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TIAN YUAN GROUP HOLDINGS LIMITED

天源集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6119)

CONTINUING CONNECTED TRANSACTIONS PROPOSED REVISION OF ANNUAL CAPS AND EXTENSION OF TERMS

Reference is made to the announcements of the Company dated 13 March 2020 and 20 March 2020 in relation to the two Framework Agreements entered into between Tianyuan and Zhengyuan (both being subsidiaries of the Company) with each of Tianyuan Petrochemical and Maoming Tianyuan.

SUPPLEMENTAL FRAMEWORK AGREEMENT

On 24 July 2020, Tianyuan and Zhengyuan (as service providers) entered into the Supplemental Framework Agreement with Tianyuan Petrochemical and Maoming Tianyuan (as customers), pursuant to which the parties conditionally agreed to replace both Framework Agreements with the Supplemental Framework Agreement. Save for (i) inclusion of both Tianyuan Petrochemical and Maoming Tianyuan as customers under the same agreement, (ii) the term of the transactions between the said service providers and the said customers will be extended to 31 December 2022, and (iii) the revision to the annual caps for the transactions between the said service providers and the said customers, the terms of the Supplemental Framework Agreement are substantially identical to each of the Framework Agreements.

LISTING RULES IMPLICATIONS

Tianyuan Petrochemical is a wholly-owned subsidiary of Maoming Tianyuan, which is in turn owned as to 95% by Mr. Yang. Since Mr. Yang is an executive Director, the chairman of the Board, the chief executive officer and the controlling shareholder of the Company, both Tianyuan Petrochemical and Maoming Tianyuan are connected persons of the Company as they are associates of Mr. Yang. Accordingly, the transactions under the Supplemental Framework Agreement constitute continuing connected transactions.

Given the highest annual cap under the Supplemental Framework Agreement is more than HK\$10,000,000 and the highest applicable percentage ratio calculated with reference to the annual cap is more than 5%, the continuing connected transactions contemplated under the Supplemental Framework Agreement are subject to reporting, announcement, annual review requirements and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Company will convene the EGM to seek approval from the Independent Shareholders on, among other things, the resolutions on the Supplemental Framework Agreement and the annual caps thereunder.

A circular containing, among others, (i) details of the Supplemental Framework Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and (iii) a letter of advice by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders will be despatched to the Shareholders on or before 14 August 2020 in accordance with the Listing Rules.

Reference is made to the announcements of the Company dated 13 March 2020 and 20 March 2020 in relation to the two Framework Agreements entered into between Tianyuan and Zhengyuan (both being subsidiaries of the Company) with each of Tianyuan Petrochemical and Maoming Tianyuan.

SUPPLEMENTAL FRAMEWORK AGREEMENT

For the reasons as set out in the section headed "Reasons for and Benefits of the Supplemental Framework Agreement" herein below, Tianyuan and Zhengyuan (as service providers) entered into the Supplemental Framework Agreement with Tianyuan Petrochemical and Maoming Tianyuan (as customers) on 24 July 2020.

Save for (i) inclusion of both Tianyuan Petrochemical and Maoming Tianyuan as customers under the same agreement, (ii) the term of the transactions between the said service providers and the said customers will be extended to 31 December 2022, and (iii)

the revision to the annual caps for the transactions between the said service providers and the said customers, the terms of the Supplemental Framework Agreement are substantially identical to each of the Framework Agreements, a summary of which is set out as follows:

Date:	24 July 2020 (after trading hours)
Parties:	Tianyuan and Zhengyuan (as service providers); and Tianyuan Petrochemical and Maoming Tianyuan (as customers).
Nature of transaction:	Provision of terminal uploading and unloading services by the service providers to the customers.
Condition precedent:	Effectiveness of the Supplemental Framework Agreement is subject to the Company having complied with applicable laws, regulations and the Listing Rules (including the obtaining of the approval from the Independent Shareholders). Upon the Supplemental Framework Agreement having become effective, both Framework Agreements will terminate immediately. None of the parties shall have any claim against the other in respect of the Framework Agreements save for any antecedent breach prior to such termination.
Term:	From the effective date of the Supplemental Framework Agreement to 31 December 2022.
Pricing policy:	The fee charged for the provision of terminal uploading and unloading services by the service providers to the relevant customers under the Supplemental Framework Agreement shall be based on a fixed price list set for different types of goods involved in the transactions determined by reference to a matrix of factors, including, among others, cargo type, cargo volume, handling method, market conditions and industry benchmarks. Price adjustment, if necessary, will be made based on the management insight of the market and on the determination of the sales department of the Group. The fixed price list is same for connected persons and independent third parties.

Payment terms: Payment for the services provided by the service providers shall be settled by way of wire transfer or in such other manner as agreed between the relevant service provider and the relevant customer, and the payment shall be made within one month upon the relevant transactions are completed.

Annual caps:

Set out below is the historical transaction amounts for the terminal uploading and unloading services provided by Tianyuan and Zhengyuan to each of Tianyuan Petrochemical and Maoming Tianyuan and the original annual caps under the Framework Agreements:

	Transaction amount for the year ended 31 Dec 2018 <i>RMB'000</i>	Transaction amount for the year ended 31 Dec 2019 <i>RMB'000</i>	Transaction amount for the period from 1 Jan 2020 to 30 Jun 2020 <i>RMB'000</i>	Original annual caps for the year ending 31 Dec 2020 <i>RMB'000</i>
Tianyuan Petrochemical	149	6,618	2,511	4,000
Maoming Tianyuan	N/A	N/A	2,767	4,500

Pursuant to the Supplemental Framework Agreement, the 2020 annual cap shall be revised and the annual caps for years 2021 and 2022 are agreed as follows:

Annual caps For the year ending 31 Dec
2020 2021 2022
<i>RMB'000 RMB'000 RMB'000</i>
11,000 14,000 17,000

Notes:

1. The above historical transaction amounts and annual caps are all inclusive of value-added tax.
2. The revised annual cap for the year ending 31 December 2020 has included the aggregate transaction amounts under the Framework Agreements.

Basis of Determination of the Annual Caps:

Despite the actual transaction amount under each of the Framework Agreements has not exceeded the original annual cap as at the date of this announcement, the Board is of the view that the original annual cap for year 2020 will likely be exceeded and it is appropriate to revise the original annual cap and extend the terms of the Framework Agreements via the entering of the Supplemental Framework Agreement after having considered the follow reasons:

Revised annual caps for year ending 31 December 2020

As disclosed in the announcement dated 13 March 2020, the original annual caps for year 2020 under both Framework Agreements are determined with reference to the existing scale and operations of the businesses of the Group, historical transaction amounts, and the anticipated growth and development of businesses and the anticipated demand for the terminal uploading and unloading services.

Since the above estimations was made by the parties before the signing of the Framework Agreements in around March 2020, during which the logistic industry in the PRC was significantly disrupted by the coronavirus epidemic due to the traffic-banning and quarantine measures imposed by the government and the overall economic downturn. As such, Tianyuan Petrochemical and Maoming Tianyuan had adopted a relatively conservative view in the estimation of their respective future businesses and the demands of the Group's terminal loading and unloading services. However, with the swift and effective virus control measures of the government, the epidemic has been gradually contained and the economy of the PRC is expected to be on the trend of recovery. With the gradual resumption of public consumptions and reopening of factories, the needs for energy products including petrochemical products is expected to follow the trend of the economy of the PRC in the second half of year 2020. As such, having considered that as at 30 June 2020, the original annual caps under each of the Tianyuan Petrochemical Framework Agreement and the Maoming Tianyuan Framework Agreement were utilized up to approximately 62.8% and 61.5%, respectively, which indicates there is less than 50% of the annual caps can be utilized for the remaining half of the year. The demand of the terminal service for the year is expected to increase, the Company believes the original annual caps are likely be insufficient for meeting the revised expected transaction amounts for year 2020, and thus the parties agreed to enter into the Supplemental Framework Agreement.

Annual caps for years ending 31 December 2021 and 2022

The annual caps under the Supplemental Framework Agreement for the years ending 31 December 2021 and 2022 are determined with reference to the existing scale and operations of the businesses of the Group, historical transaction amounts, and the anticipated growth and development of businesses and the anticipated demand for the terminal uploading and unloading services of Tianyuan Petrochemical and Maoming Tianyuan based on the current industry environment as per discussed above.

Internal Control Procedures:

To ensure the continuing connected transactions under the Supplemental Framework Agreement will be conducted in accordance with the terms of the agreements and the pricing policies, the Company has adopted the following internal control procedures:

1. When specific transactions under the Supplemental Framework Agreement are conducted, there will be checking to make sure their terms are in line with the terms of the Supplemental Framework Agreement and the price are in line with the fixed price list;
2. As segregation of duty, the Company has appointed designated qualified personnel under the Group's business and finance department to conduct monthly checks to review and assess whether the transactions under the Supplemental Framework Agreement are conducted in accordance with their terms and also monitor the prices for similar transactions with independent third parties for considering if the prices of the transactions under the Supplemental Framework Agreement follow the fixed price list, and report to the management regularly;
3. The Group's management will review the transaction records of the Supplemental Framework Agreement monthly, and will regularly report the status of execution of the transactions under the Supplemental Framework Agreement to the Board;
4. The Company's external auditors will conduct annual review on the transaction amounts and the annual caps of the transactions under the Supplemental Framework Agreement; and
5. The independent non-executive Directors will conduct annual review and make annual confirmation on the transactions under the Supplemental Framework Agreement.

REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL FRAMEWORK AGREEMENT

In view of Tianyuan Petrochemical and Maoming Tianyuan's expected increase in the demands of the Group's terminal loading and unloading services as discussed in the section headed "Basis of Determination of the Annual Caps" above, it is anticipated the respective original annual cap for year 2020 under the Framework Agreements will not be sufficient to meet with the new expected transaction amount. Besides, as the transactions under the Framework Agreements are in the ordinary and usual course of the business of the Company, the Board is also of the view that extending the term of each of the Framework Agreements could, to a certain extent, guarantee the cooperation and transactions with Tianyuan Petrochemical and Maoming Tianyuan and provide a stable source of income to the Group for the next two financial years. As such, the entering into the Supplemental Framework Agreement is beneficial to the overall business of the Group.

The Directors (excluding the independent non-executive Directors who will express their views in the circular after having considered the advice to be given by the Independent Financial Adviser) consider that the terms of the Supplemental Framework Agreement and the annual caps thereunder are in the ordinary and usual course of business of the Company, fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

As Mr. Yang is the ultimate beneficial owner of Tianyuan Petrochemical and Maoming Tianyuan and deemed to be materially interested in the Supplemental Framework Agreement, he has abstained from voting on the related resolutions in the relevant Board Meeting. Save for Mr. Yang, none of the Directors has material interests in the Supplemental Framework Agreement and is required to abstain from voting on the relevant Board resolutions.

INFORMATION OF PARTIES TO THE SUPPLEMENTAL FRAMEWORK AGREEMENT

The Group is principally engaged in the provision of uploading and unloading services through operating terminals situated in the Shuidong port area of the Port of Maoming, the PRC. The Company has been diversifying its business to other areas including supply and sales of oil products.

Tianyuan Petrochemical is a company established in the PRC with limited liability which principally engages in the processing and sales of petrochemical products.

Maoming Tianyuan is a company established in the PRC with limited liability which principally engages in storage of petrochemical products and coal, wholesale of refined oil, and import and export trade.

The ultimate beneficial owner of Tianyuan Petrochemical and Maoming Tianyuan is Mr. Yang, he is an executive Director, the chairman of the Board, the chief executive officer and the controlling shareholder of the Company.

LISTING RULES IMPLICATIONS

Tianyuan Petrochemical is a wholly-owned subsidiary of Maoming Tianyuan, which is in turn owned as to 95% by Mr. Yang. Since Mr. Yang is an executive Director, the chairman of the Board, the chief executive officer and the controlling shareholder of the Company, both Tianyuan Petrochemical and Maoming Tianyuan are connected persons of the Company as they are associates of Mr. Yang. Accordingly, the transactions under the Supplemental Framework Agreement constitute continuing connected transactions.

Given the highest annual cap under the Supplemental Framework Agreement is more than HK\$10,000,000 and the highest applicable percentage ratio calculated with reference to the annual cap is more than 5%, the continuing connected transactions contemplated under the Supplemental Framework Agreement are subject to reporting, announcement, annual review requirements and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

EGM

The Company will convene an extraordinary general meeting (the “**EGM**”) to seek approval from the Independent Shareholders in respect of the Supplemental Framework Agreement. As Mr. Yang, together with his associates, are materially interested in the transactions under the Supplemental Framework Agreement, they will abstain from voting in the resolutions to be proposed at the EGM to be convened for approving the above matters.

Independent Board Committee

The Independent Board Committee comprising all independent non-executive Directors has been established to consider whether the Supplemental Framework Agreement and the annual caps thereunder are fair and reasonable, and to advise the Independent Shareholders on how to vote in respect of relevant resolutions at the EGM.

Appointment of Independent Financial Adviser

VBG Capital Limited has been appointed by the Company as its Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Supplemental Framework Agreement and the annual caps thereunder are fair and reasonable and as to voting at the EGM so far as the Independent Shareholders are concerned.

Despatch of Circular

A circular containing, among others, (i) details of the Supplemental Framework Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and (iii) a letter of advice by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders will be despatched to the Shareholders on or before 14 August 2020 in accordance with the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set out below:

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“China” or “PRC”	The People’s Republic of China, for the purpose of this announcement only, excluding Hong Kong, and Macau Special Administrative Region
“Company”	Tian Yuan Group Holdings Limited (天源集團控股有限公司), an exempted company with limited liability incorporated under the laws of the Cayman Islands on 27 July 2015, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 6119)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve, among other things, the resolutions on the Supplemental Framework Agreement and the annual caps thereunder
“Framework Agreements”	the Tianyuan Petrochemical Framework Agreement and the Maoming Tianyuan Framework Agreement
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Board Committee”	the committee of the Board comprising all the independent non-executive Directors, established to advise the Independent Shareholders as to voting at the EGM on, among other things, the resolutions on the Supplemental Framework Agreement and the annual caps thereunder
“Independent Financial Adviser”	VBG Capital Limited, being a licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, which is the independent financial advisor appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Framework Agreement and the annual caps thereunder
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the resolutions on the Supplemental Framework Agreement and the annual caps thereunder at the EGM, being all Shareholders other than Mr. Yang and his associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maoming Tianyuan”	Maoming Tianyuan Trade Development Company Limited* (茂名市天源商貿發展有限公司), a company established in the PRC with limited liability on 27 November 1996 and held as to 95% by Mr. Yang
“Maoming Tianyuan Framework Agreement”	the terminal uploading and unloading services framework agreement entered into between Tianyuan, Zhengyuan and Maoming Tianyuan on 13 March 2020
“Mr. Yang”	Mr. Yang Jinming (楊金明), an executive Director, the chairman of the Board, our chief executive officer and one of our Controlling Shareholders
“percentage ratios”	has the meaning ascribed to it in the Listing Rules
“RMB”	Renminbi, the lawful currency of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of shares in the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Framework Agreement”	the agreement supplemental to the Framework Agreements entered into between Tianyuan, Zhengyuan, Tianyuan Petrochemical and Maoming Tianyuan on 24 July 2020
“Tianyuan”	Maoming Tianyuan Terminal Operation Company Limited* (茂名市天源碼頭經營有限公司), a company established in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company
“Tianyuan Petrochemical”	Maoming Tianyuan Petrochemical Company Limited* (茂名天源石化有限公司), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of Maoming Tianyuan
“Tianyuan Petrochemical Framework Agreement”	the terminal uploading and unloading services framework agreement entered into between Tianyuan, Zhengyuan and Tianyuan Petrochemical on 13 March 2020
“Tianyuan Terminal”	a terminal operated by Tianyuan and situated at the Shuidong port area of the Port of Maoming
“Zhengyuan”	Maoming Zhengyuan Trade Development Company Limited* (茂名市正源商貿發展有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Zhengyuan Terminal”	a terminal operated by Zhengyuan and situated at the Shuidong port area of the Port of Maoming
“%”	per cent

By order of the Board
Tian Yuan Group Holdings Limited
Yang Jinming
Chairman and Chief Executive Officer

Hong Kong, 24 July 2020

As at the date of this announcement, the executive Directors are Mr. Yang Jinming, Ms. Tong Wai Man and Mr. Su Baihan, the non-executive Director is Mr. Yang Fan, and the independent non-executive Directors are Mr. Pang Hon Chung, Professor Wu Jinwen and Mr. Huang Yaohui.