

With respect to these subsidiaries and retail outlets, the Target Group once applied for the approval of the establishment of such to the Anxi MOFCOM, but the Anxi MOFCOM, after consultation with the Fujian MOFCOM, replied that such approval was not required. In order to reconfirm the issue, the Target Group visited the Fujian MOFCOM and was verbally advised by the staff of Fujian MOFCOM that such approvals are not a pre-requisite and will not be issued. Grandall had also consulted verbally with the staff of Fujian MOFCOM and were informed that the approval of Fujian MOFCOM was not necessary for the establishment of new retail subsidiaries and retail outlets of Fujian Nature and it would be sufficient if all registration with industrial and commercial administration authorities has been complied with. In addition, as advised by Grandall, the relevant PRC laws and regulations do not specify the legal consequence for establishing retail subsidiaries and retail outlets without approval from the competent commerce departments at the provincial level. In the meantime, the staff from Fujian MOFCOM also informed Grandall that they will not shut down Fujian Nature's retail subsidiaries and retail outlets or impose fine on it due to lack of approvals from Fujian MOFCOM. Fujian Nature has tried to ask the Fujian MOFCOM to issue a written confirmation, but the Fujian MOFCOM replied that it is not their practice to issue a written confirmation of such kind. As at the date of this announcement, the Target Group has not received any notice of penalty or punishment owing to the lack of approval of the subsidiaries and retail outlets. In light of the aforesaid, the risk of the closure of all the Target Group's retail subsidiaries and retail outlets due to the lack of approval from Fujian MOFCOM is remote.

However, as advised by Grandall, the verbal confirmations of Fujian MOFCOM are inconsistent with the relevant provisions under the existing PRC laws and regulations, and as a result the Target Group cannot assure that it will not be subject to any penalties arising from the lack of such approval from Fujian MOFCOM.

### ***Registration of social security insurance***

Shaanxi Pingshan, one of the subsidiaries of the Target Group, has yet to complete the registration with the local authorities for the social security insurance and has not paid the social security insurance premiums for its employees for approximately RMB43,000. Such registration is in progress and would be completed by 31 January 2013. Shaanxi Pingshan will pay the related social security insurance premiums once the registration is completed. As advised by Grandall, the maximum penalty for the non-registration of the social security insurance and the non-payment of the social security insurance up to 31 October 2012 amounted to approximately RMB263,000, representing approximately 0.1% of the net profit after taxation of the Target Group for the year ended 31 December 2011. Accordingly, the total impact on the operation and business is considered immaterial to the Target Group.

### **Product testing**

During each of the three years ended 31 December 2011, the relevant Governmental Authorities have arranged random product tests by taking samples of raw tea leaves and refined tea leaves from the Target Group. In addition to the random testing, as a part of the quality control procedure, the Target Group has voluntarily taken samples of raw tea leaves and refined tea leaves to external testing centres for product testing. The quality of the tea leaves varies from time to time depending on the weather conditions, soil quality, natural disaster or other external factors such as fertilizers and pesticides applied.

All the results of the product testing arranged by the relevant Governmental Authorities showed that the samples of the raw tea leaves and refined tea leaves of the Target Group are in compliance with the relevant product quality and technical standards. The test results of voluntary testing are generally satisfactory except that the test results of certain tea leave samples in 2011 reported that the level of rare earth exceeded the threshold level (the “**Threshold Level**” prescribed under the Maximum Levels of Contaminants in Foods GB2762-2005 《食品中污染物限量》 (the “**Maximum Levels of Contaminants**”) promulgated by the PRC government. However, the tea water of the samples examined did not show any trace of rare earth. With respect to the test results of voluntary testing in 2012, the level of rare earth of all the samples is below the Threshold Level.

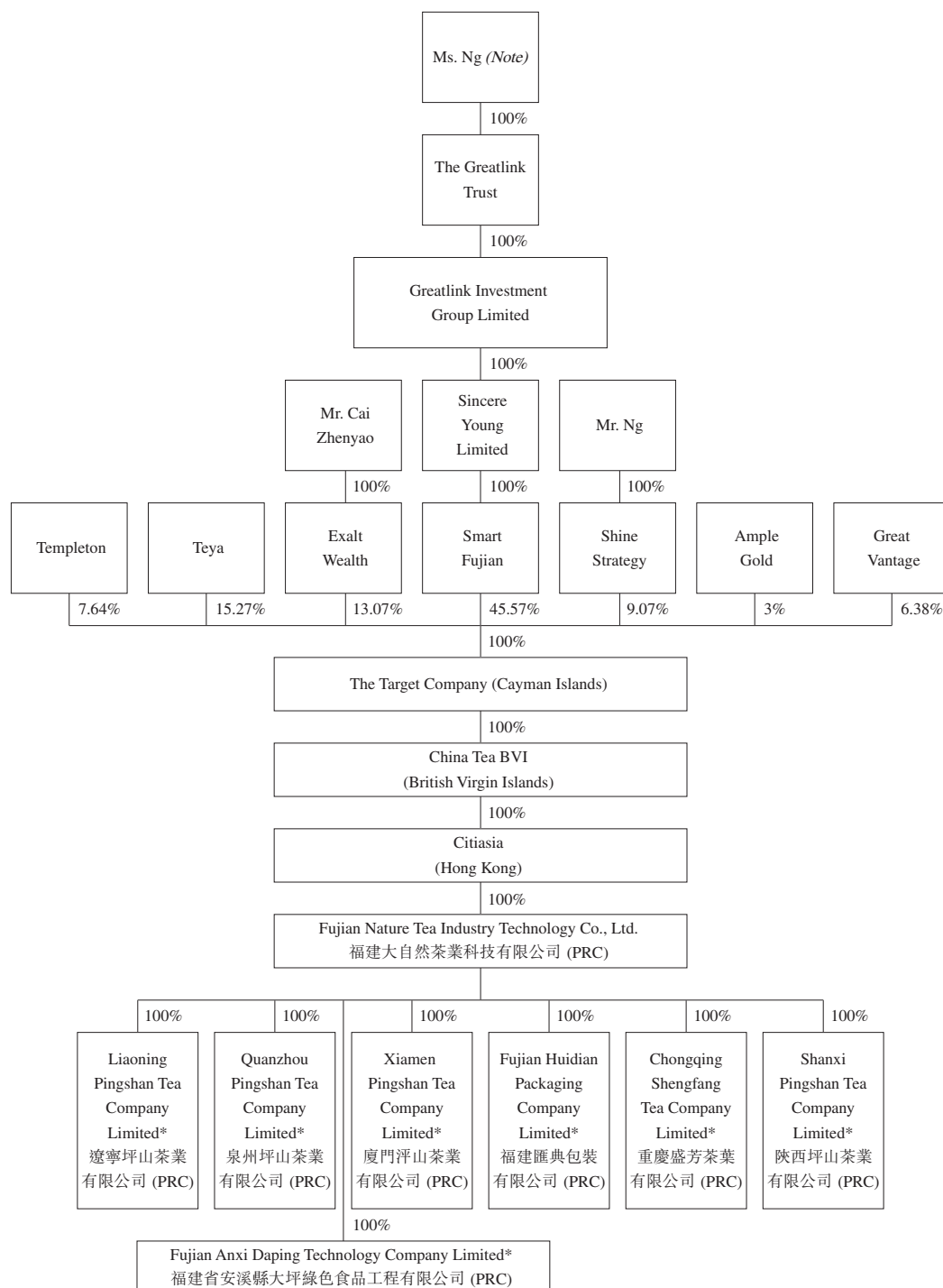
To the knowledge of the directors of the Target Group, rare earth is water insoluble. This notion is supported by the product testing on the tea water of the samples in 2011 which did not detect any traces of rare earth. On 4 August 2010, the Ministry of Health of the PRC (中華人民共和國衛生部) issued a consultation paper, which proposed that the limit on the level of rare earth in respect of foods should be removed from the Maximum Levels of Contaminants. As explained by the Ministry of Health of the PRC in the notes for the said consultation paper, one of the reasons for the proposed removal is that there are no specifications on the level of rare earth in any foods in the standards adopted by Codex Alimentarius Commission, Australia, Japan, U.S.A. and Taiwan. Further, pursuant to a confirmation dated 28 July 2011 issued by the Quality and Technical Supervision Bureau of Anxi County (安溪縣質量技術監督局) which is the direct government authority which oversees the quality control of the Target Group’s operations and a confirmation dated 10 December 2012 issued by the Public Health Bureau of Anxi County (安溪縣衛生局), before the implementation of the new Maximum Levels of Contaminants, the product tests arranged by either of them will exclude the tests for rare earth level in tea leave products and no penalty or fines will be imposed in this regard.

A confirmation dated 16 November 2012 has been obtained from the Quality and Technical Supervision Bureau of Anxi County (安溪縣質量技術監督局) addressing to Fujian Nature, and confirmations dated 13 June 2012 have been obtained from the Agriculture, Tea and Fruit Bureau of Anxi County (安溪縣農業與茶果局) (collectively, the “**Bureaux**”) addressing to each of Fujian Nature, Fujian Daping and the Chadu branch of Fujian Daping, confirming that (i) since their incorporation, their production process has complied with the national and local laws and regulations in relation to the product quality and/or technical supervision and/or that each of them has been operating lawfully; (ii) their products produced or sold are in compliance with the relevant product quality and/or technical standards; (iii) the Bureaux are not aware of any instance of property loss or bodily injury occurred due to the product quality; (iv) Fujian Nature and/or Fujian Daping and/or Chadu branch of Fujian Daping has/have not violated any laws or regulations in respect of product quality and/or technical supervision or been imposed by the Bureaux any penalty or fine as a result of the violation of the same; and (v) there was no dispute between the Bureaux and Fujian Nature and/or Fujian Daping and/or Chadu branch of Fujian Daping regarding product quality and/or technical supervision.

In light of the above, the Directors are of the view that the samples in 2011 are isolated cases and do not represent the entire range of products of the Target Group. The favourable test results as conducted by the Governmental Authorities on a random basis and the product testing conducted by the Target Group for the samples in 2012 on a voluntary basis reinforce that the samples in 2011 are not representative to the product quality of the Target Group as a whole. The confirmations from the Bureaux have indicated that the products of the Target Group are in compliance with the relevant national standards and no penalty or fines have been imposed on the Target Group in this regard. Besides, as confirmed by the directors of the Target Group, there are no claims or complaints from any person in relation to the product quality and there are no traces of rare earth detected in the tea water examined. Accordingly, the Directors are confident that the Target Group’s products meet the food safety requirements as a whole.

## Shareholding structure of the Target Group before and after completion of the Acquisition

The following diagram illustrates the shareholding structure of the Target Group immediately before the completion of the Acquisition:

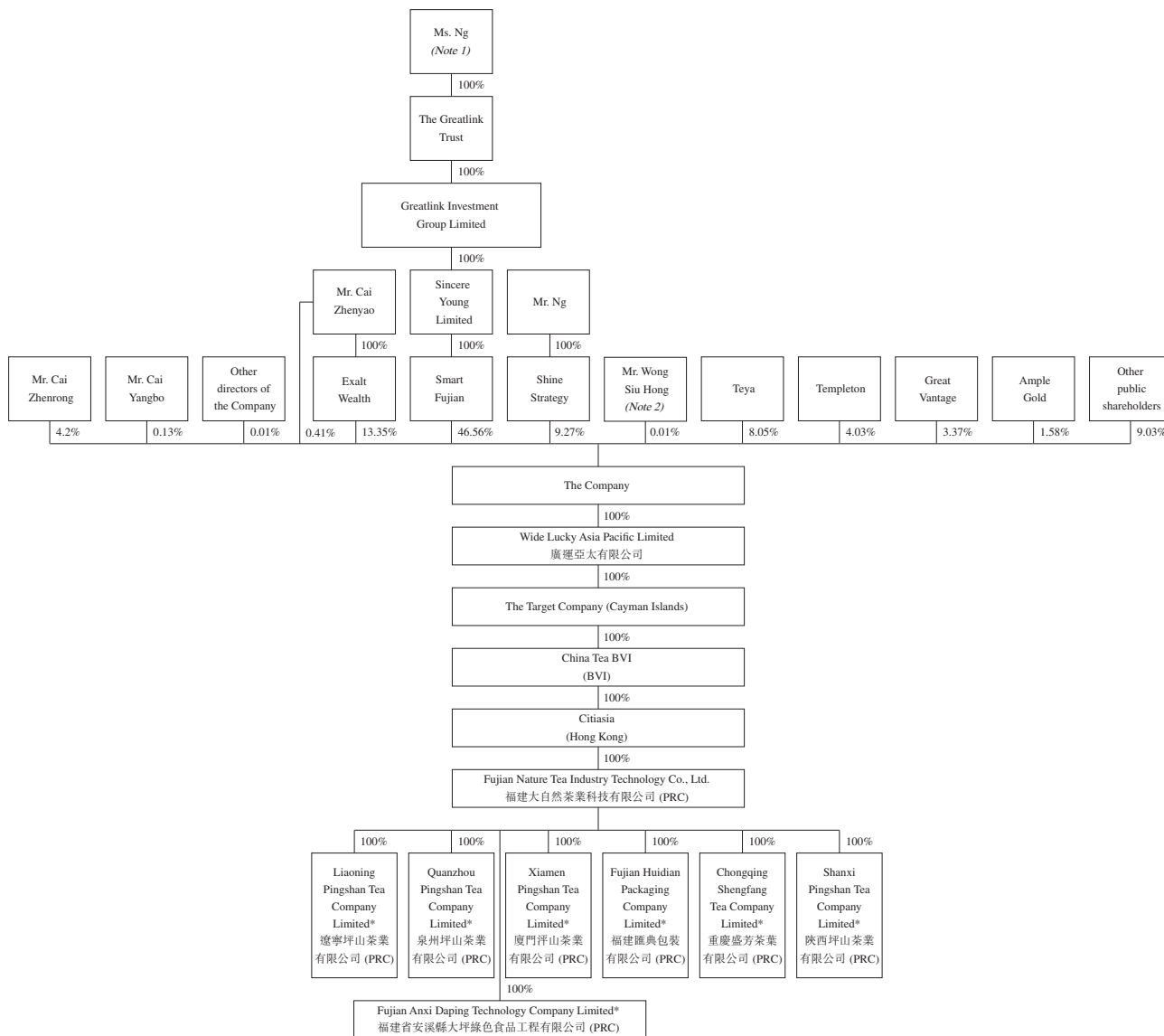


\* The English translation is for identification purposes only.

Note: Ms. Ng holds the shares in the Target Company through Smart Fujian by acting as the sole beneficiary of the Greatlink Trust. Ms. Ng and Mr. Cai Zhenrong entered into a declaration of trust dated 9 October 2012. Under such arrangement, Ms. Ng holds the shares of the Target Company as well as any shares of the holding companies of the Target Company on trust and for the benefit of Mr. Cai Zhenrong. Mr. Cai Zhenrong is, therefore, the sole ultimate beneficial owner of the shares of the Target Company held by Smart Fujian.



The following diagram illustrates the shareholding structure of the Target Group immediately after the completion of the Acquisition and upon the allotment and issue of the Consideration Shares but before the conversion or exercise of any outstanding convertible bonds (including the Convertible Bonds) or Outstanding Share Options:



\* *The English translation is for identification purposes only.*

**Note 1:** Ms. Ng holds the shares in the Target Company through Smart Fujian by acting as the sole beneficiary of the Greatlink Trust. Ms. Ng and Mr. Cai Zhenrong entered into a declaration of trust dated 9 October 2012. Under such arrangement, Ms. Ng holds the shares of the Target Company as well as any shares of the holding companies of the Target Company on trust and for the benefit of Mr. Cai Zhenrong. Mr. Cai Zhenrong is, therefore, the sole ultimate beneficial owner of the shares of the Target Company held by Smart Fujian.

**Note 2:** Mr. Wong Siu Hong, a former Director, resigned from the position with effect from 31 July 2012.

### ***Principal activities of the subsidiaries under Fujian Nature***

Liaoning Pingshan was established in the PRC in 2011 and it is principally engaged in the sale of packaged food, the sale of tea utensils, the promotion of tea culture and the operation of tea houses.

Quanzhou Pingshan was established in the PRC in 2010 and is principally engaged in the sale of packaged food, the sale of tea utensils and the promotion of tea culture.

Fujian Daping was acquired as a subsidiary of the Target Group in 2007 and is principally engaged in plantation, processing and sale of oolong teas.

Xiamen Pingshan was established in 2010 and is principally engaged in the sale of tea utensils and the sale of packaged food.

Fujian Huidian was established in 2011 and is principally engaged in the production and sale of packaging products and packaging design.

Chongqing Shengfang was established in 2011 and is principally engaged in the sale of tea leaves products and tea utensils.

Shaanxi Pingshan was established in 2011 and is principally engaged in the sales of tea products, packaged food and tea utensils.

### **INFORMATION ABOUT THE VENDORS**

Ample Gold is a company incorporated in the BVI and is wholly-owned by Mr. Wong Hung Yu. Its principal business is investment holding.

Exalt Wealth is a company incorporated in the BVI and is wholly-owned by Mr. Cai Zhenyao. Its principal business is investment holding.

Great Vantage is a company incorporated in the BVI and is wholly-owned by CMS Agri-Consumer Fund Management, L.P., which is managed by CMS Capital (HK) Co., Limited, which is indirectly wholly-owned by China Merchants Securities Co., Ltd, a company listed on the Shanghai Stock Exchange (SHA: 600999). CMS Capital (HK) Co., Limited is a licensed company in Hong Kong and is regulated by the SFC. It is a corporation licensed to carry out Type 4 and Type 9 regulated activities.

Shine Strategy is a company incorporated in the BVI and is wholly-owned by Mr. Ng. Its principal business is investment holding.

Smart Fujian is a company incorporated in the BVI, which is wholly-owned by Sincere Young Limited, a BVI-incorporated company which, in turn, is wholly-owned by Greatlink Investment Group Limited, a BVI-incorporated company which is wholly-owned by the Greatlink Trust. The Greatlink Trust is an irrevocable discretionary trust established under the laws of the Cayman Islands with Ms. Ng named as the sole beneficiary. Its principal business is investment holding. Ms. Ng holds the shares of the Target Company through Smart Fujian by acting as the sole beneficiary of the Greatlink Trust. Ms. Ng and Mr. Cai Zhenrong entered into a declaration of trust dated 9 October 2012. Under such arrangement, Ms. Ng holds the shares of the Target Company as well as any shares of the holding companies of the Target Company on trust and for the benefit of Mr. Cai Zhenrong. Mr. Cai Zhenrong is, therefore, the sole ultimate beneficial owner of the shares of the Target Company held by Smart Fujian.

Templeton is a limited duration company incorporated in the Cayman Islands. It makes strategic investments in emerging markets and is managed by Templeton Asset Management Ltd.

Teya is a company incorporated in BVI and is a wholly-owned subsidiary of CCB International Asset Management Limited (“CCBIAM”). CCBIAM is a company incorporated in Hong Kong and is principally engaged in asset management and investment businesses. CCBIAM is a wholly-owned subsidiary of CCB International (Holdings) Limited (“CCBIH”) and CCBIH is a wholly-owned subsidiary indirectly held by China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (Stock Code: 939) and the Shanghai Stock Exchange (Stock Code: 601939). CCBIAM has a large number of investments including, without limitation, private equity projects in the PRC and Hong Kong, as well as securities in Hong Kong and PRC listed companies, covering such sectors as real estate, manufacturing, information technology, energy, resources, transportation, media, retail and healthcare. CCBIAM is a licensed asset management company in Hong Kong and is regulated by the SFC.

## **INFORMATION ABOUT THE GROUP**

The Group is an established fabrics processor in Fujian Province, the PRC. It is principally engaged in the provision of fabrics processing services and the manufacture and sale of fabrics, as well as the manufacture and sale of yarns and blankets. The Group has built up a customer base of garment manufacturers, wholesalers, distributors and importers of fabrics items in the PRC, the Philippines, Africa, Australia, North America and Taiwan, etc.

## **REASONS FOR THE ACQUISITION**

As disclosed in the 2011 annual report of the Company, it was reported that the Group had been confronted with unfavourable operating challenges for the year ended 30 September 2011 arising from significant increase of raw material and purchase costs coupled with increasing market competition. It was also reported in the 2011 and 2012 annual reports of the Company that the Group would proactively search for potential favourable expansion, merger and acquisitions and realize its long-term business diversification strategy.

The Group is expected to benefit from the Acquisition for the following principal reasons:

- (a) the Acquisition will allow the Group to realize its long term business diversification strategy by entering into the tea industry, being a business with potential, so as to further enhance its revenue sources as well as to bring maximum return to its Shareholders;
- (b) the Target Group has strong profitability historically and high turnover and would be able to bring positive contribution to the Group; and
- (c) Mr. Cai Zhenyao, an executive Director, is also an executive director of the Target Company since its incorporation. He is also the director of Citiasia and China Tea BVI, the two subsidiaries of the Target Company. Mr. Cai Zhenyao is responsible for the day-to-day management of the Target Group and leads substantially the same board of directors and senior management team of the Target Group. Mr. Cai Zhenyao has no intention to resign from the directorships of the Target Group and the dual directorship will remain after the completion of the Acquisition. In addition, the entire management team of the Target Company will remain unchanged after the completion of Acquisition. Accordingly, the Directors consider that with such experienced management team, the Group will have sufficient management expertise and qualified personnel at operational level to operate the business of the Target Group.

Having considered the historical profitability, prospects and management expertise of the Target Group, the Directors are of the view that the Acquisition represents a good opportunity for the Group to realize its long-term business diversification strategy. The Directors (excluding all the independent non-executive Directors, who will give their opinion based on the recommendation from the Joint Independent Financial Advisers) are of the view that the terms of the Sale and Purchase Agreement, which have been agreed after arm's length negotiations among the Purchaser, the Company and the Vendors, are on normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and its Shareholders as a whole.

The Company intends to continue its existing business while it will realize its long term business diversification strategy by entering into the tea industry through the Acquisition. The audited net profit attributable to the owners of the Target Group achieved a compound annual growth rate of approximately 45.5% for the three financial years ended 31 December 2011 and the Target Group attained a net profit for the year ended 31 December 2011 of approximately RMB194.2 million as compared with the Group's net loss after taxation for the year ended 30 September 2012 of approximately HK\$190.8 million. The diversification into the tea industry through the Acquisition is expected to bring positive contributions to the Group. The Company will not proceed any tea leaves harvest on the 8K mu Ecological Forest Lands after completion of the Acquisition unless and until the relevant forest rights certificates of the 8K mu Ecological Forest Lands have been obtained. Should forest rights certificates be obtained for the 8K mu Ecological Forest Lands and if the Company has exercised the Call Option or the Right of First Refusal, the Company will, in addition to the Additional Forest Lands, proceed with the tea leaves harvest on the 8K mu Ecological Forest Lands and be entitled to income derived therefrom.

Accordingly, the Directors (excluding all the independent non-executive Directors, who will give their opinion based on the recommendation from the Joint Independent Financial Advisers) are of the view that despite the legal defects of the 8K mu Ecological Forest Lands, the terms of the Sale and Purchase Agreement, which have been agreed after arm's length negotiations among the Purchaser, the Company and the Vendors, are on normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and its Shareholders as a whole.

As at the date of this announcement, the Company has no intention to change the composition of the Board as a result of the Acquisition.

## **IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES**

### **Very Substantial Acquisition and Connected Transaction**

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. In addition, Exalt Wealth, Shine Strategy and Smart Fujian, each being one of the Vendors, holds 13.07%, 9.07% and 45.57% of the issued share capital of the Target Company, respectively, as at the date of this announcement. Exalt Wealth is wholly-owned by Mr. Cai Zhenyao, a Director and a director of the Target Company; Shine Strategy is wholly-owned by Mr. Ng, nephew of both Mr. Cai Zhenrong (the controlling shareholder of the Company and a Director) and Mr. Cai Zhenyao; and Ms. Ng, the daughter-in-law of Mr. Cai Zhenrong, indirectly holds the entire issued share capital of Smart Fujian. Ms Ng, in turn, holds shares in the Target Company through Smart Fujian by acting as the sole beneficiary of the Greatlink Trust. Ms. Ng and Mr. Cai Zhenrong entered into a declaration of trust dated 9 October 2012. Under such arrangement, Ms. Ng holds the shares of the Target Company as well as any shares of the holding companies of the Target Company on trust and for the benefit of Mr. Cai Zhenrong. Mr. Cai Zhenrong is, therefore, the sole ultimate beneficial owner of the shares of the Target Company held by Smart Fujian. Accordingly, Exalt Wealth, Shine Strategy, Smart Fujian, Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Ng and Ms. Ng are connected persons of the Company, and the Acquisition constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. Therefore, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. Accordingly, the Company will seek the approval of the Independent Shareholders at the EGM by way of poll for approving the Sale and Purchase Agreement and the transactions contemplated thereunder. Mr. Cai Zhenrong, Mr. Cai Zhenyao and their respective associates are required to abstain from voting on the relevant resolutions to be proposed at the EGM.

## **Continuing Connected Transactions**

After the execution of the New Transfer Agreements and the obtaining of the Additional Forest Lands Approval, the Target Group Controlling Shareholders would procure Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders to enter into the New Contracting Agreement, pursuant to which the Target Group will acquire the right to operate all the plantations on the Additional Forest Lands and will be entitled to the incomes derived therefrom at nil consideration until the earlier of the date when the relevant forest rights certificates of the 8K mu Ecological Forest Lands are issued or the expiry date of the same duration of the respective Contracting Agreements. As the Target Group Controlling Shareholders and Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders are connected persons of the Company, the contemplated transactions will constitute continuing connected transactions of the Group upon the completion of the Acquisition. The applicable percentage ratios under Rule 14.07 of the Listing Rules for the contemplated transactions are expected to be less than 0.1% and they will be exempted from the requirements of reporting, announcement and independent shareholders' approval under the Rule 14A.33(3)(a) of the Listing Rules.

## **PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES**

The Company will seek the grant of a specific mandate from the Independent Shareholders to allot and issue new Shares to satisfy the allotment and issue of the Consideration Shares and the Conversion Shares which fall to be issued upon conversion of the Convertible Bonds.

## **PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL OF THE COMPANY**

As at the date of this announcement, the authorized share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each. At the EGM, the Company will seek the approval of the Shareholders to increase the authorized share capital of the Company to HK\$200,000,000 divided into 20,000,000,000 Shares of HK\$0.01 each so that there will be adequate authorized share capital to issue the Consideration Shares and the Conversion Shares.

## **IMPLICATIONS OF THE ACQUISITION UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER**

In relation to the Target Group, Mr. Cai Zhenyao, Mr. Ng and Ms. Ng had entered into a deed of acting in concert dated 30 September 2011 (the “**Deed of Acting in Concert**”). As Mr. Cai Zhenrong frequently travels out of Hong Kong, he would not be able to execute agreements or to conduct filings promptly in Hong Kong when necessary. In order to facilitate Mr. Cai Zhenrong to exercise his rights in the capacity of a shareholder of Citiasia (including but not limited to voting and share transfers arising from reorganization of the Target Group), Mr. Cai Zhenrong appointed Ms. Ng, who is ordinarily resident in Hong Kong, to assist the execution of the necessary documents and filing in Hong Kong. Ms. Ng and Mr. Cai Zhenrong entered into a declaration of trust dated 9 October 2012. Under such arrangement, Ms. Ng holds the shares of the Target Company as well as any shares of the holding companies of the Target Company on trust and for the benefit of Mr. Cai Zhenrong. Ms. Ng holds the shares of the Target Company through Smart Fujian by acting as the sole beneficiary of the Greatlink Trust. Mr. Cai Zhenrong is, therefore, the sole ultimate beneficial owner of the shares of the Target Company held by Smart Fujian. Accordingly, Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Ng and Ms. Ng are acting in concert in relation to the Target Group. Immediately after the completion of the Acquisition, Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Ng and Ms. Ng will become Shareholders of the Company through the Shares held by Mr. Cai Zhenrong himself, Exalt Wealth, Shine Strategy and Smart Fujian, respectively. Ms. Ng will continue to hold the Shares on trust and for the benefit of Mr. Cai Zhenrong who, in turn, controls the voting right of the Shares to be acquired by Smart Fujian. Accordingly, Mr. Cai Zhenrong, Exalt Wealth, Shine Strategy, Smart Fujian, Mr. Cai Zhenyao, Mr. Ng and Ms. Ng are considered as parties acting in concert in the context of the Group. In addition, the Directors are presumed to be the parties acting in concert with Mr. Cai Zhenrong. Except for the disposal of 1,000,000 Shares by Mr. Choi Wing Toon on 20 July 2012 through the market, the Directors have not acquired any voting rights of the Company or dealt with any Relevant Securities for the six months before the execution of the Sale and Purchase Agreement and up to the date of this announcement.



None of Teya, Templeton, Great Vantage or Ample Gold is a party to the Deed of Acting in Concert, and each of them is an independent third party acting independently of the other Vendors, Mr. Cai Zhenrong and the parties acting in concert with him. In addition, the Financial Investors are passive financial investors, and Ample Gold is a passive minority shareholder with no participation in the day-to-day management and operations of the Target Company in any respect. Each of the Financial Investors is owned and managed by different entities without any cross ownership or management amongst them. No consensus building process was adopted to arrive at voting or business decisions by the Financial Investors in respect of the Target Company, and there is no understanding or arrangement (formal or otherwise) that the Financial Investors would vote in any coordinated manner. Ample Gold is wholly-owned by Mr. Wong who is an independent third party of the Target Group, the Company, the Financial Investors and the other Vendors. Ample Gold exercises its voting rights independently without the concurrence of the other Vendors and their associates including Mr. Cai Zhenrong and there is no understanding or arrangement (formal or otherwise) that Ample Gold would vote in any coordinated manner. None of Teya, Templeton, Great Vantage, and Ample Gold falls under any of the category of the definition of acting in concert with (1) Mr. Cai Zhenrong and (2) parties acting in concert with him under the Takeovers Code. Accordingly, none of Teya, Templeton, Great Vantage or Ample Gold is considered as a party acting in concert with (1) Mr. Cai Zhenrong and (2) parties acting in concert with him in the context of the Group.

As at the date of this announcement, Mr. Cai Zhenrong and parties acting in concert with him hold 523,563,000 Shares, representing approximately 34.47% of the total Shares in issue. Immediately following the allotment and issue of the Consideration Shares to the Vendors, the shareholding of Mr. Cai Zhenrong and parties acting in concert with him will increase to approximately 73.93% of the total Shares in issue as enlarged by the allotment and issue of the Consideration Shares but before conversion or exercise of any Convertible Bonds, Other Convertible Bonds and Outstanding Share Options of the Company. Under Rule 26.1 of the Takeovers Code, Mr. Cai Zhenrong and parties acting in concert with him would be required to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be acquired by Mr. Cai Zhenrong and parties acting in concert with him, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive.

An application will therefore be made by Mr. Cai Zhenrong to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to, among other things, (i) approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM where voting on the relevant resolutions shall be taken by poll, (ii) Mr. Cai Zhenrong and parties acting in concert with him not having acquired any voting rights of the Company for the six months before the execution of the Sale and Purchase Agreement and up to the date of this announcement, and (iii) Mr. Cai Zhenrong and parties acting in concert with him not having any acquisitions or disposals of voting rights of the Company between the date of this announcement and completion of the issue of the Consideration Shares to the Vendors unless with the prior consent of the Executive.

Except for the disposal of 1,000,000 Shares by Mr. Choi Wing Toon on 20 July 2012 through the market, Mr. Cai Zhenrong and parties acting in concert with him have not acquired any voting rights of the Company or dealt with any Relevant Securities for the six months before the execution of the Sale and Purchase Agreement and up to the date of this announcement.

**The Executive may or may not grant the Whitewash Waiver. It is one of the conditions precedent to completion of the Acquisition that the Whitewash Waiver has been obtained. In the event that the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders, the Sale and Purchase Agreement will lapse and the Acquisition will not proceed.**

The Acquisition and the Whitewash Waiver are subject to approval by the Independent Shareholders at the EGM. Mr. Cai Zhenrong, parties acting in concert with him and their respective associates together with those who are interested in, or involved in, the Acquisition and the Whitewash Waiver are required to abstain from voting on the Sale and Purchase Agreement (including the Acquisition and the issue of the Consideration Shares and Conversion Shares) and the Whitewash Waiver at the EGM.

## INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As at the date of this Announcement, Mr. Cai Zhenrong holds 463,041,000 Shares, representing approximately 30.48% of the total issued share capital of the Company, and Mr. Cai Zhenyao holds 45,252,000 Shares as well as Share Options to subscribe for 13,220,000 Shares, Mr. Cai Zhenying holds Share Options to subscribe for 13,220,000 Shares, Mr. Cai Yangbo holds 14,270,000 Shares, Mr. Choi Wing Toon holds 1,000,000 Shares and Ms. Choy So Yuk, *JP* (an independent non-executive Director) holds Share Options to subscribe for 1,200,000 Shares. Save for the above, as at the date of this announcement, none of Mr. Cai Zhenrong nor any of the parties acting in concert with him holds, control or has direction over any Shares, convertible securities, warrants, options or derivatives in respect of securities in the Company or has entered into any agreement for the issue of any Shares, convertible securities, warrants, options or derivatives in respect of securities in the Company.

Except for the disposal of 1,000,000 Shares by Mr. Choi Wing Toon on 20 July 2012 through the market, none of Mr. Cai Zhenrong and the persons acting in concert with him has acquired voting rights in the Company or dealt with any Relevant Securities for the six months before the execution of the Sale and Purchase Agreement and up to the date of this announcement.

As at the date of this announcement, (i) none of Mr. Cai Zhenrong and any parties acting in concert with him has received an irrevocable commitment to vote in favour of the Acquisition and the Whitewash Waiver; (ii) there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Acquisition and the transactions contemplated thereunder, the New Transfer Agreements, the New Contracting Agreement and the Whitewash Waiver; (iii) there are no agreements or arrangements to which Mr. Cai Zhenrong or any parties acting in concert with him is party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition or the Whitewash Waiver (other than conditions precedent to completion of the Acquisition as contained in the Sale and Purchase Agreement as disclosed in the section headed “Conditions Precedent” in this announcement); and (iv) there is no Relevant Securities in the Company which Mr. Cai Zhenrong and any of the parties acting in concert with him has borrowed or lent.

## **EQUITY RAISING ACTIVITIES FOR THE PAST 12 MONTHS**

The Company did not conduct any equity fund raising activities in the past 12 months immediately before the date of this announcement.

## **INDEPENDENT BOARD COMMITTEE AND JOINT INDEPENDENT FINANCIAL ADVISERS**

The Company has established the Independent Board Committee comprising Mr. Lawrence Gonzaga, Ms. Choy So Yuk, *JP* and Mr. Wong Chi Hung, Stanley, being all the independent non-executive Directors, to advise the Independent Shareholders as to whether the terms of the Acquisition and the transactions contemplated thereunder, the New Transfer Agreements, the New Contracting Agreement and the Whitewash Waiver are fair and reasonable and as to voting in respect thereof at the EGM.

The Company has, with the approval of the Independent Board Committee, appointed AsiaVest Partners Limited and RaffAello Capital Limited, as the Joint Independent Financial Advisers in accordance with the requirements under the Listing Rules and the Takeovers Code to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the transactions contemplated thereunder, the New Transfer Agreements, the New Contracting Agreement and the Whitewash Waiver.

## **DESPATCH OF CIRCULAR**

A circular containing, among other things, (i) further details of the Acquisition; (ii) further information about the Whitewash Waiver; (iii) the recommendation of the Independent Board Committee in relation to the Acquisition; (iv) a letter of advice from the Joint Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the transactions contemplated thereunder, the New Transfer Agreements, the New Contracting Agreement and the Whitewash Waiver; and (v) the notice of the EGM, will be despatched to the Shareholders on or before 7 February 2013 in accordance with the Takeovers Code and the Listing Rules.

## **GENERAL**

**It should be noted that the Acquisition is subject to a number of conditions, which may or may not be fulfilled. In addition, the Whitewash Waiver may or may not be granted. Shareholders and potential investors should exercise caution when they deal or contemplate dealing in the Shares or other securities of the Company.**

## **TRADING HALT AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was halted from 9:00 a.m. on 17 January 2013 pending the release of this announcement. The Company has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 18 January 2013.

## **DEFINITIONS**

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

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| “Acquisition”       | the acquisition of the Sale Shares in accordance with the Sale and Purchase Agreement  |
| “acting in concert” | has the meaning given to it under the Takeovers Code   |
| “Ample Gold”        | Ample Gold International Limited, a company incorporated in the BVI with limited liability and is wholly-owned by Mr. Wong Hung Yu |
| “Anxi MOFCOM”       | Anxi County Department of Foreign Trade and Economic Co-operation (安溪對外貿易經濟合作廳)  |
| “associates”        | has the meaning given to it under the Listing Rules  |
| “Board”             | the board of Directors   |
| “BVI”               | the British Virgin Islands   |

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| “China Tea BVI”           | China Tea Holdings (BVI) Limited, a company incorporated in the BVI with limited liability and is wholly-owned by the Target Company  |
| “Chongqing Shengfang”     | 重慶盛芳茶葉有限公司 (Chongqing Shengfang Tea Company Limited*), a company established in the PRC with limited liability on 24 May 2011 and an indirect wholly-owned subsidiary of the Target Company               |
| “Citiasia”                | Citiasia International Limited (豐亞國際有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by China Tea BVI  |
| “Company”                 | Huafeng Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Stock Exchange  |
| “connected person”        | has the meaning given to it under the Listing Rules   |
| “Consideration Shares”    | an aggregate of 9,495,834,903 Shares to be allotted and issued by the Company to the Vendors as partial consideration for the sale and purchase of the Sale Shares  |
| “controlling shareholder” | has the meaning given to it under the Listing Rules   |
| “Conversion Shares”       | an aggregate of 3,477,186,869 Shares to be allotted and issued by the Company to the Vendors on conversion of the Convertible Bonds as partial consideration for the sale and purchase of the Sale Shares |
| “Convertible Bonds”       | HK\$614.77 million zero/4% coupon convertible bonds to be issued by the Company pursuant to the terms of the Sale and Purchase Agreement  |

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| “Deed of Indemnity”       | the deed of indemnity to be made by the Target Group Controlling Shareholders as indemnifiers in favour of the Company, the Purchaser and the Target Company in its own behalf and as the trustee of each of other companies of the Group as indemnified parties in respect of the indemnity of all claims, damages, losses and costs arising from, among others, (i) the legal defects of the 8K mu Ecological Forest Lands, and (ii) any and all non-compliances of the applicable laws by the Target Group, including but not limited to the Target Group’s failure to obtain the required licenses, permits or registrations of certain subsidiaries and outlets in the PRC  |
| “Deed of Non-Competition” | the deed of non-competition to be made by the Target Group Controlling Shareholders and Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders in favour of the Company, the Purchaser and the Target Company in its own behalf and as the trustee of each of other companies of the Group, pursuant to which the Target Group Controlling Shareholders and Mr. Cai Zhenying or any person nominated by the Target Group Controlling Shareholders shall undertake not to engage in any business which competes or may compete with the business of the Target Group, and shall grant the Call Option and the Right of First Refusal to the Company to acquire the land use rights of the Additional Forest Lands, the ownership and the use rights of the tea trees thereon |
| “Directors”               | directors of the Company   |
| “ecological forest lands” | a category of forest lands which comprises, among others, the protective forests (防護林) which the 8K mu Ecological Forest Lands falls under   |

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| “economical forest lands”   | a category of forest lands that the allowed plantations thereon are mainly those which are used for production of fruits, edible oils, beverage ingredients, condiments, industrial raw materials and medicinal materials   |
| “EGM”                       | the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Sale and Purchase Agreement, the transactions contemplated thereunder (including the Acquisition and the allotment and issue of the Consideration Shares and Conversion Shares), the Whitewash Waiver and an increase in the authorized share capital of the Company |
| “Exalt Wealth”              | Exalt Wealth Limited, a company incorporated in the BVI with limited liability and is wholly-owned by Mr. Cai Zhenyao   |
| “Executive”                 | the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director   |
| “Financial Investors”       | collectively, Teya, Templeton and Great Vantage   |
| “forest rights certificate” | certificate issued by the relevant Governmental Authorities indicating the permissible use of the forest lands, the ownership and the land use rights of the forest lands, the ownership and use right of the forest thereon, the type of the plantation allowed on the forest lands and the term of the certificate  |
| “Forestry Law Regulation”   | the Regulation on the Implementation of the Forestry Law of the PRC ( 中華人民共和國森林法實施條例)   |
| “Fujian Daping”             | 福建省安溪縣大坪綠色食品工程有限公司 (Fujian Anxi Daping Green Food Technology Company Limited*), a company established in the PRC with limited liability on 13 March 1998 and an indirect wholly-owned subsidiary of the Target Company  |



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| “Fujian Huidian”              | 福建匯典包裝有限公司 (Fujian Huidian Packaging Company Limited*), a company established in the PRC with limited liability on 18 January 2011 and an indirect subsidiary of the Target Company  |
| “Fujian MOFCOM”               | Fujian Provincial Department of Foreign Trade and Economic Co-operation (福建省對外貿易經濟合作廳)   |
| “Fujian Nature”               | 福建大自然茶業科技有限公司 (Fujian Nature Tea Industry Technology Co., Ltd.), a company established in the PRC with limited liability on 25 May 2007 and an indirect wholly-owned subsidiary of the Target Company  |
| “GEM”                         | the Growth Enterprise Market of the Stock Exchange   |
| “Governmental Authority(ies)” | any national, provincial, municipal or local government, administrative or regulatory body or department, court, tribunal, arbitrator or any body that exercises the function of a regulator   |
| “Greatlink Investment”        | Greatlink Investment Group Limited, a company incorporated in the BVI with limited liability on 23 February 2011 which is wholly and beneficially owned by the Greatlink Trust   |
| “Greatlink Trust”             | an irrevocable discretionary trust established under the laws of the Cayman Islands on 13 May 2011 for the benefit of Ms. Ng who is the settlor, protector and beneficiary. Greatlink Investment is wholly and beneficially owned by the Greatlink Trust |
| “Great Vantage”               | Great Vantage Investments Limited, a company incorporated in the BVI with limited liability and is indirectly wholly-owned by China Merchants Securities Co., Ltd, a company listed on the Shanghai Stock Exchange (SHA: 600999)                         |

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| “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”          | the independent board committee established by the Company to advise the Independent Shareholders in relation to the Acquisition and the transactions contemplated thereunder, the New Transfer Agreements, the New Contracting Agreement and the Whitewash Waiver  |
| “Independent Shareholders”             | the Shareholders other than (i) Mr. Cai Zhenrong, parties acting in concert with him and their respective associates, and (ii) parties who are connected, involved in or interested in the Acquisition and the transactions contemplated thereunder, the New Transfer Agreements, the New Contracting Agreement and/or the Whitewash Waiver |
| “Joint Independent Financial Advisers” | AsiaVest Partners Limited, a corporation licensed to carry on Type 4, Type 6 and Type 9 regulated activities and RaffAello Capital Limited, a corporation licensed to carry on Type 6 regulated activity  |
| “Korean Resident”                      | any private person who has domicile or residence in the Republic of Korea, and any juristic person whose main office is located in the Republic of Korea  |
| “Last Trading Day”                     | 16 January 2013, being the last trading day before the date of this announcement  |

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| “Liaoning Pingshan” | 遼寧坪山茶業有限公司 (Liaoning Pingshan Tea Company Limited*), a company established in the PRC with limited liability on 28 February 2011 and an indirect wholly-owned subsidiary of the Target Company                                   |
| “Listing Committee” | the Listing Committee of the Stock Exchange  |
| “Listing Rules”     | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited   |
| “Long Stop Date”    | 30 April 2013 (or such other date as the Purchaser, the Company and the Vendors may agree)   |
| “Main Board”        | the stock market operated by the Stock Exchange prior to the establishment of the GEM (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with GEM                               |
| “Mr. Cai Yangbo”    | Mr. Cai Yangbo, a Director, the son of Mr. Cai Zhenrong, the nephew of Mr. Cai Zhenyao and Mr. Cai Zhenying and the elder brother of Mr. Cai Yanghang  |
| “Mr. Cai Yanghang”  | Mr. Cai Yanghang, a senior management of the Target Company and Fujian Nature, the son of Mr. Cai Zhenrong, the nephew of Mr. Cai Zhenyao, the husband of Ms. Ng, the cousin of Mr. Ng and the younger brother of Mr. Cai Yangbo |
| “Mr. Cai Zhenrong”  | Mr. Cai Zhenrong, Chairman, an executive Director and the controlling shareholder of the Company holding approximately 30.48% of the issued Shares as at the date of this announcement   |
| “Mr. Cai Zhenyao”   | Mr. Cai Zhenyao, an executive Director, a director of the Target Company, the brother of Mr. Cai Zhenrong and the uncle of Mr. Cai Yanghang, Mr. Cai Yangbo and Mr. Ng Shui Yu   |

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| “Mr. Cai Zhenying”          | Mr. Cai Zhenying, an executive Director and the brother of Mr. Cai Zhenrong and Mr. Cai Zhenyao, the uncle of Mr. Cai Yangbo and the cousin of Mr. Choi Wing Toon   |
| “Mr. Choi Wing Toon”        | Mr. Choi Wing Toon, an executive Director and a cousin of Mr. Cai Zhenrong, Mr. Cai Zhenyao and Mr. Cai Zhenying  |
| “Mr. Ng”                    | Mr. Ng Shui Yu, a director of the Target Company and nephew of both Mr. Cai Zhenrong and Mr. Cai Zhenyao  |
| “Ms. Ng”                    | Ms. Ng Yuen Nei, a former director of the Target Company and China Tea BVI, the daughter-in-law of Mr. Cai Zhenrong and the wife of Mr. Cai Yanghang  |
| “Other Convertible Bonds”   | collectively, the first tranche of convertible bonds issued by the Company on 11 February 2010 in aggregate principal amount of HK\$60,000,000 and the second tranche of convertible bonds issued by the Company on 20 April 2010 in aggregate principal amount of HK\$90,000,000, both of which will be due on 11 February 2016 and could be fully converted into approximately 833,333,333 new Shares at the conversion price of HK\$0.18. As at the date of this announcement, the Company has outstanding convertible bonds which are convertible into approximately 761,111,111 Shares |
| “Outstanding Share Options” | the share options granted by the Company which remain unexercised as at the date of this announcement and the maximum number of Shares to be allotted or issued pursuant to the exercise of such share options is 362,260,000 Shares  |

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| “person”              | any individual, firm, corporation, joint venture, enterprise, partnership, trust, unincorporated association, limited liability company, Governmental Authority or other entity of any kind, whether or not having separate legal personality  |
| “PRC”                 | the People’s Republic of China, which shall, for the purposes of this announcement, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan   |
| “protective forests”  | the forests, trees and shrubberies that mainly serve the purpose of forest lands protection, including forests for the purposes of conservation of water supply, prevention of soil erosion, wind-breaking and sand-fixation, protection of farmland, pasture, embankments and roads |
| “Purchaser”           | Wide Lucky Asia Pacific Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company   |
| “Quanzhou Pingshan”   | 泉州坪山茶業有限公司 (Quanzhou Pingshan Tea Company Limited*), a company established in the PRC with limited liability on 10 December 2010 and an indirect wholly-owned subsidiary of the Target Company   |
| “Relevant Securities” | has the meaning given to it under Note 4 to Rule 22 of the Takeovers Code  |
| “RMB”                 | Renminbi, the lawful currency of the PRC   |

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| “Sale and Purchase Agreement” | the conditional sale and purchase agreement dated 17 January 2013 entered into between, among others, the Purchaser, the Company as guarantor and the Vendors in relation to the sale and purchase of the Sale Shares |
| “Sale Shares”                 | 132,278,632 ordinary shares of HK\$0.1 each in the share capital of the Target Company, representing its entire issued share capital  |
| “SFC”                         | Securities and Futures Commission of Hong Kong  |
| “Shaanxi Pingshan”            | 陝西坪山茶業有限公司 (Shaanxi Pingshan Tea Co., Ltd.*), a company established in the PRC with limited liability on 6 May 2011 and an indirect wholly-owned subsidiary of the Target Company                                     |
| “Share Options”               | share options granted under the share option scheme adopted by the Company on 30 August 2002  |
| “Shareholders”                | holders of Shares   |
| “Shares”                      | ordinary shares of HK\$0.01 each in the share capital of the Company  |
| “Shine Strategy”              | Shine Strategy Limited, a company incorporated in British Virgin Islands with limited liability and is wholly-owned by Mr. Ng   |

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| “Smart Fujian”                          | Smart Fujian Group Limited, a company incorporated in the BVI with limited liability which is wholly-owned by Sincere Young Limited, a BVI-incorporated company which in turn is wholly-owned by Greatlink Investment Group Limited, a BVI-incorporated company which is wholly-owned by the Greatlink Trust. The Greatlink Trust is an irrevocable discretionary trust with Ms. Ng named as the sole beneficiary. Ms. Ng holds the shares of the Target Company through Smart Fujian by acting as the sole beneficiary of the Greatlink Trust. Ms. Ng and Mr. Cai Zhenrong entered into a declaration of trust dated 9 October 2012. Under such arrangement, Ms. Ng holds the shares of the Target Company as well as any shares of the holding companies of the Target Company on trust and for the benefit of Mr. Cai Zhenrong. Accordingly, Mr. Cai Zhenrong is the sole ultimate beneficial owner of the shares of the Target Company held by Smart Fujian |
| “Stock Exchange”                        | The Stock Exchange of Hong Kong Limited   |
| “Takeovers Code”                        | the Code on Takeovers and Mergers   |
| “Target Company”                        | China Natural Tea Holdings Company Limited (中國大自然茶業控股有限公司), a company incorporated in the Cayman Islands with limited liability   |
| “Target Group”                          | the Target Company and its subsidiaries   |
| “Target Group Controlling Shareholders” | collectively, Smart Fujian, Exalt Wealth, Shine Strategy, Mr. Cai Zhenrong, Mr. Cai Zhenyao, Ms. Ng and Mr. Ng, being the controlling shareholders of the Target Group  |

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| “Templeton”        | Templeton Strategic Emerging Markets Fund III, LDC, a limited duration company incorporated in the Cayman Islands  |
| “Teya”             | Teya Holdings Limited, a company incorporated in the BVI with limited liability and is a wholly-owned subsidiary of CCB International Asset Management Limited, which is a wholly-owned subsidiary of CCB International (Holdings) Limited, a wholly-owned subsidiary indirectly held by China Construction Bank Corporation   |
| “US\$”             | United States dollars, the lawful currency of the United States  |
| “Vendors”          | Ample Gold, Exalt Wealth, Great Vantage, Shine Strategy, Smart Fujian, Templeton and Teya  |
| “Whitewash Waiver” | a waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of Mr. Cai Zhenrong and parties acting in concert with him to make a mandatory general offer for all the Shares that are not already owned or agreed to be acquired by them as a result of the Company allotting and issuing the Consideration Shares to Mr. Cai Zhenrong and/or parties acting in concert with him |



“Xiamen Pingshan”

廈門評山茶業有限公司 (Xiamen Pingshan Tea Company Limited\*), a company established in the PRC with limited liability on 15 December 2010 and an indirect wholly-owned subsidiary of the Target Company

“%”

per cent.

\* *The English translation is for identification purposes only.*

*For the purpose of illustration only, amounts denominated in US\$ in this announcement have been translated into HK\$ at the rate of US\$1 = HK\$7.8. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate at all.*

By Order of the Board  
**Huafeng Group Holdings Limited**  
**Cai Yangbo**  
*Executive Director*

Hong Kong, 17 January 2013

*As at the date of this announcement, the executive Directors are Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Cai Zhenying, Mr. Cai Yangbo and Mr. Choi Wing Toon. The independent non-executive Directors are Mr. Lawrence Gonzaga, Ms. Choy So Yuk, JP and Mr. Wong Chi Hung, Stanley.*

*The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.*