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

If you have sold or transferred all your shares in Ko Yo Chemical (Group) Limited, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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Ko Yo Chemical (Group) Limited

玖源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

(1) CONNECTED TRANSACTION RELATING TO ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE (2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL AND (3) NOTICE OF EGM

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



A letter from the Board is set out on pages 6 to 30 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 31 to 32 of this circular.

A letter from TC Capital International Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 54 of this circular.

A notice convening the EGM to be held at 3:00 p.m. on Friday, 8 November 2019 at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong is set out on pages 64 to 66 of this circular. Whether or not you intend to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event, not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish.

16 October 2019

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DEFINITIONS

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

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| “acting in concert” | has the meaning ascribed to it under the Takeover Code; |
| “Announcement” | the announcement dated 10 July 2019 of the Company in relation to, among others, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the Specific Mandate for the issue and allotment of the Conversion Shares) and the proposed increase in the authorised share capital of the Company; |
| “associate” | has the meaning ascribed to it under the Listing Rules; |
| “Board” | the board of Directors; |
| “Business Day(s)” | means a day (other than Saturdays, Sundays and on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business; |
| “Closing” | completion of the Subscription for the Convertible Bonds in accordance with the terms of the Subscription Agreement; |
| “Closing Date” | the date of the Closing; |
| “Company” | Ko Yo Chemical (Group) Limited (Stock Code: 827), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange; |
| “Conditions Precedent” | the conditions precedent required for the completion of the Subscription Agreement to take place as set out in the section headed “Conditions Precedent” in this circular; |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules; |
| “Conversion Shares(s)” | the Share(s) which may fall to be issued and allotted upon exercise of the conversion rights attaching to the Convertible Bond(s); |

DEFINITIONS

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| “Convertible Bond(s)” | convertible bonds issued pursuant to the Subscription Agreement; |
| “Convertible Bonds Certificate” | a certificate issued to each Convertible Bonds holder in respect of its registered holding of Convertible Bonds; |
| “Directors” | the directors of the Company; |
| “Distribution” | <p>(i) any distribution of assets in specie by the Company for any financial period whenever paid or made, on a per Share basis, and however described (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully-paid) by way of capitalization of reserves); and</p> <p>(ii) any cash dividend or distribution including, without limitation, the relevant cash amount of a Scrip Dividend of any kind by the Company for any financial period (whenever paid and however described) unless it comprises a purchase or redemption of Shares by or on behalf of the Company (or a purchase of Shares by or on behalf of a subsidiary of the Company) where the average purchase or redemption price (before expenses) on any one day in respect of such purchases or redemptions does not exceed 105% of the then current market price of the Shares on that day.</p> |

In making any such calculation, such adjustments (if any) shall be made as an Expert may determine to be appropriate to reflect (a) any consolidation or subdivision of the Shares; (b) issues of Shares by way of capitalization of profits or reserves, or any like or similar event; or (c) the modification of any rights to dividends of Shares;

DEFINITIONS

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| “EGM” | the extraordinary general meeting of the Company to be held at 3:00 p.m. on Friday, 8 November 2019 to approve, among others, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the Specific Mandate for the issue and allotment of the Conversion Shares) and the proposed increase in the authorised share capital of the Company; |
| “Existing Bonds” | the outstanding convertible bonds issued on: (a) 13 November 2014 with a conversion price of HK\$0.32 amounted to HK\$320,856,000 which can convert into 1,002,675,000 Shares; and (b) 31 January 2019 and 15 March 2019 with a conversion price of HK\$0.108 amounted to HK\$237,600,000 which can convert into 2,200,000,000 Shares; |
| “Existing Shares” | existing ordinary shares of HK\$0.10 each in the share capital of the Company; |
| “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 committee of the Board comprising all the independent non-executive Directors formed for the purpose of advising the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder; |
| “Independent Financial Adviser” | TC Capital International Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement (together with the transactions contemplated therein, including the issue and allotment of the Conversion Shares under the Specific Mandate); |
| “Independent Shareholders” | Shareholders other than the Subscriber and his associates who are involved or interested in the Subscription; |

DEFINITIONS

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|---------------------------|---|
| “Issue Date” | the date on which completion of the Subscription Agreement takes place and the Convertible Bonds are issued in accordance with the Subscription Agreement; |
| “Latest Practicable Date” | 11 October 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “Long Stop Date” | 30 April 2020, or such other date as may be agreed between the Company and the Subscriber; |
| “Maturity Date” | means the date falling on the fifth (5th) anniversary of the Issue Date; |
| “Notice of Closing” | the written notice to be given by the Subscriber to the Company during the Subscription Period stating the principal amount of the Convertible Bond which the Subscriber would subscribe; |
| “PRC” | the People’s Republic of China; |
| “Rate of Interest” | 5% per annum; |
| “Relevant Period” | the period beginning 10 July 2019 to the Latest Practicable Date; |
| “RMB” | Renminbi, the lawful currency of the PRC; |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong); |
| “Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of the Company; |
| “Share Options” | the total of 12,400,000 outstanding share options granted by the Company pursuant to the Share Option Scheme adopted by the Company; |
| “Share Option Scheme” | the share option scheme adopted by the Company on 18 September 2008; |

DEFINITIONS

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| “Shareholder(s)” | holder(s) of the Share(s); |
| “Specific Mandate” | the specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to issue and allot the Conversion Shares; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Subscriber” | Mr. Tang Guoqiang; |
| “Subscription” | the subscription for the Convertible Bonds by the Subscriber pursuant to the Subscription Agreement; |
| “Subscription Agreement” | the subscription agreement dated 10 July 2019 entered into between the Company and the Subscriber; |
| “substantial shareholder(s)” | has the meaning ascribed thereto under the Listing Rules; |
| “Takeovers Code” | The Hong Kong Code on Takeovers and Mergers; |
| “Trading Day” | means a day when the Stock Exchange is open for dealing business, provided that if no Closing Price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days; |
| “2016 Annual Report” | the annual report of the Company for the year ended 31 December 2016; |
| “2017 Annual Report” | the annual report of the Company for the year ended 31 December 2017; |
| “2018 Annual Report” | the annual report of the Company for the year ended 31 December 2018; |
| “2019 Interim Report” | the interim report of the Company for the six months ended 30 June 2019; and |
| “%” | per cent. |

LETTER FROM THE BOARD



Ko Yo Chemical (Group) Limited

玖源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

Executive Directors:

Mr. TANG Guoqiang (Chairman)
Mr. SHI Jianmin (Chief Executive Officer)
Mr. Zhang Weihua

Independent Non-executive Directors:

Mr. HU Xiaoping
Mr. SHI Lei
Mr. XU Congcai

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal place of business
in Hong Kong:*

Suite No. 02, 31st Floor, Sino Plaza
255 – 257 Gloucester Road
Causeway Bay, Hong Kong

16 October 2019

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION RELATING TO ISSUE OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
(2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
AND
(3) NOTICE OF EGM**

1. INTRODUCTION

Reference is made to the Announcement of the Company dated 10 July 2019 in relation to, among others, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the Specific Mandate for the issue and allotment of the Conversion Shares) and the proposed increase in the authorised share capital of the Company.

LETTER FROM THE BOARD

On 10 July 2019 (after market close), the Subscriber and the Company entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds which may be converted into the Conversion Shares pursuant to the terms and conditions of the Convertible Bonds, in the principal amount of HK\$987,000,000.

To accommodate the issue of the Conversion Shares and to provide additional flexibility to the Company, the Board proposed to increase the authorised share capital of the Company from HK\$800,000,000 divided into 8,000,000,000 Shares to HK\$2,000,000,000 divided into 20,000,000,000 Shares by the creation of an additional 12,000,000,000 Shares.

The purpose of this circular is to provide you with, among other things, (i) further details of the Subscription Agreement, the Specific Mandate and the proposed increase in the authorised share capital of the Company; (ii) the relevant recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription Agreement and the transactions contemplated thereunder; and (iv) a notice of the EGM.

2. THE SUBSCRIPTION AGREEMENT

A. Summary of the principal terms of the Subscription Agreement

On 10 July 2019 (after market close), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$987,000,000 and the Company has conditionally agreed to issue the Convertible Bonds. The principal terms of the Subscription Agreement are as follow:

| | |
|-------------------|---|
| Date: | 10 July 2019 (after market close) |
| Parties: | (i) the Company; and (ii) the Subscriber |
| Principal Amount: | HK\$987,000,000 |
| Interest rate: | 5% per annum, payable annually in arrears |
| Tranches: | The Subscriber shall subscribe for all of the Convertible Bonds in no more than five tranches on or before the Long Stop Date, and the principal sum of the Convertible Bonds to be subscribed in each tranche shall not be less than HK\$50,000,000. |
| Maturity: | on the fifth (5th) anniversary of the Issue Date |
| Conversion Price: | HK\$0.141 |

LETTER FROM THE BOARD

B. Conditions Precedent

Closing of each tranche of the Subscription under the Subscription Agreement shall be conditional upon:

- (a) the execution and delivery of the transaction documents by the Company and the Subscriber;
- (b) the representations, warranties, agreements and undertakings of the Company in the Subscription Agreement being true, accurate and correct in all material respects at, and as if made on, the Closing Date for that particular tranche;
- (c) the Board duly passing the resolutions approving, the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds;
- (d) the Shareholders duly passing the resolutions approving, the Subscription Agreement and the transactions contemplated thereunder, including the granting of the Specific Mandate for the allotment and issue of the Conversion Shares at the EGM; and
- (e) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares.

The Subscriber may waive all or any of the conditions above (other than conditions (d) and (e)) by way of written notice to the Company as he thinks fit and the waiver of the relevant conditions by the Subscriber (if any) would not affect the substance of the Subscription and the transactions contemplated thereunder.

If the conditions above are not fulfilled or waived by the Company (as the case may be) on or before the Long Stop Date (or such other date as may be agreed between the Subscriber and the Company), the obligations of the parties under the Subscription Agreement shall lapse.

As at the Latest Practicable Date, conditions (a) and (c) have been fulfilled.

C. Closing of the Subscription

Closing of the Subscription shall take place at the principal place of business of the Company in Hong Kong (or such other place as may be agreed by the parties) in no more than five tranches on or before the Long Stop Date (the “**Arrangement**”). As at the Latest Practicable Date, it is expected that the Company would issue the first, second, third, fourth and fifth tranche of the Convertible Bonds at the end of December 2019, January 2020, February 2020, March 2020 and April 2020, respectively.

LETTER FROM THE BOARD

The Board is of the view that the Arrangement is in the interests of the Group and the Shareholders as a whole having considered, among others, (i) the proximity of the expected issuance date of each tranche of the Convertible Bonds; (ii) it provides flexibility to the Company such that the Company could time the availability of the subscription money to the timeline for the purchase of the equipment and machinery for the Dazhou New Production Line and the Guangan New Production Line, and the repayment schedule of outstanding loans and interests. This would alleviate the financial pressure on the Group as it would minimise the amount of interests payable by the Company to the Subscriber. Further, any changes to the Long Stop Date would require the approval of the Company.

In respect to the Closing of each tranche of Subscription, it shall take place within three Business Days after receipt of a Notice of Closing issued by the Subscriber to the Company in connection with the relevant principal amount of the Convertible Bonds.

D. Conversion Price

The Conversion Price of HK\$0.141 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds represents:

- (a) a discount of approximately 19.89% to the closing price of HK\$0.176 per Share as quoted on the Stock Exchange on 10 July 2019, being the date of the Subscription Agreement;
- (b) a discount of approximately 19.70% to the average closing price of approximately HK\$0.1756 per Share as quoted on the Stock Exchange for the last five (5) Trading Days immediately prior to the date of the Subscription Agreement;
- (c) a discount of approximately 21.01% to the average closing price of approximately HK\$0.1785 per Share as quoted on the Stock Exchange for the last ten (10) Trading Days immediately prior to the date of the Subscription Agreement;
- (d) a discount of approximately 24.19% to the average closing price of approximately HK\$0.1860 per Share as quoted on the Stock Exchange for the last thirty (30) Trading Days immediately prior to the date of the Subscription Agreement;
- (e) a cumulative theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 13.92% represented by the cumulative theoretical ex-price of HK\$0.118 per Share to the benchmarked price immediately before 12 months period of approximately HK\$0.137 per Share (as defined under Rule 7.27B of the Listing Rules);

LETTER FROM THE BOARD

- (f) a discount of approximately 4.73% over the net asset value per Share of approximately HK\$0.148 as calculated from the unaudited equity attributable to the shareholders of the Company as at 30 June 2019 of approximately RMB557,710,000 (equivalent to approximately HK\$634,673,980) and the total number of 4,298,042,599 Shares in issue as at 30 June 2019; and
- (g) a discount of approximately 15.06% to the closing price of HK\$0.166 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Based on the initial Conversion Price of HK\$0.141 per Share, the Convertible Bonds is convertible into 7,000,000,000 Conversion Shares, which represent approximately 152.24% of the existing issued share capital of the Company of 4,598,042,599 Shares as at the Latest Practicable Date and approximately 60.36% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price of HK\$0.141 per Share and the completion of the Subscription.

The initial Conversion Price was determined after arm's length negotiations between the Company and the Subscriber. Members of the senior management of the Company (other than the Subscriber) have discussed with the Subscriber on numerous occasions over an extended period of time, whilst having explored the options made available by financial institutions, and the terms offered by such financial institutions. The initial Conversion Price was determined, with reference to, among others, (i) the historical price of Shares; (ii) the prevailing market price of the Shares; (iii) the improvement in financial position of the Company; (iv) the business prospects and the funding needs of the Company; (v) the financing options available to the Company; (vi) the terms of the Subscription Agreement; (vii) the interest rate of the Convertible Bonds; (viii) other benefits to be derived by the Group from the Subscription as disclosed in the section headed "Reasons for the Issue of the Convertible Bonds and Use of Proceeds" of this circular; and (ix) the prevailing economic and political conditions. The Directors (other than members of the Independent Board Committee, whose opinion is set out on pages 31 to 32 of this circular) consider the initial Conversion Price and the terms of the Subscription Agreement are fair and reasonable based on the current market condition and in the interests of the Company and the Shareholders as a whole.

E. Adjustments to the Conversion Price

The Conversion Price will be subject to adjustments in accordance with the terms and conditions set out in the Convertible Bonds if any of the following events occurs:

- (a) an alteration of the nominal value of the Shares as a result of consolidation, subdivision, re-denomination or reclassification

If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision, re-denomination or re-classification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

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

LETTER FROM THE BOARD

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.

Such adjustment shall become effective on the date the alteration takes effect.

(b) capitalization of profits or reserves

- (i) If and whenever the Company shall issue any Shares credited as fully-paid to the Shareholders by way of capitalization of profits or reserves including, Shares paid up out of distributable profits or reserves and/or share premium account, save where Shares are issued in lieu of the whole or any part of a declared cash dividend (the “**Relevant Cash Dividend**”), being a dividend which the Shareholders concerned would or could otherwise have received (a “**Scrip Dividend**”), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

Where:

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

B = is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

- (ii) In the case of an issue of Shares by way of a Scrip Dividend where the then current market price on the date of announcement of the terms of such issue of Shares multiplied by the number of Shares issued exceeds the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

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

LETTER FROM THE BOARD

Where:

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

B = is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the then current market price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend; and

C = is the aggregate nominal amount of Shares issued by way of such Scrip Dividend; or by making such other adjustment as an expert, being an independent investment bank of international reputation jointly selected by the Company and the Convertible Bonds holder(s) holding more than 50% of the aggregate principal amount of the Convertible Bonds outstanding (an “**Expert**”), shall certify to the Convertible Bonds holder(s) is fair and reasonable.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

- (c) a capital distribution (including an extraordinary dividend) being made by the Company to the Shareholders;

If and whenever the Company shall pay or make any Distribution to the Shareholders (except to the extent that the Conversion Price falls to be adjusted under item (b) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

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

Where:

A = is the then current market price of one Share on the date on which the Distribution is publicly announced; and

B = is the fair market value on the date of such announcement of the portion of the Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

LETTER FROM THE BOARD

- (d) an issue of any securities to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at less than 85% of the then market price;

If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at less than 85% of the then current market price per Share on the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

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

Where:

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

B = is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at the then current market price per Share; and

C = is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

- (e) rights of issue of other securities

If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any

LETTER FROM THE BOARD

securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

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

Where:

A = is the then current market price of one Share on the date on which such issue or grant is publicly announced; and

B = is the fair market value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or the issue or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

(f) issue of any Shares

If and whenever the Company shall issue (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares in each case at a price per Share which is less than 85% of the then current market price on the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

Where:

A = is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;

B = is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares would purchase at the then current market price per Share; and

C = is the number of Shares in issue immediately after the issue of such additional Shares.

LETTER FROM THE BOARD

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue or grant of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

- (g) save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this item (g), an issue of any securities (other than the Convertible Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than 85% of the market price on the date of announcement of the terms of issue of such securities (otherwise as mentioned in items (d), (e) or (f) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

Where:

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

B = is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at the then current market price per Share; and

C = is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

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

- (h) any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in item (g) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is reduced and is less than 85% of the market price on the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

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

LETTER FROM THE BOARD

Where:

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

B = is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at the then current market price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and

C = is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Expert considers appropriate (if at all) for any previous adjustment under this item or item (g).

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

F. Ranking of Conversion Shares

The Conversion Shares, when issued and fully paid, will rank *pari passu* among themselves and with Shares in issue at the time of issue and allotment of the Conversion Shares.

G. Conversion Period

The Conversion Period shall be the period beginning on, and including, the date of issue of the Convertible Bonds and ending on, and including, 5:00 p.m. on the day which is five (5) Trading Days before the Maturity Date, provided that the conversion of the Convertible Bonds (i) does not trigger any mandatory offer obligations under Rule 26 of the Takeovers Code on the part of the Subscriber which exercised the conversion rights, namely more than 30% (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; or (ii) does not reduce the public float of the Shares to less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares (collectively, the “Restrictions”).

H. Conversion Rights

The holder of the Convertible Bonds has the right (subject to the conditions stated in the section headed “**Conversion Period**”) to convert the principal amount of the Convertible Bonds into fully-paid Shares to be issued by the Company and listed and traded on the Stock Exchange at the bondholder’s election at any time during the Conversion Period.

LETTER FROM THE BOARD

I. Transferability of the Convertible Bonds

The Convertible Bonds are freely transferable. Holder of the Convertible Bonds will be subject to the Restrictions.

J. Redemption at Maturity

Unless previously redeemed, converted or purchased and cancelled, the Company shall, subject to receipt of the relevant Convertible Bonds Certificate, redeem all the outstanding Convertible Bonds held by a bondholder on the Maturity Date at an amount equal to the Redemption Amount.

“Redemption Amount” means the amount equal to the aggregate of:

- (a) the aggregate principal amount of such outstanding Convertible Bonds held by the relevant bondholder; and
- (b) any accrued but unpaid interest on such outstanding Convertible Bonds on the Maturity Date.

K. Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be allotted and issued upon exercise of the Convertible Bonds.

No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

L. Voting

The holder(s) of the Convertible Bonds will not be entitled to attend or vote at any meeting of the Company by reason only of it being the holder of the Convertible Bonds.

3. MANDATE TO ISSUE THE CONVERSION SHARES

The Subscription Agreement and the transactions contemplated thereunder, including the issue and allotment of the Conversion Shares under the Specific Mandate, are subject to the approval of the Independent Shareholders at the EGM. In view of the Arrangement, it is intended that the Specific Mandate would last 12 months from the date of approval by the Independent Shareholders. In accordance with the Listing Rules, the Company will comply with the Listing Rules (including seeking approval from the Independent Shareholders) should there be material changes to the terms of the Subscription.

LETTER FROM THE BOARD

4. EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

During the past twelve months immediately prior to the date of the Announcement, the Group completed the following fund raising exercise to strengthen its financial position and raised the gross proceeds of approximately HK\$270,000,000, with the net proceeds of approximately HK\$269,000,000. As at the date of the Announcement, the sum of HK\$44 million remains to be applied. Set out below are details of application of funds raised and applied during the past twelve months immediately preceding the date of the Announcement:

| Date of completion | Description of fund raising activities | Intended use of proceeds | Actual use of proceeds as at the date of the Announcement |
|--------------------|--|---|--|
| 15 March 2019 | Issue of convertible bonds in the principal amount of HK\$270,000,000 under specific mandate | (a) approximately HK\$170 million for repayment of high interest rate short-term borrowings; (b) approximately HK\$70 million for the pre-payment arrangement between the Group and the customers; and (c) approximately HK\$29 million for general working capital of the Group. | (a) approximately HK\$126 million was used for repayment of high interest rate short-term borrowings, among which, approximately HK\$18 million was used for pledged bank deposit; (b) approximately HK\$70 million was used for the pre-payment arrangement; and (c) approximately HK\$29 million was used for general working capital of the Group, among which, approximately HK\$13 million was used for the maintenance of production facilities. |

Save for the fund raising activities mentioned above, the Company has not conducted any fund raising activities in the past twelve months immediately preceding the date of the Announcement.

LETTER FROM THE BOARD

5. INFORMATION ABOUT THE PARTIES

A. Information about the Group

The Group is principally engaged in the manufacturing and sale of chemical products and chemical fertilisers in the PRC.

B. Information about the Subscriber

The Subscriber is an executive Director and the chairman of the Board. As at the Latest Practicable Date, the Subscriber is also the chairman of Liyang Huakang Jianda Health Co., Ltd., a private limited liability company established in the PRC.

6. INTENDED USE OF PROCEEDS AND REASONS FOR THE ISSUE OF THE CONVERTIBLE BONDS

A. Intended use of proceeds

The gross proceeds from the issue of Convertible Bonds pursuant to the Subscription Agreement will be approximately HK\$987,000,000. The net proceeds from the issue of the Convertible Bonds pursuant to the Subscription Agreement, after deduction of all the relevant costs and expenses, is estimated to be approximately HK\$986,000,000. The Company intends to apply the net proceeds arising from the issue of the Convertible Bonds in the following manner:

- (a) approximately HK\$230 million will be used for the establishment of a new production line of dimethyl carbonate in Dazhou plant (the “**Dazhou New Production Line**”), among which (i) approximately HK\$170 million for the purchase of new machinery and equipment for the production of dimethyl carbonate; and (ii) approximately HK\$60 million for the installation of such machinery and equipment for the new production line;
- (b) approximately HK\$550 million will be used for the establishment of a new production line of propylene oxide in Guangan plant (the “**Guangan New Production Line**”), among which (i) approximately HK\$440 million for the purchase of new machinery and equipment for the production of propylene oxide in Guangan plant; and (ii) approximately HK\$110 million for the installation of such machinery and equipment for the new production line; and

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- (c) approximately HK\$206 million will be used as general working capital of the Group, among which approximately HK\$150 million will be used for the repayment of certain loans and interest. As at the Latest Practicable Date, the aggregate outstanding principal amount of such loans amounted to approximately HK\$502 million with an interest payment of approximately HK\$23 million and the interest rates of such loans ranged between 4.35% p.a. to 12% p.a. The loans were taken out to finance, among others, the working capital of the Group, and the construction of the Guangan plant and the Dazhou plant. The remaining balance of approximately HK\$56 million for operational costs including administrative expenses and distribution expenses.

The allocation of the proceeds is determined with reference to, among others: (i) the funding requirements for the establishment of each of the Dazhou New Production Line and the Guangan New Production Line; (ii) the estimated schedule of payments for the purchase of the machinery and equipment, and installation of such machinery and equipment; (iii) the amount of loans outstanding; (iv) the amount of return to be generated from the Dazhou New Production Line and the Guangan New Production Line; (v) the costs of the outstanding loans; and (vi) the capital required to meet the day-to-day operations of the Group.

B. Dazhou plant and Guangan plant

Set out below is a summary of the proposed expansion of the Dazhou plant and the Guangan plant:

- (a) funding needs: based on the information available to the Group and as at the Latest Practicable Date, the estimated capital expenditure for the establishment of the Dazhou New Production Line would be approximately HK\$856 million and that the Guangan New Production Line would be approximately HK\$2,645 million.
- (b) proposed development plans and expected timelines for each of the Dazhou New Production Line and the Guangan New Production Line:

1. Dazhou New Production Line

Dazhou plant engages in the production of chemical products including ammonia and urea. As disclosed in the 2019 Interim Report, Dazhou plant resumed its production activities on 5 February 2019. To further augment the products offerings of the Group, to create synergistic effects and improve profitability of the Group, the Dazhou New Production Line will be used for the production of dimethyl carbonate. Dimethyl carbonate is a fast evaporating polar solvent, with versatile usage, low toxicity and fast biodegradability.

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The Company intends to apply approximately HK\$230 million from the net proceeds from the issue of the Convertible Bonds for the establishment of the Dazhou New Production Line, among which (i) approximately HK\$170 million will be used to purchase new machinery and equipment for the production of dimethyl carbonate; and (ii) approximately HK\$60 million will be applied for the installation of such machinery and equipment. Subject to the general market demand, prevailing market conditions and financial situations, construction of the Dazhou New Production Line would be completed within two years following commencement of the construction works.

The capital outflow for the Dazhou New Production Line for the years ending 31 December 2020, 2021, 2022 and 2023 are expected to amount to approximately HK\$193 million, HK\$235 million, HK\$300 million and HK\$128 million, respectively.

To meet the construction costs of the Dazhou New Production Line and the capital outflow, in addition to applying proceeds from the Convertible Bonds, the Company would also (A) take out loans from financial institutions; and (B) apply funds generated from the ordinary course of business of the Company. Further, the Company intends to negotiate with the suppliers for more favourable payment terms and longer repayment schedule with equipment providers and installers.

Based on the information available to the Group as at the Latest Practicable Date, it is expected that the average sales income to be generated from the Dazhou New Production Line during the construction period would amount to approximately RMB2,900 million per annum, the return on investment would be approximately 75% and the expected payback period of investment would be around four years (including the two-year construction period).

2. Guangan New Production Line

Guangan plant produces synthetic ammonia and methanol. As disclosed in the 2019 Interim Report, Guangan plant resumed its production activities on 4 February 2019. To further augment the products offerings of the Group and to create synergistic effects and improve profitability of the Group, the Guangan New Production Line will focus on the production of propylene oxide. Propylene oxide is a colourless volatile liquid. It is used in agriculture as, among others, an insecticidal sterilant, to control bacteria contamination, insect infestations, and microbial spoilage of food products.

The Company intends to apply approximately HK\$550 million from the net proceeds from the issue of the Convertible Bonds for the establishment of the Guangan New Production Line, among which (i) approximately HK\$440 million will be used to purchase new machinery and equipment for the production of propylene oxide; and (ii) approximately HK\$110 million will be applied for the

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installation of such machinery and equipment. Subject to the general market demand, prevailing market conditions and financial situations, construction of the Guangan New Production Line would be completed within two years following commencement of the construction works.

The capital outflow required for the Guangan New Production Line for the years ending 31 December 2020, 2021, 2022 and 2023 are approximately HK\$616 million, HK\$706 million, HK\$926 million and HK\$397 million respectively.

To meet the construction costs of the Guangan New Production Line and the capital outflow, in addition to applying the proceeds from the Convertible Bonds, the Company would also (A) taking out loans from financial institutions; and (B) apply funds generated from the ordinary course of business of the Company. In addition, the Company intends to negotiate more favourable payment terms and longer repayment schedule with equipment providers and installers to provide more room to finance the establishment of the new production line.

Based on the information available to the Group as at the Latest Practicable Date, it is expected that the average annual operating revenue to be generated by the Guangan New Production Line would amount to approximately RMB3,970 million, and the return on the total investment would be around 30%, with the expected payback period of investment would be around five years (including the two-year construction period).

With the introduction of the Dazhou New Production Line and the Guangan New Production Line, the Directors (other than members of the Independent Board Committee, whose opinion is set out on pages 31 to 32 of this circular) believe that it can strengthen the capital base and financial position of the Group.

C. Other financing alternatives

Apart from the Subscription, the Company has also considered other financing alternatives such as bank borrowings and other equity financing.

With respect to bank borrowings, the Directors consider that the ability for the Group to obtain bank borrowings largely depends on the Group's profitability, financial position and the then prevailing market condition. As disclosed in the 2018 Annual Report, the Group recorded a net loss of approximately RMB348,286,000 for the year ended 31 December 2018. During the first half of 2019, the Group has approached several financial institutions; however, given the unsatisfactory financial performance of the Group, no concrete feedback has been received by the Group.

LETTER FROM THE BOARD

With respect to equity financing, the Group has considered several means including placing of new shares and convertible bonds of the Company to independent third parties. The Group has approached four financial institutions between April 2019 and June 2019 to identify potential investors for equity financing but did not receive any concrete feedback from those financiers in light of the financial position of the Group and the prevailing market conditions.

The Directors (other than members of the Independent Board Committee, whose opinion is set out on pages 31 to 32 of this circular) consider raising funds by issuing the Convertible Bonds is justifiable considering the recent market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position of the Group. Having considered the advantages and disadvantages of different forms of debt financing and equity financing, the Directors consider that the issue of the Convertible Bonds is an appropriate mean of raising additional capital for the Company since (i) the issue of the Convertible Bonds incurs lower interest burden and financial costs of the Group compared to bank borrowings (the interest rates of the outstanding borrowings of the Group as at the Latest Practicable Date ranged from 4.35% to 12.00% and the average effective interest rate of bank borrowings as at 31 December 2018 was 6.03%); (ii) the time horizon for the issue of the Convertible Bonds is relatively shorter compared to alternative equity fund raising methods; (iii) there will not be any liability and obligations on the Company for payment or repayment (whether in cash or otherwise) in respect of the Convertible Bond; and (iv) the Group did not able to receive any concrete feedback from potential financiers or investors.

Having considered the above factors, the Directors (other than members of the Independent Board Committee, whose opinion is set out on pages 31 to 32 of this circular) considered that the terms of the Subscription Agreement (including the Conversion Price of the Conversion Shares) has been entered into on normal commercial terms that are fair and reasonable and is in the interests of the Company and the Shareholders as a whole. The Directors (other than members of the Independent Board Committee, whose opinion is set out on pages 31 to 32 of this circular) are of the view that the entering of the Subscription Agreement is not in the ordinary and usual course of business of the Company. As the Directors are confident about the prevailing and future business development of the Group, the Directors believe that the issue of the Convertible Bonds will allow the Company to raise the necessary funds at a reasonable cost to meet the additional cash requirements for its operation and future development.

As at the Latest Practicable Date, the Company has no plan or intention to conduct any equity fund raising activities for the next 12 months from the Latest Practicable Date.

LETTER FROM THE BOARD

7. EFFECTS ON SHAREHOLDING STRUCTURE

Based on the Conversion Price of HK\$0.141 per Share, subject to adjustments, a maximum number of 7,000,000,000 Conversion Shares will be issued and allotted upon exercise of the conversion rights attached to the Convertible Bonds in full, which represent: (i) approximately 152.24% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 60.36% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds in full.

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the full conversion of the Convertible Bonds; and (iii) immediately after the full conversion of the Convertible Bonds and Existing Bonds (assuming that there is no other change in the issued share capital of and the shareholding of the Company) is as follows (*for illustrative purposes only*):

| Shareholders | As at the Latest Practicable Date | | Immediately after the issue and allotment of the Conversion Shares upon full conversion of the Convertible Bonds | | Immediately after the full conversion of the Convertible Bonds and Existing Bonds | |
|---|--------------------------------------|----------------|--|----------------|--|----------------|
| | | | | | | |
| | Number of Shares | % (approx.) | Number of Shares | % (approx.) | Number of Shares | % (approx.) |
| Asia Pacific Resources Development Investment Limited (Note 1) | 800,000,000 | 17.40 | 800,000,000 | 6.90 | 1,801,375,000 | 12.17 |
| The Subscriber (Note 2) | 100,000,000 | 2.17 | 3,478,252,975 | 29.99 | 4,440,067,273 | 29.99 |
| Shi Jianmin (Note 3) | 300,000 | 0.01 | 300,000 | 0.01 | 300,000 | 0.01 |
| Public Shareholders | <u>3,697,742,599</u> | <u>80.42</u> | <u>7,319,489,624</u> | <u>63.10</u> | <u>8,558,975,326</u> | <u>57.83</u> |
| Total | <u>4,598,042,599</u> | <u>100.00</u> | <u>11,598,042,599</u> | <u>100.00</u> | <u>14,800,717,599</u> | <u>100.00</u> |

Note 1: Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming, who held convertible bonds of the Company in the principal amount of HK\$320,440,000 and 800,000,000 Shares.

Note 2: The Subscriber held convertible bonds of the Company in the principal amount of HK\$221,400,000 and 100,000,000 Shares.

Note 3: Mr. Shi Jianmin is an executive Director and is the beneficial owner of 300,000 Shares.

LETTER FROM THE BOARD

8. IMPLICATIONS UNDER THE LISTING RULES

The Subscriber is an executive Director and the chairman of the Board. Accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules. As a result, the proposed issue of the Convertible Bonds to the Subscriber would constitute a non-exempted connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Subscriber shall abstain from voting at the EGM.

To the best of the Directors' information, belief and knowledge, save for the Subscriber, no other parties have any material interest which is different from other Shareholders in relation to the Subscription Agreement and the grant of the Specific Mandate.

The Independent Board Committee comprising all the independent non-executive Directors, namely Messrs. HU Xiaoping, SHI Lei and XU Congcai, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and as to voting after taking into account the advice from the Independent Financial Adviser. TC Capital International Limited, the Independent Financial Adviser has been approved by the Independent Board Committee and appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement.

9. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As the Latest Practicable Date, the authorised share capital of the Company was HK\$800,000,000 divided into 8,000,000,000 ordinary shares of HK\$0.1 each, of which 4,598,042,599 Shares were in issue.

To accommodate the issue of the Conversion Shares following the exercise of the conversion rights attached to the Convertible Bonds and to provide additional flexibility to the Company, the Board proposes to increase the authorised share capital of the Company from HK\$800,000,000 divided into 8,000,000,000 Shares to HK\$2,000,000,000 divided into 20,000,000,000 Shares by the creation of an additional 12,000,000,000 new Shares, which shall rank *pari passu* with each other and with the existing Shares in all respects upon issue. This proposed increase in the authorised share capital of the Company is conditional upon the approval of the Shareholders by passing an ordinary resolution at the EGM.

A. Reasons for the Increase in Authorised Share Capital

The Board proposed to increase the authorised share capital of the Company to accommodate the issue of the Conversion Shares following the exercise of the conversion rights, to provide the Company with additional flexibility and to accommodate future expansion and growth of the Group.

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B. Condition of the Increase in Authorised Share Capital

The increase in authorised share capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

The Subscriber shall abstain from voting on the resolution in relation to the increase in authorised Share Capital at the EGM.

10. FINANCIAL SUMMARY OF THE GROUP

A. Audited consolidated financial statements of the Company

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2018 are respectively disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk):

- (a) the annual report of the Company for the year ended 31 December 2016;
- (b) the annual report of the Company for the year ended 31 December 2017; and
- (c) the annual report of the Company for the year ended 31 December 2018.

B. Financial overview of the Group

Set out below is certain financial information of the Group for the three years ended 31 December 2018, and the six months ended 30 June 2018 and 2019 as extracted from the 2016 Annual Report, the 2017 Annual Report, the 2018 Annual Report and the 2019 Interim Report respectively:

| | For the year ended 31 December | | | For the six months ended 30 June | |
|--|--------------------------------|----------------|----------------|----------------------------------|----------------|
| | 2018 | 2017 | 2016 | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 3,101,031 | 3,678,169 | 1,947,027 | 953,581 | 1,992,651 |
| Cost of sales | (2,877,039) | (3,643,775) | (1,988,713) | (939,301) | (1,876,359) |
| Gross profit/(loss) | 223,992 | 34,394 | (41,686) | 14,280 | 116,292 |
| Loss before tax | (347,685) | (471,170) | (417,039) | (341,434) | (175,131) |
| Income tax credit | (601) | 16,737 | 9,054 | 13,068 | 14,067 |
| Loss attributable to equity holders of the Company | (348,209) | (454,339) | (407,154) | (328,260) | (161,014) |

LETTER FROM THE BOARD

Profit and loss

As depicted in the above table, the Group's revenue recorded a decrease by approximately 15.7% for the two years ended 31 December 2018. The Group recorded a total revenue of approximately RMB3,101,031,000 for the year ended 31 December 2018 as compared to that of approximately RMB3,678,169,000 for the year ended 31 December 2017. The loss attributable to equity holders of the Company has decreased by approximately 23.4% from approximately RMB454,339,000 for the year ended 31 December 2017 to approximately RMB348,209,000 for the year ended 31 December 2018. The decrease in the loss of the Group was mainly due to (i) the increase in gross profit by approximately RMB189,598,000; and (ii) the decrease in other loss resulting from the deduction in fair value changes on derivative financial assets by approximately RMB144,038,000, which was partially offset by the increase in other expenses including the administrative expenses and the impairment losses on the production equipment of phosphoric acid plant and the phase II of the Dazhou plant.

The revenue of the Group increased by approximately 88.9% from approximately RMB1,947,027,000 for the year ended 31 December 2016 to approximately RMB3,678,169,000 for the year ended 31 December 2017. Based on the 2017 Annual Report, the increase was mainly due to the increase in the Group's sales volume (excluding trading). The loss attributable to equity holders of the Company increased by approximately 11.6% from approximately RMB407,154,000 for the year ended 31 December 2016 to approximately RMB454,339,000 for the year ended 31 December 2017 mainly as a result of the decrease in other income caused by the loss on fair value changes on derivative financial assets, which was partially offset by the decrease in the administrative expenses.

The Group recorded total revenue of approximately RMB953,581,000 for the six months ended 30 June 2019, representing a decrease by approximately 52.1% as compared to that of approximately RMB1,992,651,000 for the six months ended 30 June 2018. The loss attributable to equity holders of the Company has increased by approximately 103.9% from approximately RMB161,014,000 for the six months ended 30 June 2018 to approximately RMB328,260,000 for the six months ended 30 June 2019. As disclosed in the 2019 Interim Report, the significant increase in the loss of the Group was mainly due to the provision made from the valuation loss on the convertible bonds issued in the six months ended 30 June 2019 amounted to approximately RMB210,888,000.

C. Liquidity and Working Capital

As stated in the 2019 Interim Report, the current assets of the Group amounted to approximately RMB301,953,000 and the current liabilities of the Group amounted to approximately RMB1,660,498,000 as at 30 June 2019. The Group had cash and cash equivalents of approximately RMB37,101,000 as at 30 June 2019.

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Taking into account of the Subscription, the capital requirement and the presently available financial resources of the Company, the Directors are of the opinion that the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of publication of this Circular.

D. Statement of Indebtedness

Borrowings

As at the close of business on 11 October 2019, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Circular, the total borrowings and notes payable balances of the Group amounted to approximately RMB2,110,194,000, in which approximately RMB849,921,000 were short-term borrowings.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal accounts payables in the ordinary course of business, as at the close of business on 11 October 2019, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages, charges, guarantees or other contingent liabilities.

E. Financial prospects of the Group

The Group remained focused on manufacturing and distribution of chemical fertilizers and chemical products, including BB fertilizers and complex fertilizers, methanol, polyphenylene sulfide, urea and ammonia for the year ended 31 December 2018. The Group recorded turnover of approximately RMB3,101 million, a decrease of approximately 15.7% during the year ended 31 December 2018 as compared to the same period in 2017. The loss attributable to shareholders of the Company amounted to approximately RMB348 million, representing a decrease in loss of approximately RMB106 million during the year ended 31 December 2018 as compared to the same period in 2017.

In 2019, the Company will continue to capitalize on opportunities arising from the recovery of the chemical fertilizers and chemical industries while it will establish new production lines including the Dazhou New Production Line and the Guangan New Production Line.

LETTER FROM THE BOARD

11. EGM

Set forth on pages 64 to 66 of this circular is a notice convening the EGM to be held at 3:00 p.m., on Friday, 8 November 2019 at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong at which ordinary resolutions will be proposed to approve, among other things, the issue of the Convertible Bonds and the transactions contemplated thereunder (including but not limited to the obtaining of the Specific Mandate). Pursuant to the Listing Rules, the Subscriber and its associates, interested in 2.17% of the total issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the relevant resolutions at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company's share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not less than 48 hours before the time appointed for holding the meeting (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting if you so desire.

12. CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the Company's shares register of members will be closed from Tuesday, 5 November 2019 to Friday, 8 November 2019 (both days inclusive) during which period no transfer of Shares will be effected. Shareholders whose names appeared on the shares register of members of the Company on Friday, 8 November 2019 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify for attending and voting at the EGM, Shareholders whose Shares are not registered in their names should complete and lodge their respective instruments of transfer with the relevant share certificates with the Company's share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, and in any case no later than 4:00 p.m. on Monday, 4 November 2019.

13. RECOMMENDATION

In respect of the resolution to be proposed at the EGM relating to the Subscription, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement and the issue of the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

In respect of the resolution to be proposed at the EGM relating to the increase in the authorised share capital of the Company, the Directors consider that the resolution to be proposed at the EGM is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM.

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 31 to 32 of this circular which contains its views in relation to the issue of the Convertible Bonds to the Subscriber who is a connected person, under the Subscription Agreement. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 33 to 54 of this circular, considers that the terms of the issue of the Convertible Bonds to the Subscriber who is a connected person, under the Subscription Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned as a whole. Accordingly, the Independent Board Committee recommends that the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds.

14. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

15. ADDITIONAL INFORMATION

Your attention is drawn to the information as set out in the appendices to this circular and the notice of the EGM.

By Order of the Board
Ko Yo Chemical (Group) Limited
Tang Guoqiang
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Subscription Agreement:



Ko Yo Chemical (Group) Limited

玖源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

16 October 2019

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
RELATING TO ISSUE OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to the circular dated 16 October 2019 of the Company (the “**Circular**”), of which this letter forms part. Capitalised terms used herein have the same meanings as those defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to: (i) whether the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the terms of the Subscription Agreement are in the interests of the Company and the Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolution to approve the Subscription Agreement at the EGM. TC Capital International Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 33 to 54 of the Circular, which contains its advices and recommendations as to whether or not the Subscription Agreement (together with the transactions contemplated therein, including the allotment and issue of the Conversion Shares under the specific mandate) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, as well as the principal factors and reasons taken into consideration for its advices and recommendations.

We also wish to draw your attention to the letter from the Board set out on pages 6 to 30 of the Circular and the additional information set out in the appendices to the Circular.

RECOMMENDATION

Having considered, among other matters, the terms of the Subscription Agreement and the factors and reasons considered by, and the advices and recommendations of the Independent Financial Adviser as stated in its aforementioned letter, we consider the entering into the Subscription Agreement is not in the ordinary and usual course of business of the Company and we are of the opinion that the Subscription Agreement (together with the transactions contemplated therein, including the issue and allotment of the Conversion Shares under the specific mandate) are on normal commercial terms and such terms are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Subscription Agreement (together with the transactions contemplated therein, including the issue and allotment of the Conversion Shares under the Specific Mandate).

Yours faithfully,

For and on behalf of the Independent Board Committee of
Ko Yo Chemical (Group) Limited

Mr. Hu Xiaoping

Mr. Shi Lei

Mr. Xu Congcai

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from TC Capital International Limited to the Independent Board Committee and the Independent Shareholders in respect of the Subscription prepared for the purpose of inclusion in this circular.



16 October 2019

The Independent Board Committee and the Independent Shareholders
Ko Yo Chemical (Group) Limited

Dear Sir/Madam,

CONNECTED TRANSACTION RELATING TO ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of Ko Yo Chemical (Group) Limited (the “**Company**”) dated 16 October 2019 issued to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise specified.

On 10 July 2019 (after market close), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds which may be converted into the Conversion Shares pursuant to the terms and conditions of the Convertible Bonds, in the principal amount of HK\$987,000,000.

As at the Latest Practicable Date, the Subscriber was an executive Director and the chairman of the Board. Accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the proposed issue of the Convertible Bonds to the Subscriber would constitute a non-exempted connected transaction of the Company subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. In this connection, the Subscriber shall abstain from voting at the EGM to be convened to consider and, if though fit, to approve the issue of the Convertible Bonds and the transactions contemplated under the Subscription Agreement (including the obtaining of the Specific Mandate).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have been appointed by the Company to advise (i) the Independent Board Committee and the Independent Shareholders as to whether or not the Subscription Agreement is entered in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the Subscription.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, we have acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to an occasion as detailed in the circular of the Company dated 4 October 2018. Apart from normal professional fee paid to us in connection with the aforesaid appointment, no arrangements exist whereby we have received any fees or benefits from the Company or any other party to the transactions during the two years prior to the Latest Practicable Date, therefore we consider such relationship would not affect our independence to form our opinion in respect of the Subscription.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the Circular; (ii) the Subscription Agreement; (iii) the annual reports of the Company for the two years ended 31 December 2017 and 2018 (the “**2017 Annual Report**” and the “**2018 Annual Report**”); (iv) the interim report of the Company for the six months ended 30 June 2019 (the “**2019 Interim Report**”); and (v) relevant market data and information available from public sources and the website of the Stock Exchange. We have also relied on all relevant information and representations supplied, and the opinions expressed, by the Directors and the representative of the Company. We have assumed that all such information and representations contained or referred to in the Circular are true and accurate in all material respects as at the date hereof. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have also confirmed that, having made all reasonable enquiries and to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have no reason to doubt the truth, accuracy and completeness of the information, representations and opinions provided to us by the Directors and the representative of the Company, and they have confirmed that no material information have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, nor have we conducted an independent investigation into the business affairs, operations, financial position or future prospects of each of the Company, the Subscriber, and any of their respective subsidiaries and associates and parties acting in concert with them.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Subscription, we have taken into consideration the following principal factors and reasons:

I. Information of the Group

As stated in the Letter from the Board, the Group is principally engaged in the manufacture and sale of chemical products and chemical fertilisers in the PRC.

Set out below is certain financial information of the Group for the three years ended 31 December 2018 (“FY2016”, “FY2017” and “FY2018”, respectively) as extracted from the 2017 Annual Report and the 2018 Annual Report and the six months ended 30 June 2018 and 2019 (“1H2018” and “1H2019”, respectively) as extracted from the 2019 Interim Report:

| | For the six months ended 30 June | | For the year ended 31 December | | |
|--|-------------------------------------|-------------|-----------------------------------|-------------|-------------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Audited) | (Audited) | (Audited) |
| Revenue | 953,581 | 1,992,651 | 3,101,031 | 3,678,169 | 1,947,027 |
| Cost of sales | (939,301) | (1,876,359) | (2,877,039) | (3,643,775) | (1,988,713) |
| Gross profit/(loss) | 14,280 | 116,292 | 223,992 | 34,394 | (41,686) |
| Loss attributable to equity holders of the Company | (328,260) | (161,014) | (348,209) | (454,339) | (407,154) |

With reference to the 2017 Annual Report and the 2018 Annual Report, all of the Group's revenue in FY2016, FY2017 and FY2018 were generated from manufacturing and sale of chemical products and chemical fertilisers. According to the 2017 Annual Report, the revenue of the Group for FY2017 increased by approximately 88.9% from approximately RMB1,947,027,000 for FY2016 to approximately RMB3,678,169,000 for FY2017. Such increase was mainly due to the growth in the Group's sales volume (excluding trading) from approximately 438,000 tonnes for FY2016 to approximately 1,008,000 tonnes for FY2017. Nevertheless, the loss attributable to equity holders of the Company increased by

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approximately 11.6% from approximately RMB407,154,000 for FY2016 to approximately RMB454,339,000 for FY2017 primarily as a result of the reduction in other income due to the loss on fair value changes on derivative financial assets of approximately RMB185,708,000, which was partially offset by the decrease in administrative expenses by approximately RMB80,709,000 as compared to that incurred for FY2016.

The revenue of the Group for FY2018 decreased by approximately 15.7% from approximately RMB3,678,169,000 for FY2017 to approximately RMB3,101,031,000 for FY2018 mainly due to the decrease in trading portion of the sales of approximately RMB447,000,000. The loss attributable to equity holders of the Company decreased by approximately 23.4% from approximately RMB454,339,000 for FY2017 to approximately RMB348,209,000 for FY2018 mainly as a result of the combined effect of the increase in gross profit by approximately RMB189,598,000 and the decrease in other loss due to the reduction in fair value loss on derivative financial assets by approximately RMB144,038,000, which was partially offset by the increase in other expenses primarily driven by the impairment losses on property, plant and equipment of approximately RMB181,533,000.

The revenue of the Group for 1H2019 decreased by approximately 52.1% from approximately RMB1,992,651,000 for 1H2018 to approximately RMB953,581,000 for 1H2019. As advised by the representative of the Company, such declination was mainly due to the decrease in trading portion of sales of approximately RMB1,167,604,000. The loss attributable to equity holders of the Company increased by approximately 103.9% from approximately RMB161,014,000 for 1H2018 to approximately RMB328,260,000 for 1H2019. As stated in the 2019 Interim Report, such significant increase in loss of the Group was mainly attributable to the provision made from the valuation loss on the convertible bonds issued in 1H2019 which amounted to approximately RMB210,888,000.

The Group is also facing stringent liquidity issues. We noted from the 2018 Annual Report that the independent auditor's report on the Group's audited consolidated financial statements for FY2018 includes the following extract:

“Material uncertainty related to going concern

We draw attention to Note 2 to the consolidated financial statements which states that the Group incurred a loss of approximately RMB348,286,000 for the year ended 31 December 2018 and as at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB1,940,660,000, despite the Group had a net operating cash inflow of approximately RMB53,709,000 during the year. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.”

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is certain financial information of the Group as at 31 December 2016, 2017 and 2018 respectively, as extracted from the 2017 Annual Report and the 2018 Annual Report, and as at 30 June 2019 as extracted from the 2019 Interim Report:

| | As at | | As at 31 December | |
|---|--------------------|--|--------------------------|------------------|
| | 30 June | | 2018 | 2017 |
| | 2019 | | 2018 | 2017 |
| | <i>RMB'000</i> | | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>(Unaudited)</i> | | <i>(Audited)</i> | <i>(Audited)</i> |
| Cash and cash equivalents | 37,101 | | 4,545 | 16,312 |
| Current assets | 301,953 | | 214,874 | 357,071 |
| Current liabilities | 1,660,498 | | 2,155,534 | 2,386,330 |
| Net current liabilities | 1,358,545 | | 1,940,660 | 2,029,259 |
| Total liabilities | 2,808,269 | | 2,697,660 | 3,021,374 |
| Equity attributable to owners of the Company | 557,710 | | 583,406 | 931,615 |
| | | | | 1,384,915 |

As at 31 December 2017, the current assets and current liabilities of the Group amounted to approximately RMB357,071,000 and RMB2,386,330,000 respectively. The Group recorded net current liabilities of approximately RMB2,029,259,000 as at 31 December 2017, representing an increase of approximately 20.3% compared to the net current liabilities of approximately RMB1,686,814,000 as at 31 December 2016. The representative of the Company advised us that such deterioration was primarily due to (i) the loss on fair value changes on derivative financial assets of approximately RMB185,708,000; (ii) the decrease in trade and other receivables of approximately RMB91,391,000; and (iii) the increase in current portion of long-term borrowings of approximately RMB125,320,000. Given that the Group incurred a net loss for FY2017 as abovementioned, the equity attributable to owners of the Company decreased from approximately RMB1,384,915,000 as at 31 December 2016 to approximately RMB931,615,000 as at 31 December 2017.

As at 31 December 2018, the current assets and current liabilities of the Group amounted to approximately RMB214,874,000 and RMB2,155,534,000 respectively. The Group recorded net current liabilities of approximately RMB1,940,660,000 as at 31 December 2018, representing a decrease of approximately 4.4% compared to the net current liabilities of approximately RMB2,029,259,000 as at 31 December 2017. The representative of the Company advised us that such diminution was mainly resulted from (i) the reduction in contract liabilities of approximately RMB159,847,000; and (ii) the decrease in trade and other payables of approximately RMB108,978,000, partially offset by (i) the decrease in trade and other receivables of approximately RMB94,462,000; and (ii) the increase in current portion of long-term borrowings of approximately RMB87,961,000. As a result of the net loss incurred by the Group during FY2018 as aforementioned, the equity attributable to owners of the Company decreased from approximately RMB931,615,000 as at 31 December 2017 to approximately RMB583,406,000 as at 31 December 2018.

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As at 31 December 2017, the total liabilities of the Group amounted to approximately RMB3,021,374,000 mainly consisted of short-term borrowings of approximately RMB1,302,854,000, long-term borrowings of approximately RMB783,921,000 and trade and other payables of approximately RMB434,847,000. As at 31 December 2018, the total liabilities of the Group amounted to approximately RMB2,697,660,000 mainly consisted of short-term borrowings of approximately RMB1,239,668,000, long-term borrowings of approximately RMB777,421,000 and trade and other payables of approximately RMB325,869,000. The gearing ratios of the Group were approximately 61%, 70% and 78% as at 31 December 2016, 2017 and 2018 respectively. The gearing ratios were calculated as net debt divided by total capital. The increase in gearing ratio was resulted mainly from the net loss incurred during FY2017 and FY2018.

As at 30 June 2019, the current assets and current liabilities of the Group amounted to approximately RMB301,953,000 and RMB1,660,498,000 respectively. The Group recorded net current liabilities of approximately RMB1,358,545,000 as at 30 June 2019, representing a decrease of approximately 30.0% from the net current liabilities of approximately RMB1,940,660,000 as at 31 December 2018. The representative of the Company advised that such improvement in net current liabilities was mainly due to the decrease in current portion of long-term borrowings and short-term borrowings. As a result of the net loss incurred by the Group during 1H2019 as aforementioned, equity attributable to owners of the Company decreased from approximately RMB583,406,000 as at 31 December 2018 to approximately RMB557,710,000 as at 30 June 2019.

II. Information of the Subscriber

As stated in the Letter from the Board, the Subscriber is an executive Director and the chairman of the Board. As at the Latest Practicable Date, the Subscriber was also the chairman of 溧陽華康健達養生有限公司 (Liyang Huakan Jianda Health Co., Ltd.*), a private limited liability company established in the PRC.

III. Reasons for and benefits of the Subscription and use of proceeds

As mentioned in the paragraph headed “I. Information of the Group” above, the Group recorded losses attributable to equity holders of the Company and net current liabilities for the three preceding financial years and the six months ended 30 June 2019 and is facing stringent liquidity issues. As stated in the Letter from the Board, the Directors consider raising funds by issuing the Convertible Bonds is justifiable considering the recent market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position of the Group. The Directors consider that the issue of the Convertible Bonds is an appropriate mean of raising additional capital for the Company. As the Directors are confident about the prevailing and future business development of the Group, the Directors believe that the issue of the Convertible Bonds will allow the Company to raise the necessary funds at a reasonable cost to meet additional cash requirements for its operation and future development.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Letter from the Board, the Company intends to apply the net proceeds arising from the issue of the Convertible Bonds of (i) approximately HK\$230,000,000 to establish a new production line of dimethyl carbonate in Dazhou plant (the “**Dazhou New Production Line**”), among which approximately HK\$170,000,000 will be allocated for the purchase of new machinery and equipment for the production of dimethyl carbonate and approximately HK\$60,000,000 will be allocated for the installation of such machinery and equipment; (ii) approximately HK\$550,000,000 to establish a new production line of propylene oxide in Guangan plant (the “**Guangan New Production Line**”), among which approximately HK\$440,000,000 will be allocated for the purchase of new machinery and equipment for the production of propylene oxide and approximately HK\$110,000,000 will be allocated for the installation of such machinery and equipment (collectively, the “**Two New Production Lines**”); and (iii) the remaining balance of approximately HK\$206,000,000 as general working capital of the Group, among which approximately HK\$150,000,000 for the repayment of certain loans and interests and approximately HK\$56,000,000 for operational costs including administrative expenses and distribution expenses.

A strategic initiative in line with the Group’s business strategy

The Group recorded losses for the six years ended 31 December 2018 and the six months ended 30 June 2019 and the independent auditor expressed an opinion on material uncertainty related to going concern as the Group’s current liabilities exceeded its current assets as at 31 December 2018. As at 30 June 2019, the Group’s current liabilities still exceeded its current assets. Pursuant to the 2019 Interim Report, the problem regarding pricing of natural gas has been properly resolved whilst the management team carried out the “enhancing management” initiative to improve the fundamental management in a comprehensive way during 1H2019, thereby enhanced the general operating situation of the Group in 1H2019. Nevertheless, owing to the existence of oversupply situation within the traditional chemical fertilisers and chemicals industries and the fluctuation of prices of the existing products, the Group’s actual overall operating performance did not meet its expectation. As stated in the 2018 Annual Report, the Group devoted great efforts to production and sales through market-driven approach and safety and environmental protection measures. As advised by the representative of the Company, the production processes of the Two New Production Lines and existing production lines of the Group are environmentally-friendly and belong to the natural gas chemical industry.

According to 綠色化工產業培育方案 (Cultivation Plan of Green Chemical Industry*) (the “**Cultivation Plan**”) announced by 四川省經濟和信息化廳 (Sichuan Provincial Economic and Information Department) on 28 February 2019, natural gas chemical industry is one of the development key points and should be developed to produce high value-added products and extend the industrial process route of the industrial chain. Pursuant to the Cultivation Plan, enterprises with low pollution emissions will be supported by the government with priority. As advised by the representative of the Company, the Two New Production Lines will extend the existing industrial chain of the Group as some raw materials of the Two New Production Lines will come from the products of the existing production lines. Thus the construction of the Two New Production Lines is in line with the aim of the Cultivation Plan.

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According to 石化和化學工業發展規劃 (2016-2020年) (Petrochemical and Chemical Industry Development Plan from 2016 to 2020*) (the “**Development Plan**”) announced by 中華人民共和國工業和信息化部 (Ministry of Industry and Information Technology of the People’s Republic of China) on 18 October 2016, it is aimed to improve the traditional chemicals industry and speed up the development of new chemicals industry and one of the targets of the Development Plan is to promote the green process transformation of organic raw materials such as propylene oxide and to make great effort in energy saving and emission reduction. Moreover, as stated in the announcement on the adjustment of 加工貿易禁止類目錄 (Catalogue of Prohibited Processing Trade*) announced by 中華人民共和國商務部 (Ministry of Commerce of the People’s Republic of China) and 中華人民共和國海關總署 (General Administration of Customs, P.R.China) on 10 November 2015, only the propylene oxide which is produced under the HPPO process method is allowed to export while the propylene oxide which is produced under other methods is not allowed to export. The representative of the Company advised that the planned manufacture method of propylene oxide is HPPO and the released export permission of propylene oxide provides a new sales channel and helps to increase the sales volume of propylene oxide.

Furthermore, as stated in the 2018 Annual Report, the Group proposed to carry out appropriate technological upgrade by leveraging the advantages of the Company in aspects such as existing facilities, equipment and natural gas, thereby extending the industry chain, increasing the output of high value-added products and entering into a virtuous cycle. As advised by the representative of the Company, it is expected that the Two New Production Lines can leverage over the existing production facilities and products of the Group as some raw materials to be used in production of dimethyl carbonate and propylene oxide can come from the existing products of the Group.

As stated in the 2019 Interim Report, the Group will seize the opportunities to bring the Group’s operation back to the right track through, among others, actively seek collaborative funds to promote the approval, start-up and construction of new projects. For the second half of the year ending 31 December 2019, with decisions and strategies devised by the Board and under the leadership of the management, the Company will successfully stabilise the fundamental chemical business, develop the refined chemical industry, capitalise on market opportunities, and strive to create more value for the Company. After considering the government support for natural gas chemical production and the synergy between the Group’s existing facilities and products and the Two New Production Lines as aforementioned, the Directors decided to establish the Two New Production Lines to enhance its product type and revenue. The establishment of the Two New Production Lines is expected to commence in early 2020 and complete in or around April 2022 and the total expenditure of the Two New Production Lines is approximately HK\$3,501 million. The Directors advised that, according to current discussions with financial institutions and an equipment provider and installer respectively relating to the financing of the Two New Production Lines, (i) approximately 35% of the total expenditure of the establishment of the Two New Production Lines (i.e. approximately HK\$1,225.35 million) will be financed by project loans or debt subscription from financial institutions; and (ii) approximately 30% of the total expenditure of the

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establishment of the Two New Production Lines (i.e. approximately HK\$1,050.30 million) will be financed by equipment providers and installers. Thus, the Company should explore the financing of the remaining of approximately 35% of the total expenditure of the establishment of the Two New Production Lines (i.e. approximately HK\$1,225.35 million). After considering the current financial position of the Group as at 30 June 2019 and the funding requirement of the establishment of the Two New Production Lines, the Group intends to finance the 35% funding by external financing (i.e. approximately HK\$780 million) and its internal resources and expected cash flow from the Two New Production Lines (i.e. approximately HK\$445.35 million).

Shareholders should note that the Group is exposed to various uncertainties in obtaining financing for the establishment of the Two New Production Lines which may adversely affect the success of the establishment of the Two New Production Lines, such as (i) the success in obtaining project loans or debt subscription from financial institutions; (ii) the success in obtaining financing from equipment providers and installers; and (iii) the sufficiency of the internal resources of the Group and/or cash flow to be generated from the Two New Production Lines to finance the establishment of the Two New Production Lines and the repayment of the aforesaid loans and financing in relation to the establishment of the Two New Production Lines. There is no assurance that the Group can obtain sufficient financing as planned, can establish the Two New Production Lines as planned, or will be able to settle the respective loans. Shareholders should also note that as the Two New Production Lines will be financed by debt, it will increase the debt burden of the Group under the current material uncertainty related to going concern of the Group. In relation to the financing of the Two New Production Lines, the representative of the Company advised that the Company has approached certain financial institutions and equipment provider and installer subsequent to the signing of the Subscription Agreement. The representative of the Company advised that (i) a financial institution has verbally indicated that after completion of the Subscription, it would consider debt subscription with a principal amount of approximately HK\$1,225.35 million for a term of 6 years; (ii) a financial institution has verbally indicated that it would consider equipment financing with a principal amount of approximately HK\$1,225.35 million for a term of 5 years; and (iii) an equipment provider and installer has verbally indicated that it would consider being the contractor for the establishment of the Two New Production Lines with the aggregate contract sum of approximately HK\$3,501 million with a settlement period of 4 years. Shareholders should note that the Company is currently discussing with the financial institutions and the equipment provider and installer for financing the Two New Production Lines and has not signed any agreements with the financial institutions and the equipment provider and installer. Thus, the above financing plan may or may not materialise.

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The issue of the Convertible Bonds is the best alternative as compared to other means of external financing

As stated in the Letter from the Board, the Company has also considered other financing alternatives such as bank borrowings and other equity financing. The representative of the Company advised that since the Group has remained in a loss-making position with high gearing ratio for several years, various banks have already been persuaded to maintain credit limit, re-loan in time and not to demand on repayment of borrowings in order to support the operation of the Group. The Directors consider that the ability for the Group to obtain bank borrowings largely depends on the Group's profitability, financial position and the then prevailing market condition. As disclosed in the 2018 Annual Report, the Group recorded a net loss of approximately RMB348,286,000 for the year ended 31 December 2018. Hence, the Company considered that further borrowings from banks would not be possible. Moreover, based on the Company's previous experience, the Company considered that debt financing or bank loan applications may be subject to lengthy due diligence and negotiation process with lenders or banks. Furthermore, given the continual loss-making financial performance of the Group and the material uncertainty related to going concern as stated in the paragraph headed "I. Information of the Group" above and that the interest rates of the outstanding borrowings of the Group as at the Latest Practicable Date ranged from 4.35%, being the lowest bank borrowing rate, to 12.00% and the average effective interest rate of bank borrowings as at 31 December 2018 was approximately 6.03%, we concur with the Directors' view that it would be difficult to seek positive response and negotiate favourable terms that are beneficial to the Group from banks for a substantial principal amount at an interest rate lower than or equal to the interest rate of the Convertible Bonds of 5% per annum. Therefore, the Directors considered that the issue of the Convertible Bonds is more appropriate and can match the Group's schedule to establish the Two New Production Lines and improve the liquidity of the Group in the year of 2019.

The Directors further considered that the issue of the Convertible Bonds is more preferable than straight bond for the Group because the Company will be released from the obligation of repayment if the Convertible Bonds are converted prior to the maturity date.

As stated in the Letter from the Board, with respect to equity financing, the Group has considered several means including placing of new shares and convertible bonds of the Company to independent third parties. The Group has approached four financial institutions between April 2019 and June 2019 to identify potential investors for equity financing but did not receive any concrete feedback from those financiers in light of the financial position of the Group and the prevailing market conditions. In particular, as introduced by the representative of the Company, the Company has approached certain potential investors to explore the opportunities for convertible bond subscription with the conversion price at discount to the prevailing market price of the Shares but was rejected because of the high gearing ratio and continuous loss-making position of the Group. Therefore, we concur with the Directors' view that it is difficult for the Company to conduct other equity fund-raising exercises. Furthermore, the Directors are not in favour of making an immediate dilution effect on the shareholding of the existing Shareholders and the Company desires to obtain the proceeds from the issue of the

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Convertible Bonds in no more than five tranches at any time on or before the Long Stop Date, 30 April 2020, or such other dates as may be agreed between the Company and the Subscriber (the “**Arrangement**”). According to the Subscription Agreement, the Subscriber may issue a Notice of Closing to the Company stating that the Subscriber shall subscribe for certain portion of the principal amount of the Convertible Bonds. The representative of the Company advised that the Subscriber has agreed to subscribe the Convertible Bonds as directed by the Company according to the progress of capital expenditures of the Two New Production Lines. As stated in the Letter from the Board, the Company could time the availability of the subscription money to the timeline for the purchase of the equipment and machinery for the Dazhou New Production Line and the Guangan New Production Line, and the repayment schedule of outstanding loans and interests, therefore alleviating the financial pressure on the Group as it would minimise the amount of interests payable by the Company to the Subscriber. The Directors consider that the issue of the Convertible Bonds is the best alternative as compared to the aforesaid fund-raising approaches and the Arrangement is in the interests of the Company and the Shareholders as a whole.

Having considered that (i) it is difficult for the Company to conduct other alternative means of financing due to (a) the net current liabilities position and the loss position of the Group over the prevailing years; and (b) the increasing gearing ratio of the Group for several years; (ii) the uncertainty opinions expressed by the independent auditor on the Group’s ability to continue as a going concern for the two years ended 31 December 2018; and (iii) the Subscription will (a) enable the Company to improve its financial position; (b) facilitate the Company to discharge its indebtedness; (c) provide the Company with new financial resources to establish the Two New Production Lines to enhance its product type and revenue without causing an immediate dilution effect on the shareholding of the existing Shareholders; and (d) the Arrangement can meet the progress of funding required for the Two New Production Lines and reduce the interest burden on the Company, we concur with the Directors that the Subscription and the Arrangement are in the interests of the Company and the Shareholders as a whole.

IV. Principal terms of the Subscription Agreement

On 10 July 2019 (after market close), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$987,000,000 (equivalent to RMB858,690,000) and the Company has conditionally agreed to issue the Convertible Bonds, subject to and on the terms of the Subscription Agreement. The initial Conversion Price is HK\$0.141 per Conversion Share, and the Convertible Bonds will carry an interest of 5% per annum and will mature on the fifth (5th) anniversary of the Issue Date. For further details of the principal terms of the Convertible Bonds, please refer to the section headed “The Subscription Agreement” in the Letter from the Board.

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(i) Conversion Price

Pursuant to the Letter from the Board, the initial Conversion Price of HK\$0.141 per Conversion Share was arrived at arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares.

The initial Conversion Price (which is subject to adjustments upon occurrence of the adjustment events) represents:

- (a) a discount of approximately 19.89% to the closing price of HK\$0.176 per Share as quoted on the Stock Exchange on 10 July 2019, being the date of the Subscription Agreement;
- (b) a discount of approximately 19.70% to the average closing price of approximately HK\$0.1756 per Share as quoted on the Stock Exchange for the last five (5) Trading Days immediately prior to the date of the Subscription Agreement;
- (c) a discount of approximately 21.01% to the average closing price of approximately HK\$0.1785 per Share as quoted on the Stock Exchange for the last ten (10) Trading Days immediately prior to the date of the Subscription Agreement;
- (d) a discount of approximately 24.19% to the average closing price of approximately HK\$0.1860 per Share as quoted on the Stock Exchange for the last thirty (30) Trading Days immediately prior to the date of the Subscription Agreement;
- (e) a cumulative theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 13.92% represented by the cumulative theoretical ex-price of HK\$0.118 per Share to the benchmarked price immediately before 12 months period of approximately HK\$0.137 per Share (as defined under Rule 7.27B of the Listing Rules);
- (f) a discount of approximately 4.73% over the net asset value per Share of approximately HK\$0.148 as calculated from the unaudited equity attributable to the shareholders of the Company as at 30 June 2019 of approximately RMB557,710,000 (equivalent to approximately HK\$634,673,980) and the total number of 4,298,042,599 Shares in issue as at 30 June 2019; and
- (g) a discount of approximately 15.06% to the closing price of HK\$0.166 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

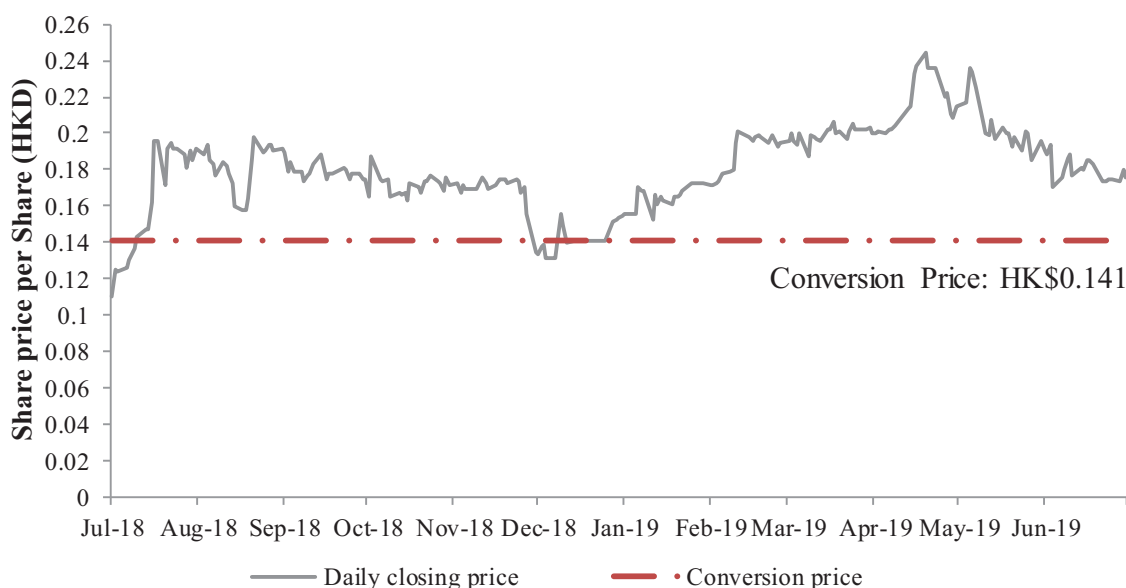
In order to assess the fairness and reasonableness of the initial Conversion Price of HK\$0.141, we have taken into account (i) the historical price performance of the Shares; (ii) trading liquidity of the Shares; and (iii) the market comparables in respect of recent issue and subscription of convertible notes/bonds.

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Historical price performance of the Shares

Set out below is a chart showing the movement of the daily closing price of the Shares as quoted on the Stock Exchange from 11 July 2018 (being one year prior to the date of the Subscription Agreement) up to and including the date of the Subscription Agreement (both dates inclusive) (the “**Review Period**”). We consider the sampling period of one year is adequate as it represents a reasonable period to provide a general overview of the recent price performance of the Shares when conducting an analysis among the historical closing prices of the Shares and the Conversion Price.

Closing price of the Shares on the Stock Exchange



Source: Website of the Stock Exchange

As illustrated in the chart above, the price of the Shares levitated from its lowest point of HK\$0.11 on 11 July 2018 to HK\$0.196 on 26 July 2018 and remained relatively stable until it fell to a trough of HK\$0.131 on 14 December 2018. The price of the Shares rebounded subsequently and reached its peak of HK\$0.244 on 29 April 2019. Afterwards, it dropped progressively to HK\$0.176 on 10 July 2019, being the last day of the Review Period. As advised by the representative of the Company, they were not aware of any reasons for the aforesaid movements.

We noted that the daily closing price of the Shares ranged from HK\$0.11 per Share to HK\$0.244 per Share, with the average daily closing price of approximately HK\$0.180 per Share during the Review Period. We also noted that, although the Conversion Price is below the average daily closing price during the Review Period, the Conversion Price is within the range of daily closing price of the Shares during the Review Period.

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Trading liquidity of the Shares

The following table sets out the monthly trading volume of the Shares and the percentages of such monthly trading volume to the issued Shares during the Review Period:

| Month | Total monthly trading volume (Number of Shares) | Average daily trading volume (Number of Shares) (approx.) (Note 1) | Percentage of average daily trading volume to total number of issued Shares (approx.) (Note 2) |
|---------------------------|--|--|--|
| 2018 | | | |
| July (From 11 July 2018) | 222,792,000 | 14,852,800.00 | 0.346% |
| August | 137,090,000 | 5,960,434.78 | 0.139% |
| September | 56,776,000 | 2,988,210.53 | 0.070% |
| October | 53,892,500 | 2,566,309.52 | 0.060% |
| November | 27,188,000 | 1,235,818.18 | 0.029% |
| December | 30,764,000 | 1,619,157.89 | 0.038% |
| 2019 | | | |
| January | 13,385,000 | 608,409.09 | 0.014% |
| February | 40,348,000 | 2,373,411.76 | 0.055% |
| March | 44,056,000 | 2,097,904.76 | 0.049% |
| April | 111,426,000 | 5,864,526.32 | 0.136% |
| May | 36,232,000 | 1,725,333.33 | 0.040% |
| June | 11,130,000 | 585,789.47 | 0.014% |
| July (Up to 10 July 2019) | 57,196,000 | 8,170,857.14 | 0.190% |

Source: Website of the Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period.
2. Based on 4,298,042,599 Shares, being the total number of issued Shares of the Company for the Review Period.

The average daily trading volume of the Shares on the Stock Exchange during the Review Period ranged between approximately 585,789 Shares and 14,852,800 Shares, representing approximately from 0.014% to 0.346% of the total issued Shares respectively. We noted that the trading volume of the Shares was relatively thin during the Review Period, with the average daily trading volume being approximately 3,437,859 Shares, representing approximately 0.075% of the Company's issued share capital of

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4,598,042,599 Shares as at the Latest Practicable Date. We concur with the Directors' view that the relatively low liquidity of the Shares may imply lack of interest from potential investors to invest in the Shares. If the Company is to pursue sizeable equity financing alternative in the stock market, it will take a substantial period of time and exert a downward pressure on the price of the Shares.

Market comparable analysis

We have reviewed the announcements for the issue of convertible bonds/notes by companies listed on the Stock Exchange to independent third parties or connected parties during the last two months prior to and including 10 July 2019, being the date of the Subscription Agreement (the “**Comparable Transactions**”). To the best of our knowledge and as far as we are aware of, we have identified 20 Comparable Transactions, and we consider that such transactions can provide a reference on the recent issue of convertible bonds/notes given the sufficient number of transactions in such period.

The Comparable Transactions listed below are exhaustive based on the above criteria and they are fair and representative samples. It should be noted that all the subject companies involved in the Comparable Transactions may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and the circumstances leading to the subject companies to proceed with the issues of convertible bonds/notes may also be different from that of the Company. The following table sets forth the relevant details of the Comparable Transactions:

| Date of announcement | Name of company (Stock code) | Principal amount (Note 1) (HK\$ million) (approx.) | Maturity period (years) | Premium/ (discount) of conversion price over/to closing price on the last trading day (the “Premium/ (discount) – Last Trading Day”) (%) (approx.) | Premium/ (discount) of conversion price over/to average closing price of five trading days up to and including the last trading day/date of agreement (the “Premium/ (discount) – Five Days”) (%) (approx.) | (Discount)/ premium of conversion price to/over the net asset value per Share (the “(Discount)/ premium – NAV”) (%) (approx.) | Interest rate per annum (%) (approx.) |
|----------------------|--|---|----------------------------|---|--|--|---|
| 09-Jul-19 | Lamtex Holdings Limited (1041) | 80.9 | 3.0 | 2.51 | 0.00 | (33.48) | 3.00 |
| 01-Jul-19 | Value Convergence Holdings Limited (821) | 99.0 | 3.0 | (18.18) | (16.67) | (46.70) | Nil |
| 25-Jun-19 | Asia Energy Logistics Group Limited (351) | 60.0 | 3.0 | 5.30 | 3.50 | 17.92 | 2.50 |
| 25-Jun-19 | Luye Pharma Group Limited (2186) | 2,340.0 | 5.0 | 39.55 | 42.53 | 195.88 | 1.50 |
| 20-Jun-19 | China Trustful Group Limited (8265) | 252.0 | 1.0 | 16.67 | 12.90 | 188.73 | 12.0 |
| 17-Jun-19 | Eminence Enterprise Limited (616) | 70.0 | 5.0 | 0.00 | 0.00 | (93.51) | 3.00 |
| 16-Jun-19 | Sunshine Oilsands Limited (2012) | 77.0 | 3.0 | (9.78) | (10.00) | (70.58) | 8.00 |

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| Date of announcement | Name of company (Stock code) | Principal amount (Note 1) (HK\$ million) (approx.) | Maturity period (years) | Premium/ (discount) of conversion price over/to closing price on the last trading day (the “Premium/ (discount) – Last Trading Day”) (%) (approx.) | Premium/ (discount) of conversion price over/to average closing price of five trading days up to and including the last trading day/date of agreement (the “Premium/ (discount) – Five Days”) (%) (approx.) | (Discount)/ premium of conversion price to/over the net asset value per Share (the “(Discount)/ premium – NAV”) (%) (approx.) | Interest rate per annum (%) (approx.) |
|----------------------|---|---|----------------------------|--|---|--|---|
| 16-Jun-19 | Ming Lam Holdings Limited (1106) | 297.8 | 1.0 | 185.71 | 182.49 | 23.44 | 12.00 |
| 14-Jun-19 | Momentum Financial Holdings Limited (1152) | 35.0 | 3.0 | (2.57) | (6.26) | 159.39 | 3.00 |
| 11-Jun-19 | IBO Technology Company Limited (2708) | 31.1 | 3.0 | 0.58 | 0.23 | 183.98 | 7.50 |
| 06-Jun-19 | China Beidahuang Industry Group Holdings Limited (039) | 200.0 | 2.0 | 40.74 | 58.33 | 56.45 | 10.00 |
| 04-Jun-19 | Kirin Group Holdings Limited (8109) | 171.0 | 3.0 | 319.58 | 378.47 | (10.79) | 2.00 |
| 04-Jun-19 | Huscoke Holdings Limited (704) | 98.8 | 3.0 | 13.54 | 13.54 | 29.03 | 5.00 |
| 03-Jun-19 | S. Culture International Holdings Limited (1255) | 200.0 | 3.0 | 66.67 | 123.55 | 1,254.91 (Note 3) | 6.00 |
| 30-May-19 | Asia Television Holdings Limited (707) | 260.3 | 1.0 | 23.76 | 23.89 | 273.35 | 10.00 |
| 29-May-19 | Hong Kong Resources Holdings Company Limited (2882) | 122.0 | 3.0 | 2.74 | 0.27 | 35.32 | 4.00 |
| 29-May-19 | Yuhua Energy Holdings Limited (2728) | 111.0 | 1.0 | 0.00 | 103.54 | 808.11 | 10.00 |
| 29-May-19 | Regent Pacific Group Limited (575) | 136.5 | 3.0 | (15.00) | (15.50) | (60.45) | 4.00 |
| 23-May-19 | China Logistics Property Holdings Co. Limited (1589) | 1,109.0 | 5.0 | 10.00 | 8.21 | (20.55) | 6.95 |
| 20-May-19 | Silver Grant International Holdings Group Limited (Formerly known as Silver Grant International Industries Limited) (171) | 1,150.0 | 3.0 | 39.00 | 40.00 | (29.37) | 7.00 |
| | | Maximum | 5.0 | 319.58 | 378.47 | 808.11 | 12.00 |
| | | Minimum | 1.00 | (18.18) | (16.67) | (93.51) | Nil |
| | | Average | 2.85 | 36.04 | 47.15 | 84.53 | 5.87 |
| | The Company | 987.0 | 5.00 | (19.89) | (19.70) | (4.73) | 5.00 |

Sources: Website of the Stock Exchange

Notes:

- For the purpose of illustration, the amounts denominated in Canada dollars (CAD) have been converted into HK\$ at an exchange rate of CAD1.0=HK\$5.978; the amounts denominated in US dollars (USD) have been converted into HK\$ at an exchange rate of USD1.0=HK\$7.790; and the amounts denominated in Renminbi (RMB) have been converted into HK\$ at an exchange rate of RMB1.0=HK\$1.137.

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2. According to the announcement of Huscoke Holding Limited (704.HK) dated 4 June 2019, the maturity date is defined as the third (3rd) anniversary of the date of first issue of the Convertible Bonds (which may be extended for two (2) additional years subject to agreement between the Company and the holder of the Convertible Bonds in writing subject to compliance with the Listing Rules). For our analysis purpose, we use 3 years to be the maturity period.
3. To attain a fair and accurate analysis, radical figures are excluded in our calculation.

From the above table, for the Premium/(discount) – Last Trading Day of the Comparable Transactions, we noted a range from a discount of approximately 18.18% to a premium of approximately 319.58%, with an average premium of approximately 36.04%. The Conversion Price, which represented a discount of approximately 19.89% to the closing price of HK\$0.176 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement, falls below the average and is approximately 1.71% lower than the minimum level of the Premium/(discount) – Last Trading Day of the Comparable Transactions.

For the Premium/(discount) – Five Days, we noted a range from a discount of approximately 16.67% to a premium of approximately 378.47%, with an average discount of approximately 47.15%. The Conversion Price, which represented a discount of approximately 19.70% to the average closing price of approximately HK\$0.1756 per Share as quoted on the Stock Exchange for the last five (5) Trading Days immediately prior to the date of the Subscription Agreement, falls below the average and is approximately 3.03% lower than the minimum level of the Premium/(discount) – Five Days of the Comparable Transactions.

For the Premium/(discount) – NAV, we noted a range from a discount of approximately 93.51% to a premium of approximately 808.11%, with an average premium of approximately 84.53%. The Conversion Price, which represented a discount of approximately 4.73% to the net asset value per Share, falls below the average and within the range of the Premium/(discount) – NAV of the Comparable Transactions.

Although the Conversion Price is below the averages of Premium/(discount) – Last Trading Day, Premium/(discount) – Five Days and Premium/(discount) – NAV and falls below the minimum levels of Premium/(discount) – Last Trading Day and Premium/(discount) – Five Days, we noted that (i) the Conversion Price is merely approximately 1.71% and 3.03% lower than the minimum levels of Premium/(discount) – Last Trading Day and Premium/(discount) – Five Days respectively; (ii) the Conversion Price is within the range of Premium/(discount) – NAV; (iii) the Group is facing stringent liquidity issues as mentioned in the paragraph headed “I. Information of the Group” above and it could not obtain positive feedback for other means of financing as mentioned in the paragraph headed “III. Reasons for and benefits of the Subscription” above; (iv) the Group has substantial funding requirements to establish the Two New Production Lines as mentioned in the paragraph headed “III. Reasons for and benefits of the Subscription” above; (v) the relatively thin trading volume of the Shares during the Review Period may imply lack of interest from potential investors as mentioned in the paragraph headed

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“Trading liquidity of the Shares” above; and (vi) potential investors have rejected the Company regarding convertible bond subscription with the conversion price at discount to the prevailing market price of the Shares as mentioned in the paragraph headed “III. Reasons for and benefits of the Subscription” above, we concur with the Directors’ view that the Conversion Price is acceptable given the specific financial condition of the Group.

Having considered that (i) the Conversion Price is below average but still within the range of daily closing prices of the Shares during the Review Period; (ii) the trading liquidity of the Shares was thin during the Review Period; and (iii) the Conversion Price is acceptable as compared with the Comparable Transactions after considering the specific financial condition of the Group, we consider the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Interest rate

Based on the above table of the Comparable Transactions, the interest rates of the Comparable Transactions ranged from nil to 12.0% per annum with an average of approximately 5.87% per annum. The interest rate of the Convertible Bonds of 5.0% per annum falls within the range of the interest rates of the Comparable Transactions. As such, we consider that the interest rate of the Convertible Bonds is fair and reasonable.

(iii) Maturity

Based on the above table of the Comparable Transactions, the terms of maturity of the Comparable Transactions ranged from 1 year to 5 years with an average of approximately 2.85 years. The terms of maturity of the Convertible Bonds of 5 years falls within the range of duration of the Comparable Transactions. As such, we consider that the term of maturity of the Convertible Bonds is fair and reasonable.

(iv) Adjustments to the Conversion Price

As stated in the Letter from the Board, the Conversion Price will be subject to adjustments (the “**Adjustments**”) upon the occurrence of certain events. Please refer to the paragraph headed “Adjustments to the Conversion Price” in the Letter from the Board.

According to the announcements or circulars of the Comparable Transactions, we noted that all of them stated that there were adjustment mechanisms to the Conversion Price, hence we consider that the adoption of the Adjustments is in line with market practice.

Given the foregoing, we are of the opinion that the terms of the Subscription Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

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V. Dilution effect on the shareholding interests of the existing public Shareholders

As stated in the Letter from the Board, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the full conversion of the Convertible Bonds; and (iii) immediately after the full conversion of the Convertible Bonds and Existing Bonds (assuming there is no other change in the issued share capital of and the shareholding of the Company) is as follows (*for illustrative purposes only*):

| Shareholders | As at the Latest Practicable Date | | Immediately after the full conversion of the Convertible Bonds | | Immediately after the full conversion of the Convertible Bonds and Existing Bonds | |
|---|-----------------------------------|---------------|--|----------------|---|----------------|
| | Number of Shares | % (approx.) | Number of Shares | % (approx.) | Number of Shares | % (approx.) |
| Substantial Shareholder | | | | | | |
| Asia Pacific Resources Development Investment Limited (Note 1) | 800,000,000 | 17.40 | 800,000,000 | 6.90 | 1,801,375,000 | 12.17 |
| Directors | | | | | | |
| The Subscriber (Note 2) | 100,000,000 | 2.17 | 3,478,252,975 | 29.99 (Note 4) | 4,440,067,273 | 29.99 (Note 4) |
| Shi Jianmin (Note 3) | 300,000 | 0.01 | 300,000 | 0.01 | 300,000 | 0.01 |
| Public Shareholders | <u>3,697,742,599</u> | <u>80.42</u> | <u>7,319,489,624</u> | <u>63.10</u> | <u>8,558,975,326</u> | <u>57.83</u> |
| Total | <u>4,598,042,599</u> | <u>100.00</u> | <u>11,598,042,599</u> | <u>100.00</u> | <u>14,800,717,599</u> | <u>100.00</u> |

Notes:

- Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming, who held convertible bonds of the Company in the principal amount of HK\$320,440,000 and 800,000,000 Shares as at the Latest Practicable Date.
- The Subscriber held convertible bonds of the Company in the principal amount of HK\$221,400,000 and 100,000,000 Shares as at the Latest Practicable Date.
- Mr. Shi Jianmin was an executive Director and the beneficial owner of 300,000 Shares as at the Latest Practicable Date.
- According to the draft of Convertible Bonds instrument, it is intended that the conversion of the Convertible Bonds (i) does not trigger any mandatory offer obligations under Rule 26 of the Takeovers Code on the part of the Subscriber which exercised the conversion rights, namely more than 30% (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (ii) does not reduce the public float of the Shares to less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares.

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As shown in the above table, the shareholding interests of the existing public Shareholders would be diluted from approximately 80.42% as at the Latest Practicable Date to approximately 63.10% immediately after the full conversion of the Convertible Bonds (assuming there is no other change in the issued share capital of and the shareholding of the Company).

Taking into account that (i) the Subscription is in the interests of the Company and the Shareholders as a whole as stated in the paragraph headed “III. Reasons for and benefits of the Subscription and use of proceeds” above; (ii) the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned as stated in the paragraph headed “IV. Principal terms of the Subscription Agreement” above; and (iii) the conversion of the Convertible Bonds is subject to the minimum public float requirement under the Listing Rules and the mandatory offer obligation under Rule 26 of the Takeovers Code, we are of the view that the abovementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable and the benefits of the Subscription outweigh its potential dilution effect.

VI. Financial effect of the Subscription to the Group

(i) Net asset value

When the Convertible Bonds are booked into the financial statement of the Group, they will consist of an equity portion and a liability portion. The exact figures of respective fair value of the liability and equity components of the Convertible Bonds and their financial impacts to the Group will be subject to the assessment and valuation by valuer in accordance with the Hong Kong Financial Reporting Standards.

As stated in the 2018 Annual Report, the net asset value of the Group as at 31 December 2018 was approximately RMB585,211,000. The net asset value per Share was approximately HK\$0.136 as at 31 December 2018. The chief financial officer of the Company advised that the net asset value of the Company is expected to increase upon conversion of the Convertible Bonds by the Subscriber into the Conversion Shares as a result of the decrease in liabilities.

(ii) Gearing

As mentioned in the paragraph headed “I. Information of the Group” above, the Group’s gearing ratio was approximately 78% as at 31 December 2018. The gearing ratio is calculated by net debt over total capital. Net debt is calculated as total borrowings less cash and cash equivalents and pledged bank deposits, while total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.

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The chief financial officer of the Company advised that the liability and equity components of the Convertible Bonds would increase the net debt and the equity respectively. The net proceeds from the issue of the Convertible Bonds will increase the cash and cash equivalents in current assets. Upon the completion of the Subscription but before any conversion of the Convertible Bonds, the net debt will decrease by the difference of the net proceeds from the Convertible Bonds and the liability component of the Convertible Bonds. The total capital will remain unchanged as the net proceeds from the issue of the Convertible Bonds equal to the sum of the liability and equity components of the Convertible Bonds and the change in profit and loss account due to the difference between the net proceeds and the fair value of the Convertible Bonds. Therefore, the gearing ratio will decrease.

The gearing ratio of the Group will further decrease if the Convertible Bonds are converted into the Conversion Shares. Immediately upon full conversion of the Convertible Bonds, the outstanding liability component of the Convertible Bonds will be contributed to the total equity and the net debt of the Group will decrease.

(iii) Liquidity and working capital

As stated in the 2018 Annual Report, the current assets of the Group amounted to approximately RMB214,874,000 and the current liabilities of the Group amounted to approximately RMB2,155,534,000 as at 31 December 2018. The Group had cash and cash equivalents of approximately RMB4,545,000 as at 31 December 2018.

As mentioned above, the net proceeds from the issue of the Convertible Bonds are intended to be used for (i) the establishment of the Dazhou New Production Line; (ii) the establishment of the Guangan New Production Line; and (iii) general working capital. The chief financial officer of the Company advised that the Subscription would improve the liquidity and working capital of the Group.

Shareholders should note that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon the completion of the Subscription.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, although the Subscription Agreement is not entered in the ordinary and usual course of business of the Group, it is on normal commercial terms and we are of the view that (i) the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
TC Capital International Limited
Edward Wu
Chairman

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Notes:

1. Mr. Edward Wu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the SFO since 2005. Mr. Wu has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.
2. The English translation of the Chinese name(s) in this letter, where indicated with * is included for information purpose only and should not be regarded as the official English name(s) of such Chinese names.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company of HK\$0.10 each as at the Latest Practicable Date and upon completion of the Subscription would be as follows:

| <i>Authorised:</i> | Nominal Value (HK\$) |
|--|--------------------------------|
| As at the Latest Practicable Date | |
| <u>8,000,000,000</u> Shares | <u>800,000,000</u> |
| Authorized share capital to be increased upon completion | |
| <u>12,000,000,000</u> Shares | <u>1,200,000,000</u> |
| <i>Total:</i> | |
| <u>20,000,000,000</u> Shares | <u>2,000,000,000</u> |
| <i>Issued:</i> | |
| As at the Latest Practicable Date | |
| <u>4,598,042,599</u> Shares | <u>459,804,259.90</u> |
| Conversion Shares to be issued upon completion of the Subscription | |
| <u>7,000,000,000</u> Shares | <u>700,000,000.00</u> |
| <i>Total:</i> | |
| <u>11,598,042,599</u> Shares | <u>1,159,804,259.90</u> |

The Conversion Shares, when allotted and issued, will rank *pari passu* in all respects (including in particular as to dividend, voting rights and capital) among themselves and with all existing issued Shares.

3. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

(a) Interest in the Company

i. Directors' interest in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

1. Long positions in the shares and the underlying shares of the Company

| Directors | Personal long position in shares (beneficial owner) | Personal long position in share options (beneficial owner) | Aggregate long position in shares and underlying shares | Total interests in the issued share capital |
|-------------|---|--|---|---|
| Subscriber | 100,000,000 | 2,050,000,000 | 2,150,000,000 | 46.76% |
| Shi Jianmin | 300,000 | – | 300,000 | 0.01% |
| Hu Xiaoping | – | 1,200,000 | 1,200,000 | 0.03% |

ii. Substantial shareholders' and other persons' interests in the Existing Shares and underlying shares

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, no person (not being a director or a Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

| Name | Capacity | Number of shares | Approximate shareholding percentage |
|--------------------|------------------------------------|------------------|-------------------------------------|
| Mr. Cheng Kin Ming | Interest of corporation controlled | 800,000,000 | 17.40% |

Note: As at the Latest Practicable Date, Asia Pacific Resources Development Investment Limited which is wholly owned by Mr. Cheng Kin Ming also held a total amount of HK\$320,440,000 convertible bonds of the Company which can be converted into 1,001,375,000 shares of the Company.

iii. Other persons' interests in the Existing Shares and underlying shares

1. Interest in the shares or underlying shares of the Company

As at the Latest Practicable Date, so far as is known to any Director or Chief Executive of the Company and save as disclosed above, no person had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

| Name | Capacity | Number of shares | Approximate shareholding percentage |
|-------------------|------------------|------------------|-------------------------------------|
| Mr. Li Wei Ruo | Beneficial owner | 410,392,000 | 8.93% |
| Mr. Lam Chit Wing | Beneficial owner | 312,500,000 | 6.80% |

Note: As at the Latest Practicable Date, Mr. Lam Chit Wing's spouse held a total of 6,000,000 shares of the Company.

2. Interests in shares of an associated corporation of the Company

| Name | Name of Company | Number of non-voting deferred shares | Capacity | Type of Interest | Approximate interest in holding |
|-------------|-----------------|--------------------------------------|------------------|------------------|---------------------------------|
| Li Wei Ruo | Ko Yo HK | 2,100,000 | Beneficial Owner | Personal | 70% |
| Yuan Bai | Ko Yo HK | 420,000 | Beneficial Owner | Personal | 14% |
| Tang Shiguo | Ko Yo HK | 300,000 | Beneficial Owner | Personal | 10% |

Note: Mr. Tang Shiguo ceased to be a director of the Company with effect from 29th April 2004.

3. Short positions in the shares of an associated corporation of the Company

| Name | Capacity | Number of shares | Name of Company | Approximate Shareholding percentage |
|-------------|------------------|------------------|-----------------|-------------------------------------|
| Li Wei Ruo | Beneficial Owner | 2,100,000 | Ko Yo HK | 70% |
| Yuan Bai | Beneficial Owner | 420,000 | Ko Yo HK | 14% |
| Tang Shiguo | Beneficial Owner | 300,000 | Ko Yo HK | 10% |

Note: Mr. Li Wei Ruo, Mr. Yuan Bai and Mr. Tang Shiguo owns equal number of long positions and short positions in the non-voting deferred shares of Ko Yo Hong Kong, thus the net number of non-voting deferred shares of Ko Yo Hong Kong held by them are zero.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons (other than the Directors and the chief executive of the Company) who had, or was deemed to have, an interest and/or short position in the Shares or underlying shares of the Company which is required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

iv. The Subscriber, its ultimate beneficial owners and parties acting in concert with any of them

Save for the entering into of the Subscription Agreement and the holding of 100,000,000 Existing Shares, none of the Subscriber, its ultimate beneficial owners and parties acting in concert with any of them has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares during the Relevant Period. As at the Latest Practicable Date, the Subscriber, its ultimate beneficial owners and parties acting in concert with any of them do not hold any Shares or other securities of the Company.

(b) Dealings in securities

i. Directors

None of the Directors or parties acting in concert with any of them had dealt in any Existing Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

ii. Others

During the Relevant Period, no fund managers who managed funds on a discretionary basis connected with the Company had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company.

During the Relevant Period, none of the Company or the Directors has borrowed or lent any Existing Shares.

(c) Interests and dealings in the Subscriber

None of the Directors or the Company had any interest in the shares, convertible securities, options, warrants or derivatives of the Subscriber and none of them had dealt for value in any shares, convertible securities, options, warrants or derivatives of the Subscriber during the Relevant Period.

(d) Outstanding convertible securities

As at the Latest Practicable Date, the outstanding convertible securities that issued on 13 November 2014 can be converted into 1,002,675,000 Shares, the outstanding convertible securities that issued on 31 January 2019 can be converted into 900,000,000 Shares and the outstanding convertible securities issued on 15 March 2019 can be converted into 1,300,000,000 Shares, set out below is the number of shares from conversion of outstanding convertibles securities converted into Shares:

| As at the Latest Practicable Date | No. of shares from conversion of outstanding convertible securities |
|--|--|
| Asia Pacific Resources Development Investment Limited (<i>Note</i>) | 1,001,375,000 |
| The Subscriber | 2,050,000,000 |
| Mr. Shi Jianmin | — |
| Public | 151,300,000 |
| Total | 3,202,675,000 |

Note: Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming, who is a substantial shareholder of the Company.

(e) Share options

As at the Latest Practicable Date, no capital of member of the Group was under options or agreed conditionally or unconditionally to be put under option, other than the 12,400,000 Share Options under the Share Option Scheme, which are outstanding and entitling the holders of the Share Options to convert into 12,400,000 Shares as at the Latest Practicable Date:

| Holders of the Share Options | Date of grant of Share Options | Exercise price per Share | Exercisable period | Number of Share Options held |
|---|---|---|---|---|
| Hu Xiaoping | 23 November 2010 | HK\$1.100 | 23 November 2010 to 22 November 2020 | 800,000 |
| | 28 March 2013 | HK\$0.595 | 28 March 2013 to 27 March 2023 | 400,000 |
| Employees | 14 January 2010 | HK\$1.150 | 14 January 2010 to 13 January 2020 | 3,900,000 |
| | 28 March 2013 | HK\$0.595 | 28 March 2013 to 27 March 2023 | 5,800,000 |
| | 22 June 2016 | HK\$0.151 | 22 June 2016 to 21 June 2026 | 1,500,000 |
| Total | | | | 12,400,000 |

Save as disclosed above, as at the Latest Practicable Date:

- a. no alternation to the authorised share capital of the Company since the end of its last financial year, being 31 December 2018. All of the Shares currently in issue rank *pari passu* in all respects with each other including, in particular, as to dividends, voting rights and capital;
- b. there was no arrangement under which future dividends were waived or agreed to be waived;
- c. no share or loan capital of the Company or any of its subsidiaries had been put under option or agreed conditionally or unconditionally to be put under option; and
- d. the Company did not have any other derivatives, options, warrants and other convertible securities or rights convertible into Shares.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing and proposed service contract with any members of the Group other than contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competes or may compete, directly or indirectly with the business of the Company.

6. NO MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

7. QUALIFICATION AND CONSENT OF EXPERT

The following is the name and qualification of the expert who has given opinion or advice which is contained in this circular:

| Name | Qualification |
|----------------------------------|--|
| TC Capital International Limited | a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

As at the Latest Practicable Date, the expert named above was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

The expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they respectively appear.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

9. MATERIAL CONTRACTS

During the two years immediately preceding the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business of the Group) were entered into by the Company and/or members of the Group and are or may be material:

- (i) the Subscription Agreement; and
- (ii) the subscription agreement dated 19 July 2018 entered into between the Company and the Subscriber.

10. MISCELLANEOUS

- (i) The qualified accountant and the secretary of the Company is Mr. Chung Tin Ming, HKICPA, FCCA.
- (ii) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (iii) The head office and principal place of business of the Company in Hong Kong is Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.
- (iv) The share registrar of the Company in Hong Kong is Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

- (v) As at the Last Practicable Date, the Board comprises three executive Directors, being Mr. Tang Guoqiang, Mr. Shi Jianmin and Mr. Zhang Weihua; and three independent non-executive Directors being Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai.
- (vi) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed themselves to vote for or against the Subscription.
- (vii) Save as disclosed in this circular, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Subscriber or any person acting in concert with it and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the outcome of the subscription of the Convertible Bonds.
- (viii) There are no benefits to be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription.
- (ix) Save as disclosed in this circular, there is no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the subscription of the Convertible Bonds or otherwise connected therewith.
- (x) The Subscriber, the Directors and any parties acting in concert with it have not borrowed or lent any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Company.
- (xi) There is no material contract entered into by the Subscriber in which any Director has a material personal interest.
- (xii) None of the Directors has any interest, direct or indirect, in any assets which had been, since 31 December 2018, being the date of the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (xiii) The Subscriber will abstain from voting on the resolutions in relation to the Subscription Agreement, the transactions contemplated thereunder, the Specific Mandate, and the increase in the authorised share capital of the Company.
- (xiv) There is no agreement, arrangement or understanding to transfer, charge or pledge any voting rights over the Conversion Shares.
- (xv) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. (other than Saturday, Sunday and public holidays) at the principal place of business of the Company in Hong Kong from the date of this circular up to and including the date of the EGM:

- (i) the memorandum and articles of association of the Company;
- (ii) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (iii) the annual reports of the Company for the three financial years ended 31 December 2018;
- (iv) the interim report of the Company for the six months ended 30 June 2019;
- (v) the written consent from TC Capital International Limited referred to in the above section headed “Qualification and Consent of Expert” in this appendix;
- (vi) the letter from the Board, the text of which is set out on pages 6 to 30 of this circular;
- (vii) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 31 to 32 of this circular;
- (viii) the letter of advice from TC Capital International Limited, the text of which is set out on pages 33 to 54 of this circular; and
- (ix) this circular.

NOTICE OF EGM



Ko Yo Chemical (Group) Limited

玖源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Ko Yo Chemical (Group) Limited (the “**Company**”) will be held at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong on Friday, 8 November 2019 at 3:00 p.m. for considering and, if thought fit, passing, with or without amendments, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT,**

- (a) the subscription agreement dated 10 July 2019 (the “**Subscription Agreement**”) between the Company and Mr. Tang Guoqiang (the “**Subscriber**”) (a copy of which having been produced to the EGM marked “A” and initialed by the chairman of the EGM for identification purposes) and the transaction contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the issue by the Company of the convertible bonds in the principal amount of HK\$987,000,000 at an initial conversion price of HK\$0.141 per share (subject to adjustments) (the “**Convertible Bonds**”) pursuant to the Subscription Agreement together with the issuance of the bond instrument and the bond certificate to the Subscriber be and are hereby approved;
- (c) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in, the Conversion Share (as defined below) to be allotted and issued upon the conversion of the Convertible Bonds, the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate (the “**Specific Mandate**”) to allot and issue up to 7,000,000,000 ordinary shares of HK\$0.10 each of the Company to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds at an initial conversion price of HK\$0.141 per share (subject to adjustments) (the “**Conversion Shares**”); and

NOTICE OF EGM

- (d) any one or more of the Directors (except Mr. Tang Guoqiang) be and is/are hereby authorised to do all such acts and things and sign and execute all such documents and to take such steps as he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Subscription Agreement and the transaction contemplated thereby, including but not limited to the issue of the Convertible Bonds and the issue and allotment of the Conversion Shares.”

2. “**THAT,**

- (a) the authorised share capital of the Company be increased from HK\$800,000,000 divided into 8,000,000,000 shares of HK\$0.10 each to HK\$2,000,000,000 divided into 20,000,000,000 shares by the creation of an additional 12,000,000,000 new shares, which shall rank *pari passu* with each other and with the existing shares in all respects upon issue (the “**Increase in Authorised Share Capital**”); and
- (b) any one or more of the Directors (except Mr. Tang Guoqiang) be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Increase in Authorised Share Capital.”

By Order of the Board
Ko Yo Chemical (Group) Limited
Tang Guoqiang
Chairman

Hong Kong, 16 October 2019

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:

Suite No. 02, 31st Floor, Sino Plaza
255 – 257 Gloucester Road
Causeway Bay, Hong Kong

NOTICE OF EGM

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the share registrar of the Company, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not less than 48 hours before the time appointed for holding the meeting (or any adjournment thereof).
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.
4. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.
5. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
6. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the ordinary resolutions as set out above will be conducted by way of poll.
7. The EGM is expected not to last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.
8. In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the Company's register of members will be closed from Tuesday, 5 November 2019 to Friday, 8 November 2019 (both days inclusive) during which period no transfer of Shares will be effected. Shareholders whose names appeared on the register of members of the Company on Friday, 8 November 2019 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify for attending and voting at the EGM, Shareholders whose Shares are not registered in their names should complete and lodge their respective instruments of transfer with the relevant share certificates with the Company's share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Monday, 4 November 2019.
9. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 12:00 noon on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at www.koyochem.com and on the website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and venue of the rescheduled meeting.