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KAI YUAN HOLDINGS LIMITED

開源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1215)

MAJOR TRANSACTION IN RELATION TO (1) ACQUISITION OF CERTAIN EQUITY INTEREST IN THE TARGET COMPANY; AND (2) PROVISION OF FUNDING COMMITMENT

THE ACQUISITION

On 22 October 2019 (after trading hours of the Stock Exchange), the Purchaser (a wholly-owned subsidiary of the Company), the Vendor and the Target Company entered into the Sale and Purchase Agreement pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Interest at the consideration of RMB12,350,000 (equivalent to approximately HK\$13,683,800).

The Acquisition is subject to the conditions precedent set out in the paragraph headed “Conditions precedent” below.

As at the date of this announcement, the Purchaser is interested in 6.25% of the equity interest of the Target Company. Upon Completion, the Group will be interested in 37.125% of the equity interest of the Target Company. The Target Company will be treated as an associate of the Company and the financial results of the Target Group will be equity accounted for in the consolidated financial statements of the Company.

THE SHAREHOLDERS' AGREEMENT

On the same date (after trading hours of the Stock Exchange), the Purchaser, the Founder Group, the Investors, the New Investor and the Target Company entered into the Shareholders' Agreement to regulate the shareholders' rights in the Target Group upon Completion. Pursuant to the Shareholders' Agreement, the Purchaser has undertaken to, among other matters, provide the Funding Commitment, the maximum amount of which shall be RMB180,000,000 (equivalent to approximately HK\$199,440,000). The Shareholders' Agreement will become effective only upon Completion.

LISTING RULES IMPLICATIONS

The current holding of 6.25% equity interest of the Target Company was acquired by the Group in September 2018 and December 2018, being the Initial Acquisition. Since the Sale and Purchase Agreement as well as the Shareholders' Agreement are signed within 12 months of the Initial Acquisition, the Acquisition and the Funding Commitment are aggregated with the Initial Acquisition as one transaction under Chapter 14 of the Listing Rules.

As one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Initial Acquisition, the Acquisition and the Funding Commitment (as aggregated) is more than 25% but less than 100%, they constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, circular and shareholders' approval requirements under the Listing Rules.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the Shareholders' Agreement, as well as the respective transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholders will be required to abstain from voting on the resolutions approving the Sale and Purchase Agreement and the Shareholders' Agreement, as well as the respective transactions contemplated thereunder at the SGM.

A circular containing, among other things, information on the Acquisition and the Funding Commitment, financial information relating to the Group and the Target Group, as well as the notice of the SGM will be despatched to the Shareholders on or before 15 November 2019, which is more than 15 business days after the publication of this announcement, as the Company requires more time to prepare the financial information to be included in the circular.

As Completion is subject to the fulfilment of the conditions precedent, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the shares or any securities of the Company.

The Board is pleased to announce that on 22 October 2019 (after trading hours of the Stock Exchange), the Purchaser (a wholly-owned subsidiary of the Company), the Vendor and the Target Company entered into the Sale and Purchase Agreement pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Interest at the consideration of RMB12,350,000 (equivalent to approximately HK\$13,683,800).

On the same date (after trading hours of the Stock Exchange), the Purchaser, the Founder Group, the Investors, the New Investor and the Target Company entered into the Shareholders' Agreement to regulate the shareholders' rights in the Target Group upon Completion. Pursuant to the Shareholders' Agreement, the Purchaser has undertaken to, among other matters, provide the Funding Commitment, the maximum amount of which shall be RMB180,000,000 (equivalent to approximately HK\$199,440,000). The Shareholders' Agreement will become effective only upon Completion.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out below:

Date

22 October 2019 (after trading hours of the Stock Exchange)

Parties

- (1) the Purchaser, a wholly-owned subsidiary of the Company;
- (2) the Vendor; and
- (3) the Target Company.

As at the date of this announcement, the Purchaser is interested in 6.25% of the equity interest of the Target Company, and the Vendor is interested in 31.875% of the equity interest of the Target Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for the aforesaid, the Vendor, the Target Company as well as its other ultimate beneficial owners are Independent Third Parties.

Assets to be acquired

The Sale Interest, representing 30.875% of the equity interest in the Target Company held by the Vendor as at the date of this announcement.

Consideration

The consideration for the Sale Interest is RMB12,350,000 (equivalent to approximately HK\$13,683,800) (the “**Consideration**”), which shall be satisfied in cash. The Consideration shall be payable as follows:

- (a) RMB4,940,000 (equivalent to approximately HK\$5,473,520) shall be payable by the Purchaser to the Vendor as deposit (the “**Deposit**”) within 5 Business Days of the date of the Sale and Purchase Agreement; and
- (b) RMB7,410,000 (equivalent to approximately HK\$8,210,280) shall be payable by the Purchaser to the Vendor within 5 Business Days of Completion.

The Consideration was determined after arm’s length negotiations between the Purchaser and the Vendor, after taking into account (i) the registered capital of the Target Company of RMB40 million (equivalent to approximately HK\$44 million); (ii) the adjusted net asset value of the Target Group as at 30 June 2019, after taking into account liabilities of RMB120,000,000 (equivalent to approximately HK\$132,960,000) which will be converted as equity upon the Shareholders’ Agreement having become effective; and (iii) the business prospect of the Target Group. The Directors consider the Consideration is fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The Consideration will be funded by internal resources of the Group.

Conditions precedent

Completion is subject to satisfaction of the following conditions precedent:

- (i) the warranties and representations provided by the Vendor in each Transaction Document having remained true, accurate, complete and not misleading in all material respects;
- (ii) there being no claim or potential claim against the Vendor, the Target Group or the Purchaser by any governmental department, or the same being filed with any governmental department, which may restrict the Acquisition or cause any material adverse effect on the Acquisition;

- (iii) there being no litigation, arbitration or administration proceedings, the rulings of which may have adverse effect on the Target Group and may have a material adverse effect on the performance of the Target Group of the Sale and Purchase Agreement or other Transaction Documents, or may have a material adverse effect on the Acquisition or the condition of the Target Group;
- (iv) the passing of the necessary resolution(s) approving the Acquisition by the shareholders of the Target Company at its shareholders' meeting;
- (v) no governmental department or court having promulgated, implemented or passed any law, order or judgment which may result in the transactions contemplated under the Sale and Purchase Agreement and other Transaction Documents being unlawful, or otherwise restrict or prohibit the Acquisition or the performance thereof; and there being no change in governmental department's regulatory practice which may result in non-completion of the transactions contemplated under the Transaction Documents or non-compliance of any party to the Transaction Documents;
- (vi) the Shareholders passing the necessary resolution(s) approving the Sale and Purchase Agreement and the Shareholders' Agreement, as well as the respective transactions contemplated thereunder at the SGM;
- (vii) the Purchaser being satisfied with the results of the due diligence review on the legal, financial, taxation and business aspects of the Target Group;
- (viii) the Purchaser or the Company having obtained a written legal opinion issued by a lawyer (appointed by the Purchaser or the Company) qualified to practise PRC laws which form and substance are satisfactory and acceptable to the Purchaser or the Company;
- (ix) the entering into of the equity transfer agreement between the Target Company and the PRC JV Partner which form and substance are satisfactory to the Purchaser in relation to the transfer of 50% equity interest of the PRC JV by the Target Company to the PRC JV Partner, and such transfer and the relevant registration having been completed and the new business licence of the PRC JV having been issued; and
- (x) the Vendor having paid up in full its contribution to the registered capital of the Target Company in the amount of RMB12,750,000 (equivalent to approximately HK\$14,127,000).

None of the above conditions precedent can be waived.

The parties to the Sale and Purchase Agreement shall use their best endeavours to satisfy the above conditions precedent before the 120th day of the date of the Sale and Purchase Agreement (or such other date as may be agreed in writing by the parties thereto) (the “**Long Stop Date**”). In the event the conditions precedent are not satisfied on or before the Long Stop Date, the Purchaser shall be entitled to defer the Long Stop Date or terminate the Sale and Purchase Agreement. Upon termination of the Sale and Purchase Agreement due to non-fulfilment of conditions precedent, the Vendor shall refund the Deposit forthwith and upon receipt of the Deposit by the Purchaser, neither party to the Sale and Purchase Agreement shall have any liabilities thereunder. If any of the conditions precedent is not satisfied due to the Vendor or the Target Group’s breach of the Sale and Purchase Agreement, the Vendor and the Target Group shall compensate the Purchaser for the expenses incurred in the Acquisition which shall not exceed RMB5,000,000 (equivalent to approximately HK\$5,540,000).

In the event all conditions precedent have been satisfied but Completion does not take place due to the Vendor and/or the Target Company’s breach of the Sale and Purchase Agreement, the Vendor shall refund the Deposit forthwith and shall compensate the Purchaser for the expenses incurred in the Acquisition which shall not exceed RMB5,000,000 (equivalent to approximately HK\$5,540,000).

In the event that all conditions precedent have been satisfied but Completion does not take place due to reasons other than the fault of any parties to the Sale and Purchase Agreement, the Vendor shall refund the Deposit to the Purchaser forthwith.

Funding Commitment

Pursuant to the Sale and Purchase Agreement, the Purchaser undertakes to fulfill the Funding Commitment within 45 days after Completion. Details of the Funding Commitment are set out in the item headed “Funding commitment” in the section headed “The Shareholders’ Agreement” of this announcement below.

In the event the Purchaser fails to fulfill the Funding Commitment as set out above, the Vendor shall be entitled to repurchase the Sale Interest from the Purchaser at the consideration under the Acquisition (the “**Repurchase**”).

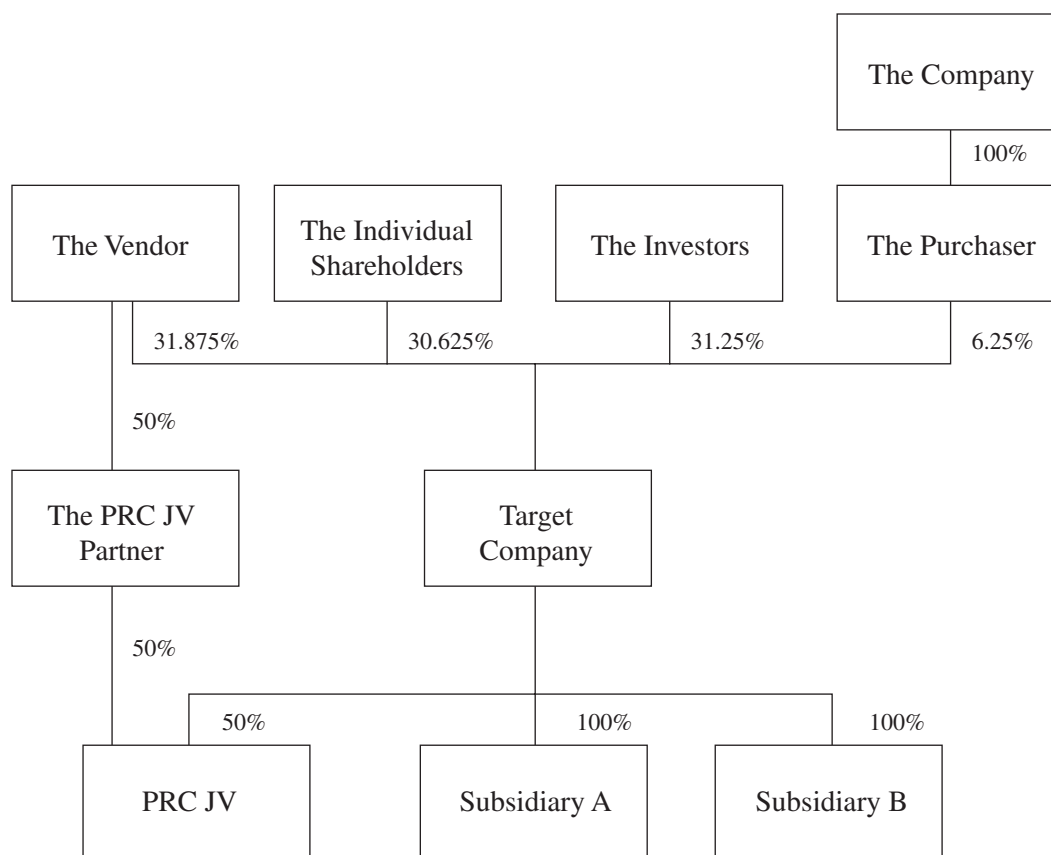
Completion

The Purchaser and the Vendor shall apply for registration of transfer of the Sale Interest from the Vendor to the Purchaser with the local Administration for Industry and Commerce in the PRC within 15 Business Days upon all conditions precedent have been satisfied.

Completion shall mean the date of registration of the transfer of the Sale Interest from the Vendor to the Purchaser with the local Administration for Industry and Commerce in the PRC.

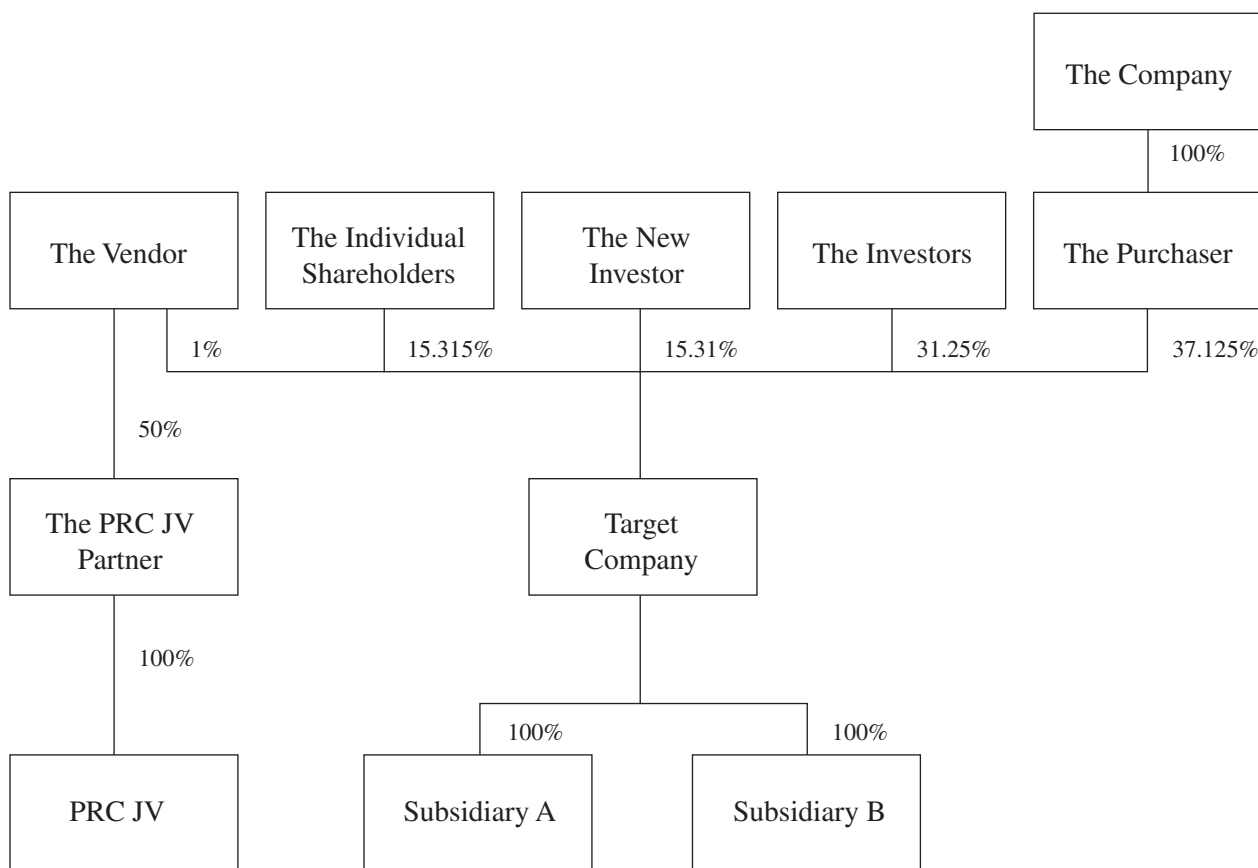
The following illustrates the shareholding structure of the Target Group:

As at the date of this announcement



On 22 October 2019, the Individual Shareholders entered into a sale and purchase agreement with the New Investor pursuant to which the New Investor agreed to acquire an aggregate of 15.31% equity interest of the Target Company from the Individual Shareholders (the “**New Investor Acquisition**”) at an aggregate consideration of RMB6,124,000 (equivalent to approximately HK\$6,785,392). To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the New Investor and its ultimate beneficial owner are Independent Third Parties. The New Investor Acquisition is not inter-conditional with the Acquisition.

Immediately after Completion taking into account the New Investor Acquisition



Upon Completion, the Group will be interested in 37.125% of the equity interest of the Target Company. The Target Company will be treated as an associate of the Company and the financial results of the Target Group will be equity accounted for in the consolidated financial statements of the Company upon Completion.

THE SHAREHOLDERS' AGREEMENT

On 22 October 2019, the Purchaser, the Founder Group, the Investors, the New Investor and the Target Company entered into the Shareholders' Agreement to regulate the shareholders' rights in the Target Group upon Completion. The Shareholders' Agreement will become effective only upon Completion.

Major terms of the Shareholders' Agreement are set out below:

Date: 22 October 2019 (after trading hours of the Stock Exchange)

Parties:

- (i) the Purchaser;
- (ii) the Investors, which are principally engaged in investment holding. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for being shareholders of the Target Company, the Investors and their ultimate beneficial owners are Independent Third Parties;
- (iii) the Founder Group (being the Vendor and the Individual Shareholders), whom to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for being shareholders of the Target Company, are Independent Third Parties;
- (iv) the New Investor, which is principally engaged in wholesale business and investment holding; and
- (v) the Target Company.

Shareholding structure upon Shareholders' Agreement having become effective:	(i) the Purchaser	37.125%
	(ii) the Investors	31.25%
	(iii) the Individual Shareholders	15.315%
	(iv) the New Investor	15.31%
	(v) the Vendor	1%

Business of the Target Group:	Production of medicinal intermediary products such as dimethyl sulfate, nitromethane, hydroxylamine hydrochloride, with by-products such as sodium sulfate, methyl chloride, concentrated sulfuric acid by utilising second generation technology of new nitromethane technology, cyclic catalytic hydroxylamine hydrochloride technology						
Board composition:	<p>The board of directors of each member of the Target Group (the “Target Board”) shall comprise five directors, who shall be nominated as follows:</p> <table> <tr> <td>(i) the Purchaser:</td><td>2</td></tr> <tr> <td>(ii) the Founder Group:</td><td>2</td></tr> <tr> <td>(iii) the Investors:</td><td>1</td></tr> </table>	(i) the Purchaser:	2	(ii) the Founder Group:	2	(iii) the Investors:	1
(i) the Purchaser:	2						
(ii) the Founder Group:	2						
(iii) the Investors:	1						
Matters requiring consent from the Purchaser and the Investors:	<p>The following matters must be approved by a majority of the Target Board, which approval shall have included directors nominated by the Purchaser and the Investors:</p> <ul style="list-style-type: none"> (i) approval of annual budget; (ii) any investment, capital expenditure or operating expenses (whether through a single or series of transactions) in excess of RMB10,000,000 (equivalent to approximately HK\$11,080,000) in any financial year that are not included in the approved annual budget, business plan and/or financial plan; (iii) any related party transactions exceeding the amount of RMB3,000,000 (equivalent to approximately HK\$3,324,000); (iv) in any financial year, the incurring of any liabilities, or provision of any guarantee (to secure liabilities of any other person) exceeding 30% of the Target Company’s net assets recorded in the previous financial year, which are not included in the approved annual budget, business plan and/or financial plan; 						

- (v) appointment and dismissal of the chairman and general manager of any member of the Target Group;
- (vi) signing of any material contracts exceeding the amount of RMB10,000,000 (equivalent to approximately HK\$11,080,000);
- (vii) formulation or modification of any profit sharing arrangement or indemnity for loss arrangement; and
- (viii) any sale, transfer or otherwise disposal of, or any permission granting any third party to use any intellectual property rights of the Target Group other than in its ordinary course of business.

Matters requiring 70% of the Target Company's shareholders' approval:

The following matters require approval of 70% of the Target Company's shareholders:

- (i) amendment of the Target Group's articles of association;
- (ii) increase or reduction of the Target Group's registered capital, restructuring or adjustment of the Target Group's shareholding and control;
- (iii) merger, separation, dissolution, liquidation or change of legal nature of the Target Group;
- (iv) decision on or modification of the Target Group's investment plan and annual business plan, as well as termination or change of the Target Group's business;
- (v) sale or pledge of all or substantial parts of Target Group's assets, or issue of any debt financing instruments;
- (vi) alteration of the number of board members or director nomination procedures of the Target Group;
- (vii) approval of directors' and supervisor's reports of the Target Group;
- (viii) approval of any profit sharing arrangement or indemnity for loss arrangement;

- (ix) formulation, implementation, administration, modification or termination of any share incentive schemes;
- (x) modification of the Investors' rights under the Shareholders' Agreement and the articles of association of the Target Company;
- (xi) approval of any listing proposal;
- (xii) any material change of any terms of the Acquisition, the New Investor Acquisition and the Funding Commitment that will cause material adverse effect to the Target Group's principal business or operations.

Funding commitment:

For the purpose of funding the first phase of the Project, the Purchaser has undertaken to, by itself or through its associate,

- (i) liaise with third party to provide financing to the Target Group of up to RMB180,000,000 (equivalent to approximately HK\$199,440,000); or
- (ii) provide guarantee of up to RMB180,000,000 (equivalent to approximately HK\$199,440,000) for the purpose of any third party financing (including financing from any financial institutions) obtained by the Target Group; or
- (iii) extend a loan to the Target Group,
 - (a) the principal amount of which shall not exceed RMB180,000,000 (equivalent to approximately HK\$199,440,000);
 - (b) for a term of not less than 18 months but not more than 5 years;
 - (c) at an interest rate of not less than 6% per annum but not more than 150% of bank's then standard lending rate; and

- (d) secured by the Target Group's land and/or construction-in-progress of first phase of the Project, or such other security as may be agreed by the Purchaser. If subsequent to drawdown, the Target Group is able to obtain funding from financial institutions to complete first phase of the Project, in order to facilitate such financial institution funding, the Purchaser or its associate may consider adjusting the level of security.

(the above undertaking is referred to as the “**Funding Commitment**”)

The Funding Commitment has been made after taking into account the estimated working capital required for first phase of the Project.

The Funding Commitment will be funded by internal resources of the Group and/or bank borrowings and/or other means obtained/to be obtained by the Group.

**Management and
non-competition:**

(i) The Vendor, (ii) 唐強 (Tang Qiang*), being one of the Individual Shareholders, a member of the Founder Group and a director of the Target Group, and (iii) 于天杰 (Yu Tianjie*), being a director of the Target Group, shall remain employed by the Target Company for five years. Each of them or any of their associates shall not directly or indirectly engage in any business competing with the Target Group.

Pre-emptive right:

Any offer of equity interest in the Target Company (the “**Proposed Offer**”) shall be subject to shareholders' pre-emptive right, pursuant to which such Proposed Offer shall first be offered to the Target Company's shareholders for subscription in proportion to their respective percentage shareholdings in Target Company on the same terms and conditions as would be offered to potential third party subscriber (save for any employee option or share incentive schemes approved by the Target Company's shareholders).

* For identification purpose only

Rights of first refusal:

Any sale of equity interest in the Target Company (the “**Proposed Sale**”) shall be subject to the right of first refusal, pursuant to which the selling shareholder shall offer to sell to other shareholders on the same terms and conditions as may be offered to the potential third party purchaser, such that the other shareholders shall be entitled to acquire the equity interest in the Proposed Sale in proportion to their respective percentage shareholdings in Target Company (the “**Right of First Refusal**”). Save for the Founder Group, the Right of First Refusal shall not apply to any sale of equity interest by a shareholder to its associate.

Right of co-sale:

If any Proposed Sale is offered by a shareholder other than the Investors, the Investors shall be entitled to participate in the Proposed Sale (the “**Right of Co-Sale**”) in such proportion as follows:

$$T = N \times \frac{W}{W+S}$$

whereby

- T is the amount of equity interest subject to the Right of Co-Sale
- N is the amount of equity interest offered by the selling shareholder in the Proposed Sale
- W is the amount of equity interest held by the Investors
- S is the amount of equity interest held by the selling shareholder

In the event the purchaser of the Proposed Sale refuses to acquire or fails to complete the acquisition from the Investors after the Investors exercise the Right of Co-Sale, the selling shareholder shall not proceed with the Proposed Sale with such purchaser unless the selling shareholder has acquired the Investors’ equity interest subject to such Right of Co-Sale.

The Investors waive the Right of Co-Sale in the event of any transfer of equity interest by the shareholders for the purpose of implementing any employee option or share incentive schemes.

* For identification purpose only

Anti-dilution rights:

In relation to (i) the Investors' investment made to the Target Company; and (ii) the Initial Acquisition:

- (a) save with the prior written consent of the Investors as well as the Purchaser, the Target Company shall not conduct any fund raising (including any increase in registered capital or issue of convertible securities) at price and on terms more favourable than those of (i) the Investors' investment made to the Target Company; and (ii) the Initial Acquisition; and
- (b) in the event the Target Company is to conduct any fund raising at a price more favourable than (i) the Investors' investment made to the Target Company; and (ii) the Initial Acquisition, the Investors and the Purchaser shall be deemed to have made (i) the Investors' investment made to the Target Company; and (ii) the Initial Acquisition at such more favourable price, such that (1) the Investors and the Purchaser's percentage shareholding in the Target Company shall be adjusted accordingly with payment of such nominal consideration (which shall be reimbursed by the Founder Group) as required by law or at no consideration at all; or (2) the Founder Group shall pay the difference in cash to the Investors and the Purchaser without adjustment of the percentage shareholding.

No less favourable terms:

Save as set out in the Shareholders' Agreement, should the Target Company offer to any shareholders (including any new investors) any rights that are more favourable than those granted to the Investors and the Purchaser, the Investors and the Purchaser shall be deemed to be entitled to such more favourable rights.

Dividend preference:

Upon the Target Group having commenced production and generated profit, the Investors or the Purchaser shall be entitled to request for profit distribution, which shall be made as follows:

- (i) the Investors, the Purchaser and the New Investor shall be entitled to:
 - (a) as regards the Investors, such portion as is equivalent to the aggregate percentage shareholding of both the Investors and the Founder Group in the Target Company;
 - (b) as regards the Purchaser, such portion as is equivalent to its percentage shareholding in the Target Company; and
 - (c) as regards the New Investor, such portion as is equivalent to its percentage shareholding in the Target Company;
- (ii) after the Investors, the Purchaser and the New Investor have fully recovered their investment amount made to the Target Company via the dividend preference set out above, all shareholders shall be entitled to distribution of dividend in proportion to their percentage shareholding in the Target Company.

Unless the Target Company has incurred a loss, the above dividend preference shall apply to not less than 50% of any distributable profit annually.

The Founder Group undertakes to pay any shortfall if the Investors cannot recover (by way of dividend distribution as set out above) the investment amount made to the Target Company within three years after the Target Company has made its first dividend distribution.

**Right to call for Founder
Group's acquisition:**

The Investors and the Purchaser shall be entitled to require the Founder Group to acquire all or part of their respective shareholding if (whichever occurs earlier):

- (a) the Target Company fails to submit a Qualified Listing Application by 31 December 2024. A “**Qualified Listing Application**” refers to an application for listing duly accepted to process by a reputable stock exchange acceptable to the Investors (including but not limited to the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Stock Exchange), in relation to a public offering and listing with a fundraising size of not less than RMB250,000,000 (equivalent to approximately HK\$277,000,000) and a valuation acceptable to the Investors of not less than RMB1,000,000,000 (equivalent to approximately HK\$1,108,000,000); or
- (b) there being any material breach by the Target Company and/or the Founder Group of any warranties or undertakings set out in the Shareholders' Agreement or the amendment agreement relating to the Initial Acquisition, which shall have material adverse effect on the Target Company's asset and operations.

The price at which the Founder Group shall pay the Investors and the Purchaser (in respect of the Initial Acquisition) shall be calculated as follows:

$$C = I \times (1 + 8\% \times N) - D$$

whereby

- C is the acquisition consideration
- I is the relevant investment amount made by the Purchaser or the Investors
- N is the number of years the Investors or the Purchaser has invested in the Target Company
- D is the amount of dividend paid to the Investors or the Purchaser

In the event the amount of dividend paid to the Investors and the Purchaser exceeds the 8% investment return set out above, the Investors and the Purchaser shall be entitled to cease continuing as a shareholder of the Target Company via such means as may be permitted by relevant PRC laws.

Liquidation preference:

In the event of liquidation, after (i) payment of liquidation expenses, employee salary, social securities, and any statutory compensation; and (ii) payment of any tax and other liabilities under the applicable laws, the assets of the Target Company shall be distributed as follows:

- (a) the Investors, the Purchaser and the New Investor shall be entitled to:
 - (1) as regards the Investors, such portion as is equivalent to the aggregate percentage shareholding of both the Investors and the Founder Group in the Target Company;
 - (2) as regards the Purchaser, such portion as is equivalent to its percentage shareholding in the Target Company; and
 - (3) as regards the New Investor, such portion as is equivalent to its percentage shareholding in the Target Company; and
- (b) after the Investors have obtained a return calculated on the basis of their total investment amount in the Target Company plus a rate of 8% per annum (and deducting therefrom any dividends received), all shareholders shall be entitled to distribution of the remaining assets in proportion to their percentage shareholding in the Target Company.

In the event the Investors cannot fully obtain its investment return as set out above via the liquidation distribution, the Founder Group shall be liable to pay any shortfall in cash.

The liquidation preference set out above also applies to any asset sale proceeds in the event the Target Company shall conduct any merger or acquisition or alteration of voting right structure such that all or substantially all of its assets shall have been disposed of or the largest shareholder shall have lost its control.

Any liquidation committee established shall comprise directors nominated by the Purchaser and the Investors.

Lock-up:

Subject to the prior written consent of the Investors and the Purchaser, the Founder Group shall not directly or indirectly transfer, pledge or in any way dispose of the equity interest of the Target Company held by it.

Information rights:

The Target Company shall provide to each shareholder of the Target Company with quarterly and annual financial statements, monthly management accounts and annual budget.

Application for listing:

The Target Company shall give priority to listing on the Shanghai Stock Exchange or the Shenzhen Stock Exchange.

In the event the Target Company cannot be listed on any reputable stock exchanges, the Investors and the Purchaser shall be entitled to require the Founder Group to acquire their shareholding in the Target Company.

Effectiveness and termination:

The Shareholders' Agreement shall become effective upon Completion.

The Shareholders' Agreement shall terminate if

- (i) the Sale and Purchase Agreement is terminated;
- (ii) the New Investor Acquisition is terminated; or
- (iii) the Vendor has exercised the Repurchase under the Sale and Purchase Agreement,

in which case the old shareholders' agreement and capital increase agreement in relation to the Initial Acquisition shall be re-instated.

The terms of the Shareholders' Agreement have been arrived at after arm's length negotiations among the parties thereto. The Directors consider the terms of the Shareholders' Agreement (including the Funding Commitment) are fair and reasonable, on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE TARGET GROUP

The Founder Group established the Target Company in the PRC on 5 August 2015. Upon establishment, the Target Company was owned as to 51% by the Vendor and as to an aggregate of 49% by the Individual Shareholders. The Target Company is permitted to engage in research and development, promotion, transfer, consultation and services in relation to technology; sale of self-developed products and chemical products (excluding dangerous chemicals and category I precursor chemicals). The total registered capital of the Target Company is RMB40,000,000 (equivalent to approximately HK\$44,320,000) with an operation term of 20 years.

Both Subsidiary A and Subsidiary B are companies established in the PRC with limited liability on 30 March 2018 and are wholly-owned by the Target Company. Each of Subsidiary A and Subsidiary B has the registered capital of RMB 50,000,000 (equivalent to approximately HK\$55,400,000) with an operation term of 20 years. Subsidiary A is principally engaged in the development of the Project and Subsidiary B currently has no business operation.

The Project comprises construction of production facilities and office on a land parcel situated in Tieying Chemical Industry Park of Laoling City in Shandong Province, the PRC* (山東省樂陵市鐵營鎮化工園區). As at the date of this announcement, the Target Group has acquired land use rights of gross area of approximately 317,527 sq. m.. Land use rights of approximately 19,800 sq. m. is expected to be acquired in the short term.

The construction of the Project comprises two phases. Total expected investment of the first phase amounts to approximately RMB728 million (equivalent to approximately HK\$807 million), of which approximately RMB125 million (equivalent to approximately HK\$139 million) has been paid as at the date of this announcement. The Target Group is yet to have a concrete plan for the second phase.

Investment in first phase of the Project mainly comprises acquisition of the aforesaid land use rights of approximately 337,327 sq.m., construction of buildings, and acquisition and installation of production machinery and equipment. Major products will mainly include dimethyl sulfate (硫酸二甲酯), nitromethane (硝基甲烷) and hydroxylamine hydrochloride (鹽酸羥胺). Dimethyl sulfate is widely used in the organic synthesis of dyes, spices, medicines and pesticides. Nitromethane is a versatile organic chemical: it is mainly used for organic synthesis, but can be used as an organic solvent as well. Hydroxylamine hydrochloride is mainly used in the synthesis of pesticides and medicines, as well as in the fields of chemical reagents.

The designed production capacity for first phase of the Project is 200,000 tonnes of dimethyl sulfate, 30,000 tonnes of nitromethane and 20,000 tonnes of hydroxylamine hydrochloride annually. It is expected that commercial production of first phase of the Project will commence in the second quarter in 2020. The target customers of the Target Group include, but not limited to, distributors, companies engaged in pharmaceutical and agricultural chemical business.

Set out below is a summary of the unaudited consolidated financial information of the Target Group for each of the two years ended 31 December 2018 and for the six months ended 30 June 2019, which was prepared in accordance with Hong Kong Financial Reporting Standards:

	For the six months ended 30 June 2019 (unaudited) RMB'000	For the year ended 31 December 2018 (unaudited) RMB'000	For the year ended 31 December 2017 (unaudited) RMB'000
Revenue	0	0	0
Net loss before taxation	9,598	18,716	5,777
Net loss after taxation	7,328	15,950	4,940

As at 30 June 2019, the unaudited consolidated net liabilities of the Target Group were approximately RMB24,486,000. Upon the Shareholders' Agreement having become effective, liabilities of approximately RMB120,000,000 will be converted as equity of the Target Group.

Upon Completion, the Target Company will be treated as an associate of the Company and the financial results of the Target Group will be equity accounted for in the consolidated financial statements of the Company.

REASONS FOR AND BENEFIT OF THE ACQUISITION AND THE FUNDING COMMITMENT

The principal activity of the Company is investment holding. The principal activities of its subsidiaries comprise hotel operation and money lending. The Purchaser is a wholly-owned subsidiary of the Company.

As disclosed in the annual report of the Company for the year ended 31 December 2018, while the Group will review its portfolio in the hotel operation segment and conduct its mortgage loan business in Hong Kong in a prudent manner, the Board will continue to explore investment opportunities from new business segments with a view to enhancing and improving returns to the Shareholders.

With a view to expanding business segments of the Group, the Group invested in the Target Company in 2018. The Board has been taking an optimistic view in the prospect of the chemical industry in the PRC. According to a research conducted by an international consulting firm, the chemical industry in the PRC has been the largest in the world by revenue since 2011. It is projected that the PRC's chemical industry will provide over half of the global chemical industry's growth over the coming decade, underlining its importance. Besides, there is an overall trend to much higher environmental standards for the chemical industry in the PRC. The Directors consider that the Target Group will benefit from the enforcement of higher environmental standard as the Project remains under construction and has the greater flexibility than existing industry players to ensure environmental compliance.

As at the date of this announcement, 6.25% equity interest of the Target Company is held by the Group. The Directors consider that the Acquisition provides the Group with a valuable opportunity to reinforce its chemical business and the Group can capture the business and financial results of the Target Group to a larger extent in the long run. The Directors are also of the view that the Funding Commitment will provide necessary capital to facilitate the development of the Project while balancing the Group's risks of investing in a new business segment in the form of equity.

Based on the above, the Board is of the view that the terms of the Sale and Purchase Agreement and the Shareholders' Agreement (including the respective transactions contemplated thereunder) are fair and reasonable, on normal commercial terms, and the Acquisition and the Funding Commitment are in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The current holding of 6.25% equity interest of the Target Company was acquired by the Group in September 2018 and December 2018, being the Initial Acquisition. Since the Sale and Purchase Agreement as well as the Shareholders' Agreement are signed within 12 months of the Initial Acquisition, the Acquisition and the Funding Commitment are aggregated with the Initial Acquisition as one transaction under Chapter 14 of the Listing Rules.

As one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Initial Acquisition, the Acquisition and the Funding Commitment (as aggregated) is more than 25% but less than 100%, they constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, circular and shareholders' approval requirements under the Listing Rules.

GENERAL

The SGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the Shareholders' Agreement, as well as the respective transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholders will be required to abstain from voting on the resolutions approving the Sale and Purchase Agreement and the Shareholders' Agreement, as well as the respective transactions contemplated thereunder at the SGM.

A circular containing, among other things, information on the Acquisition and the Funding Commitment, financial information relating to the Group and the Target Group, as well as the notice of the SGM will be despatched to the Shareholders on or before 15 November 2019, which is more than 15 business days after the publication of this announcement, as the Company requires more time to prepare the financial information to be included in the circular.

As Completion is subject to the fulfilment of the conditions precedent, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the shares or any securities of the Company.

DEFINITIONS

In this announcement, the following expressions have the following meanings:

“Acquisition”	the acquisition of the Sale Interest pursuant to the Sale and Purchase Agreement
“Board”	the board of Directors
“Business Day(s)”	a day (other than Saturday, Sunday or public holiday) on which commercial banks in the PRC are open for general banking business
“Company”	Kai Yuan Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 1215)
“Completion”	completion of the registration of the transfer of the Sale Interest from the Vendor to the Purchaser with the local Administration for Industry and Commerce in the PRC
“connected persons”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Founder Group”	collectively, the Vendor and the Individual Shareholders, who in aggregate are interested in 62.5% of the equity interest of the Target Company as at the date of this announcement
“Funding Commitment”	has the meaning ascribed to it in the item headed “Funding commitment” under the section headed “The Shareholders’ Agreement” of this announcement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Party(ies)”	third party(ies) independent of the Group and its connected persons
“Individual Shareholders”	黃愛平 (Huang Aiping*), 張麗新 (Zhang Lixin*), 唐強 (Tang Qiang*) and 王澤寧 (Wang Zening*), who in aggregate are interested in 30.625% of the equity interest of the Target Company as at the date of this announcement
“Initial Acquisition”	the subscription of an aggregate of 6.25% equity interests of the Target Company by the Group in September 2018 and December 2018 at the aggregate subscription price of RMB22,000,000 (equivalent to approximately HK\$24,376,000)
“Investors”	嘉興鼎峰凱英投資合夥企業(有限合夥) (Jiaxing Dingfeng Kaiying Investment Partnership (Limited Partnership)*) and 嘉興鼎峰勝因投資合夥企業(有限合夥) (Jiaxing Dingfeng Shengyin Investment Partnership (Limited Partnership)*), which in aggregate are interested in 31.25% of the equity interest of the Target Company as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Investor”	北京潤峰商貿有限公司 (Beijing Ruifeng Trading Co. Ltd.*), a company established in the PRC
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC JV”	山東瑞奧材料科技有限公司 (Shandong Ruiao Material Science Technology Co. Ltd.*), a company established in the PRC and is owned as to 50% by the Target Company and 50% by the PRC JV Partner as at the date of this announcement

* For identification purpose only

“PRC JV Partner”	山東百奧能源科技有限公司 (Shandong Baiao Energy Science Technology Co. Ltd.*), a company established in the PRC and is owned as to 50% by the Vendor as at the date of this announcement
“Project”	the production and sale of chemical products as detailed in the section headed “Information on the Target Group” in this announcement
“Purchaser”	上海泰普星坦新材料有限公司 (Shanghai Top Star Advanced Materials Co. Ltd.*) (formerly known as Shanghai MianWang Investment Consulting Co., Ltd.)*(上海綿旺投資諮詢有限公司), a wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	the sale and purchase agreement dated 22 October 2019 entered into among the Purchaser, the Vendor and the Target Company in relation to the acquisition of the Sale Interest
“Sale Interest”	30.875% equity interest of the Target Company
“SGM”	the special general meeting of the Company to be convened and held to consider and, if thought fit, approve the Sale and Purchase Agreement and the Shareholders’ Agreement, as well as the respective transactions contemplated thereunder
“Shareholders”	holder(s) of the Shares
“Shareholders’ Agreement”	the shareholders’ agreement dated 22 October 2019 entered into among the Target Company, the Founder Group, the Investors, the New Investor and the Purchaser

* For identification purpose only

“Shares”	shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary A”	山東凱瑞英材料科技有限公司 (Shandong Kairuiying Material Science Technology Co. Ltd.*), a company established in the PRC and is wholly-owned by the Target Company as at the date of this announcement
“Subsidiary B”	山東格瑞材料科技有限公司 (Shandong Gerui Material Science Technology Co. Ltd.*), a company established in the PRC and is wholly-owned by the Target Company as at the date of this announcement
“Target Company”	北京凱瑞英科技有限公司 (Beijing Chemical Reaction Engineering Science Technology Co., Ltd.*), a company established in the PRC and is owned as to 31.875% by the Vendor and as to 6.25% by the Purchaser as at the date of this announcement
“Target Group”	collectively, the Target Company, Subsidiary A and Subsidiary B
“Transaction Documents”	collectively, the Sale and Purchase Agreement, the Shareholders’ Agreement and the articles of association of the Target Company
“Vendor”	靳輝 (Jin Hui*), who is interested in 31.875% of the equity interest of the Target Company as at the date of this announcement

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.
“sq. m.”	square metres

By order of the Board
Kai Yuan Holdings Limited
Law Wing Chi, Stephen
Executive Director

Hong Kong, 22 October 2019

As at the date of this announcement, the Board comprises Mr. Xue Jian and Mr. Law Wing Chi, Stephen (both being executive Directors) and Mr. Tam Sun Wing, Mr. Ng Ge Bun and Mr. He Yi (all being independent non-executive Directors).

For the purpose of this announcement, unless otherwise specified, conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1.00=HK\$1.108. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ and RMB have been, could have been or may be converted at such rate or any other exchange rate.

* *For identification purpose only*