THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Kai Yuan Holdings Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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; AND NOTICE OF SPECIAL GENERAL MEETING

A letter from the board of directors of Kai Yuan Holdings Limited (the "**Company**") is set out on pages 5 to 31 of this circular.

A notice convening the special general meeting of the Company to be held at 9:30 a.m. on 12 December 2019, at Board Room, Level 1, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the special general meeting of the Company is enclosed with this circular.

Whether or not you are able to attend the special general meeting of the Company, you are requested to complete the accompanying form of proxy in accordance with instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time for holding the special general meeting of the Company or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting of the Company or any adjournment thereof should you so wish.

26 November 2019

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

"Acquisition"	the acquisition of the Sale Interest pursuant to the Sale and Purchase Agreement
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"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
"Directors"	director(s) of the Company
"Enlarged Group"	the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2018, being the date to which the latest audited consolidated financial statements of the Company have been made up)
"Founder Group"	collectively, the Vendor and the Individual Shareholders, who in aggregate were interested in 62.5% of the equity interest of the Target Company as at the Latest Practicable Date
"Funding Commitment"	has the meaning ascribed to it in the item headed "Funding commitment" under the section headed "The Shareholders' Agreement" in the letter from the Board of this circular
"Group"	the Company and its subsidiaries

"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"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 were interested in 30.625% of the equity interest of the Target Company as at the Latest Practicable Date
"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 were interested in 31.25% of the equity interest of the Target Company as at the Latest Practicable Date
"Latest Practicable Date"	22 November 2019, being the latest practicable date prior to the bulk-printing of this circular for the purpose of ascertaining certain information contained in this circular
"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 circular, shall exclude 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 was owned as to 50% by the Target Company and 50% by the PRC JV Partner as at the Latest Practicable Date
"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 was owned as to 50% by the Vendor as at the Latest Practicable Date
"Project"	the production and sale of chemical products as detailed in the section headed "Information on the Target Group" in the letter from the Board of this circular
"Purchaser"	上海泰普星坦新材料有限公司 (Shanghai Top Star Advanced Materials Co. Ltd.*) (formerly known as 上海綿旺投資諮詢有限公司 (Shanghai MianWang Investment Consulting Co., Ltd.*)), a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"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
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held to consider and, 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

"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 was wholly-owned by the Target Company as at the Latest Practicable Date
"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 was wholly-owned by the Target Company as at the Latest Practicable Date
"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 was owned as to 31.875% by the Vendor and as to 6.25% by the Purchaser as at the Latest Practicable Date
"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 was interested in 31.875% of the equity interest of the Target Company as at the Latest Practicable Date
"€"	the official currency of the European Union
"%"	per cent.
"sq. m."	square metres

* *For identification purpose only*

For the purpose of this circular, 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.

KAI YUAN HOLDINGS LIMITED
開源控股有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1215)

Executive Directors:
Mr. Xue Jian
Mr. Law Wing Chi, Stephen

Independent non-executive Directors:
Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi

Registered office:
Victoria Place
5th Floor, 31 Victoria Street
Hamilton, HM 10
Bermuda

Principal place of business in Hong Kong:
28th Floor,
Chinachem Century Tower
178 Gloucester Road
Wanchai, Hong Kong

26 November 2019

To the Shareholders and for information only,
holders of the outstanding share options of the Company

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the announcement of the Company dated 22 October 2019.

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 in relation to the Acquisition. Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Interest at the aggregate 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.

The purpose of this circular is to provide you with, among other things, (i) information on the Acquisition and the Funding Commitment; (ii) the financial information relating to the Group and the Target Group; (iii) the notice of the SGM; and (iv) other information as required under the Listing Rules.

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 Latest Practicable Date, the Purchaser was interested in 6.25% of the equity interest of the Target Company, and the Vendor was 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 were 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 Latest Practicable Date. As at the Latest Practicable Date, the Target Group was engaged in development of the Project, details of which are set out in the section headed "Information on the Target Group" below.

The 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.

As at the Latest Practicable Date, the Deposit had been paid by the Purchaser to the Vendor.

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 of approximately RMB92.3 million (equivalent to approximately HK$102.3 million), 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 Consideration represents a discount of approximately 56.6% to the aforesaid adjusted net asset value of the Target Group as at 30 June 2019 attributable to the Sale Interest. Given the expected commercial production of first phase of the Project is only to commence in the second quarter of 2020, and the further funding requirement for such phase, the Directors consider the above discount to the adjusted net asset value is fair and reasonable. Please refer to the section headed "Information on the Target Group" below for details of the Project.

The Group understands the Target Group was looking for reputable investors to further develop the Project. The Group had been approached by the Vendor (who is also a key management of the Target Group) for the Acquisition due to the Group's financial healthiness, credibility and solid background. As at 30 June 2019, the Group recorded unaudited net assets of approximately HK$2.5 billion and cash and cash equivalents of approximately HK$1.2 billion. Given the Group's strong financial position and to ride on the continuous growth of the PRC's chemical industry as set out in the section headed "Reasons for and benefit of the Acquisition and the Funding Commitment" below, the Company considers it a valuable opportunity to increase the Group's investment via the Acquisition at the Consideration. 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. As regards condition precedent (ix) above, as set out in the accountants' report of the Target Group in Appendix II to this circular, the PRC JV did not record any revenue for the year ended 31 December 2018 and only recorded revenue of RMB274,000 (equivalent to approximately HK$303,592) for the six months ended 30 June 2019. As the PRC JV does not have significant business activities and taking into account the net liabilities of approximately RMB5.0 million (equivalent to approximately HK$5.5 million) as at 30 June 2019, the Purchaser and the Vendor considered it best to dispose of the PRC JV before Completion. As at the Latest Practicable Date, only the condition precedent (iv) had been fulfilled.

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" 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 (the "**Repurchase**").

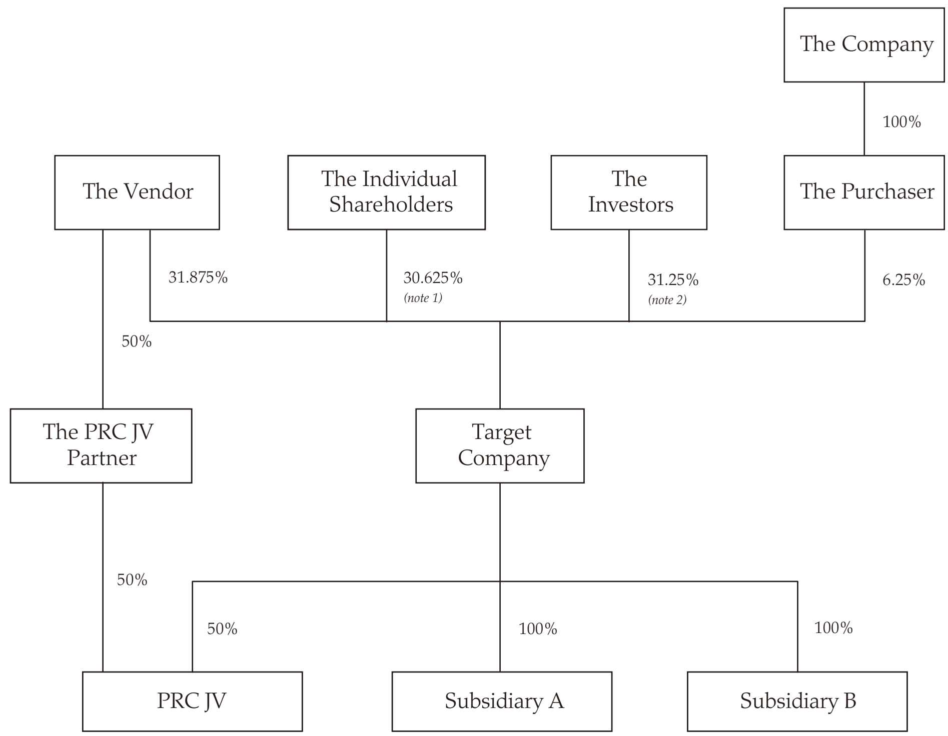
Completion

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 Latest Practicable Date



Notes :

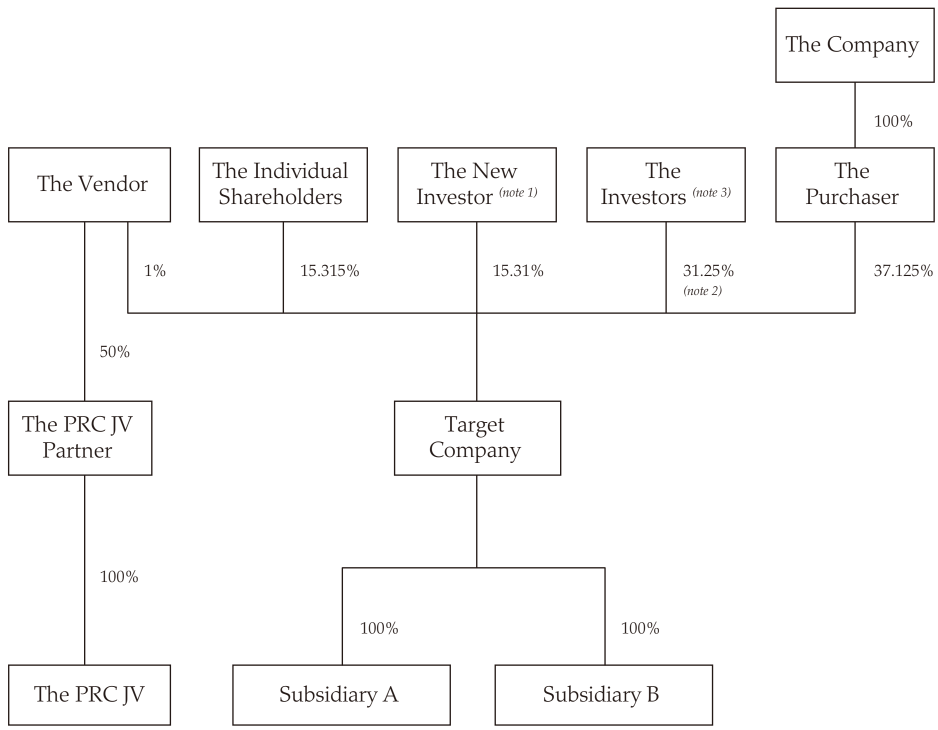
1. *Such 30.625% equity interest of the Target Company was held:*
   - *(i) as to 16.5625% by 黃愛平 (Huang Aiping*);*
   - *(ii) as to 5% by 張麗新 (Zhang Lixin*);*
   - *(iii) as to 5% by 唐強 (Tang Qiang*); and*
   - *(iv) as to 4.0625% by 王澤寧(Wang Zening*).*

2. *Such 31.25% equity interest of the Target Company was held:*
   - *(i) as to 16.875% by 嘉興鼎峰凱英投資合夥企業(有限合夥)(Jiaxing Dingfeng Kaiying Investment Partnership (Limited Partnership)*); and*
   - *(ii) as to 14.375% by 嘉興鼎峰勝因投資合夥企業(有限合夥)(Jiaxing Dingfeng Shengyin Investment Partnership (Limited Partnership*).*

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.

* *For identification purpose only*

Immediately after Completion taking into account the New Investor Acquisition



Notes:

1. *The entire equity interest of the New Investor is held by 孫雲峰 (Sun Yunfeng*).*

2. *Such 31.25% equity interest of the Target Company is held:*
   (i) *as to 16.875% by 嘉興鼎峰凱英投資合夥企業（有限合夥）(Jiaxing Dingfeng Kaiying Investment Partnership (Limited Partnership)*); and*
   (ii) *as to 14.375% by 嘉興鼎峰勝因投資合夥企業(有限合夥)（Jiaxing Dingfeng Shengyin Investment Partnership (Limited Partnership*).*

3. *The equity interest of 嘉興鼎峰凱英投資合夥企業（有限合夥）(Jiaxing Dingfeng Kaiying Investment Partnership (Limited Partnership)*), being one of the Investors, is held:*
   (i) *as to 44.26% by 周熙熙 (Zhou Xixi*);*
   (ii) *as to 32.79% by 劉繼奎 (Liu Jikui*);*
   (iii) *as to 16.39% by 雷祖雲 (Lei Zuyun*);*
   (iv) *as to 4.92% by 王斌 (Wang Bin*); and*
   (v) *as to 1.64% by 嘉興武岳峰投資管理有限公司 (Jiaxing Wuyuefeng Investment Management Co. Ltd.*), the equity interest of which is held as to 80% by 李峰 (Li Feng*) and as to 20% by 北京武岳峰智造技資管理有限公司 (Beijing Wuyuefeng Intelligence Investment Management Co. Ltd.*), the equity interest of which is in turn held as to 90% by 李峰 (Li Feng*) and as to 10% by 金輝 (Jin Hui*).*

   The equity interest of 嘉興鼎峰勝因投資合夥企業(有限合夥)(Jiaxing Dingfeng Shengyin Investment Partnership (Limited Partnership)), being another of the Investors, is held:*
   (i) *as to approximately 34.11% by 金輝 (Jin Hui*);*
   (ii) *as to approximately 1.94% by 嘉興偉清投資管理有限公司 (Jiaxing Weiqing Investment Management Co. Ltd.*), the equity interest of which is held as to 99% by 金輝 (Jin Hui*) and as to 1% by 何泳芳 (He Yongfang*);*
   (iii) *as to approximately 42.64% by 郝桂茹 (Hao Guiru *); and*
   (iv) *as to approximately 21.32% by 梁永民 (Liang Yongmin*).*

* *For identification purpose only*

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 of mineral products (other than coal and mineral products prohibited under the PRC laws) and investment holding; and

(v) the Target Company.

Shareholder 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:	The board of directors of each member of the Target Group (the "**Target Board**") shall comprise five directors, who shall be nominated as follows: (i) the Purchaser: 2 (ii) the Founder Group: 2 (iii) the Investors: 1 Given no shareholder of the Target Company will have absolute control or take up majority of the Target Board upon Completion, the Directors consider putting two nominees on the Target Board of five is fair and reasonable. The Directors consider the Group's 37.125% interest in the Target Group can be adequately represented. The Funding Commitment is adequately secured and does not contain any conversion mechanism in the equity of the Target Group, and the Board therefore considers it is commercially not feasible to request for an absolute control of the Target Board.
Matters requiring consent from the Purchaser and the Investors:	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: (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.

As set out above, the Funding Commitment is made for the purpose of first phase of the Project. Based on the development plan of the Target Group, any amount so advanced is expected to be used to finance its fixed asset development. Accordingly, any short-term financing would not be appropriate. Further, based on the expected commencement of commercial production (in the second quarter of 2020), the Company considers it reasonable to have a loan term of not less than 18 months but not more than 5 years in order to provide more flexibility to the long term development plan of the Target Group. The parameters for the interest rate were made with reference to prevailing market rate.

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. As at the Latest Practicable Date, (i) the Vendor was also the chairman and general manager of the Target Company; (ii) 唐強 (Tang Qiang*) was the deputy general manager of the Target Company; and (iii) 于天杰 (Yu Tianjie*) was the general manager of Subsidiary A. As at the Latest Practicable Date, all of them had entered into a 5-year service contract and a non-competition agreement with the Target Group containing the above non-competition provision.
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).
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.

* *For identification purpose only*

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.

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. Due to the different investment amount and timing made by the Group as opposed to the Investors, the Board considers that the Company is not in a position to assess such special arrangement between the Founder Group and the Investors. The Directors also consider the Group's dividend entitlement to its 37.125% equity interest in the Target Company has not been prejudiced by the terms of dividend distribution above.

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 assets 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 and 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. Due to the different investment amount and timing made by the Group as opposed to the Investors, the Board considers that the Company is not in a position to assess such special arrangement between the Founder Group and the Investors. The Directors also consider the Group's liquidation entitlement to its 37.125% equity interest in the Target Company has not been prejudiced by the terms of liquidation preference above.

	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 the capital increase agreement in relation to the Initial Acquisition shall be re-instated.

As at the signing of the Sale and Purchase Agreement and the Shareholders' Agreement, the mode of the Funding Commitment had yet been determined by the Group and the Target Group. This is because given the then macro-economic environment and the relatively lengthy time for fulfilment of the conditions precedent to the Acquisition, the parties would like to take time to explore and obtain as favourable terms of lending as possible. Having said that, the Company has decided the Group's maximum exposure should not exceed RMB180 million with reference to the factors below:

As set out in the valuation report in Appendix V to this circular, the Target Group had land and construction-in-progress of approximately RMB159,490,000 (equivalent to approximately HK$176,714,920) as at 31 October 2019.

Also, the Company has engaged an international accounting firm to conduct a financial due diligence review in connection with the Acquisition. Based on the draft due diligence report obtained by the Company, it is estimated that out of the RMB728,000,000 (equivelant to approximately HK$806,624,000) total investment of first phase of the Project, approximately 12% will be utilised as the Target Group's working capital. It is therefore expected that a majority portion of the future investment on first phase of the Project will be capital in nature. Based on the unaudited financial statements of the Target Group provided by the Target Company at the time of signing of the Sale and Purchase Agreement as well as the Shareholders' Agreement, it was also noted that the financial resources spent historically were mainly on (i) acquisition of land use rights; (ii) construction of buildings; and (iii) acquisition and installation of machinery and equipment, all being capital in nature and principally in line with the development plan.

The Funding Commitment has specifically stipulated the same would only be provided for the purpose of first phase of the Project. Accordingly based on the development plan described above, any amount advanced would have enhanced the capital value of the Target Group. It was against such background that the Group had stipulated land and construction-in-progress be the top priority for the purpose of security or collateral provision.

Taking into account (i) the value of land and construction-in-progress; (ii) the capital enhancement along with the development plan of first phase of the Project; (iii) consistency of the nature of historical spending and the development plan; and (iv) future prospect of the Project, the Directors are satisfied with the terms of the lending.

In the event third-party financing is to be obtained and the Group is to provide RMB180,000,000 (equivalent to approximately HK$199,440,000) guarantee, the Company takes the view that:

(i) the third-party lender would have obtained sufficient comfort whether in the form of direct provision of security/collateral by the Target Group, or in the form of the RMB180,000,000 (equivalent to approximately HK$199,440,000) guarantee from the Group, or a combination of both;

(ii) if the third-party lender is taking a combination of the aforesaid security/collateral arrangement, the loan would have been secured first and foremost by security/collateral provided by the Target Group directly, and the risk of the Group's guarantee being called upon would be minimal. The Company takes the view that such arrangement had the same effect as having obtained a secured guarantee on the part of the Group; and

(iii) in the event the third-party lender is requesting the Group's guarantee as the only security, the Company's intention is to provide such guarantee only upon the Target Group having provided security to the Group for such guarantee (again, land and construction-in-progress would be the top priority as subject of security).

As all reasonable commercial decisions would have been made, it is not unreasonable for the Group to assume that the parties would only opt for third-party financing if the terms and conditions are better than those offered by the Group. The Directors believe if third-party institutional lending could be obtained by the Target Group, the Group's initial funding exposure would be minimised while the Target Group would be able to enjoy better terms of financing compared to the terms offered by the Group.

Based on the above analysis, the level of security on the part of the Group in either a direct loan scenario or a guarantee scenario would have been the same and both being sufficiently covered. Although the Funding Commitment is applicable to the Purchaser only, based on the considerations and safeguards set out above, it is evident adequate protection has been obtained by the Group. Accordingly, the Company considers the terms of the Funding Commitment are fair and reasonable, and are in the interest of the Company and its shareholders as a whole.

In conclusion, 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 RMB50,000,000 (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. As set out in the business licence of Subsidiary B, it was established to carry out development of medicinal intermediary technology, technology promotion, technology transfer, technical consultation and technical services.

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 Latest Practicable Date, the Target Group had acquired land use rights of gross area of approximately 317,527 sq. m.. Land use rights of approximately 20,860 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) had been paid as at the Latest Practicable Date. 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 338,387 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.

The audited consolidated financial statements of the Target Group for the three years ended 31 December 2018 and for the six months ended 30 June 2019, as extracted from the accountants' report of the Target Group in Appendix II to this circular, are summarised and set out below:

	For the six months ended 30 June 2019 (audited) *RMB'000*	For the year ended 31 December 2018 (audited) *RMB'000*	For the year ended 31 December 2017 (audited) *RMB'000*	For the year ended 31 December 2016 (audited) *RMB'000*
Revenue	Nil	Nil	Nil	Nil
Loss before taxation	9,699	19,414	5,777	1,944
Loss after taxation	8,249	18,274	4,940	1,451

As at 30 June 2019, the audited consolidated net liabilities of the Target Group were approximately RMB27,731,000 (equivalent to approximately HK$30,726,000). Upon the Shareholders' Agreement having become effective, liabilities of RMB120,000,000 (equivalent to approximately HK$132,960,000) will be converted as equity of the Target Group in accordance with applicable accounting standards taking into account the terms of the Shareholders' Agreement, details of which are set out in note 2(iii)(b) to the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular.

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 Group.

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 and is principally engaged in the development of new material technology, medical technology and chemical technology, technology transfer, technical services, technical consulting etc. and office rental in the PRC.

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 Latest Practicable Date, 6.25% equity interest of the Target Company was 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.

FINANCIAL EFFECT

Following Completion, the Company will indirectly own 37.125% of equity interest in the Target Company. The Target Company will become an associate of the Company, and the financial results of the Target Group will be equity accounted for in the Group's consolidated financial statements.

The Funding Commitment is not expected to have material impact on total assets, total liabilities and net asset value of the Group. If there is interest income derived from the Funding Commitment, the amount will be recorded as income of the Group.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming the Acquisition had been completed on 30 June 2019, the non-current assets of the Group as at 30 June 2019 would have increased by RMB13,684,000 (equivalent to approximately HK$15,161,872) and the current assets of the Group as at 30 June 2019 would have decreased by RMB13,684,000 (equivalent to approximately HK$15,161,872). Due to the share of losses of the Target Group, the profit of the Group for the year ended 31 December 2018 would have decreased by approximately RMB7,517,000 (equivalent to approximately HK$8,328,836) as if the Acquisition had been completed on 1 January 2018.

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.

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, the Shareholders' Agreement, as well as the respective transactions contemplated thereunder at the SGM.

SGM

A notice convening the SGM to be held at Board Room, Level 1, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong at 9:30 a.m. on 12 December 2019 is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the form of proxy and return it to the office of the Company's branch share registrar and transfer office, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting should you so wish. In such event, the proxy form shall be deemed to be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by poll. Accordingly, the resolutions to be considered and, if thought fit, passed at the SGM will be put to vote by poll by the Shareholders. The Company will announce the results of the poll in the manner set out in Rule 13.39(5) of the Listing Rules.

RECOMMENDATION

Having considered the reasons set out herein, the Directors consider the terms of the Sale and Purchase Agreement and the Shareholders' Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement, the Shareholders' Agreement, as well as the respective transactions contemplated thereunder.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
for and on behalf of the Board
Law Wing Chi, Stephen
Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 are disclosed in the following documents respectively which have been published on the websites of the Stock Exchange (http://www.hkex.com.hk/) and the Company (http://www.kaiyuanholdings.com):

(i) the annual report of the Company for the year ended 31 December 2016 published on 12 April 2017 (pages 42 to 115) (https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0413/ltn20170413131.pdf);

(ii) the annual report of the Company for the year ended 31 December 2017 published on 13 April 2018 (pages 42 to 111) (https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0413/ltn20180413005.pdf);

(iii) the annual report of the Company for the year ended 31 December 2018 published on 16 April 2019 (pages 70 to 179) (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0416/ltn20190416003.pdf);

(iv) the interim report of the Company for the six months ended 30 June 2019 published on 13 September 2019 (pages 6 to 52) (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0913/ltn20190913003.pdf).

2. INDEBTEDNESS

As at the close of business on 28 October 2019 (being the latest practicable date for the purpose of this statement of indebtedness statement prior to the printing of this circular), the Enlarged Group had outstanding indebtedness of approximately HK$1,524,075,000. The indebtedness comprised outstanding bank loan of €175 million (equivalent to approximately HK$1,524,075,000) from Societe Generale Corporate & Investment Banking, which bears interest at three months EURIBOR plus 2.2% per annum and was secured by a pledged deposit of €4.5 million (equivalent to approximately HK$39,190,500) and the Paris Marriott Hotel Champs-Élysées (the "**Paris Marriott Hotel**") property located in Paris, France and its operations.

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any (i) debt securities issued and outstanding, and authorised or otherwise created but unissued; (ii) term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured; (iii) other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (iv) mortgages and charges; and (v) any contingent liabilities or material guarantees as at the close of business of 28 October 2019.

3. FINANCIAL AND TRADING PROSPECTS

Upon Completion, the Enlarged Group will continue its hotel operation business and money lending business. The Enlarged Group's equity interest in the Target Company will increase from 6.25% to 37.125%.

The Directors consider the Acquisition as an attractive investment opportunity of the Group to tap into chemical business in the PRC, with growth potential to generate diversified income and additional cash flow for the Enlarged Group in the long term. The Directors expect that the Target Group will have a positive future outlook.

Hotel operation

The performance of the Group's Paris Marriott Hotel has been severely impacted by the Yellow Vest Movement occurred since November 2018. The closing of one of the Paris' landmarks — the Notre-Dame Cathedral after the fire occurred in April 2019 makes travelling to Paris become less attractive. As disclosed in the interim report of the Group for the six months ended 30 June 2019, the combined effects led to the prominent decline of the occupancy rate, average daily rate and revenue per available room of the Paris Marriott Hotel during the six months ended 30 June 2019 as compared to the same period in 2018. The Board noticed no signs of bottoming out of performance of the Paris Marriott Hotel during the second half of the year. On the other hand, the Board noticed that some new hotels will open in Paris, causing direct competition with the Paris Marriott Hotel. In the coming years, Paris will host mega-events such as the Rugby World Cup in 2023 and the 2024 Olympics, which will undoubtedly attract both local and foreign tourists. Thus, the Board remains positive on the prospect of the Paris Marriott Hotel. In the meantime, the Paris Marriott Hotel is implementing measures to maintain cost-efficiency, and to actively facilitate and enhance booking system for tourists around the world. The Board has also initiated projects to consider various improvement proposals on facilities of the Paris Marriott Hotel in order to enhance guest experience.

Money lending business

The Board considers Hong Kong's mortgage loan market will remain challenging, being heavily competitive with uncertain economic prospects. The performance of this segment is dependent on the amount of loans successfully granted to borrowers, economic prospects and the general market interest rate trend in Hong Kong. The Board will exercise utmost caution when conducting mortgage loan business.

In conclusion, the Board will remain cautious when conducting businesses of the Enlarged Group. The Board will continue to explore new investment opportunities with a view to enhancing and improving returns to the Shareholders.

4. WORKING CAPITAL

The Directors, after due and careful enquiry, were of the opinion that taking into consideration the effect of the Completion and the present financial resources available to the Group, including funds internally generated from its business operations, the Enlarged Group will have sufficient working capital for its business operations for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

5. 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, the date to which the latest published audited consolidated financial statements of the Company were made up.

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The Directors
Kai Yuan Holdings Limited

Dear Sirs,

We report on the historical financial information of Beijing Chemical Reaction Engineering Science & Technology Co., Ltd. (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-8,which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for each of the years ended 31 December 2016 and 2017 and 2018, and the six months ended 30 June 2019 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-29 forms an integral part of this report, which has been prepared for inclusion in the circular issued by Kai Yuan Holdings Limited (the "**Company**") in relation to the proposed acquisition of 30.875% equity interest of the Target Company dated 26 November 2019.

Target Company Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information, respectively, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, and of the financial performance and cash flows of the Target Company for each of the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information, respectively.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Target Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Target Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

26 November 2019

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Group for the Relevant Period, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong standards on Auditing issued by HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE TARGET GROUP

	Notes	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000	Six months ended 30 June 2018 RMB'000 (Unaudited)	Six months ended 30 June 2019 RMB'000
Other income and gains	4	30	4	161	2	352
General and administrative expenses		(1,921)	(2,854)	(8,384)	(2,444)	(6,523)
Other expenses and losses		(53)	(53)	(60)	(4)	(130)
Finance costs	16	–	–	(8)	–	(17)
Expected credit losses	12	–	–	(7,997)	(2,500)	(3,381)
Share of losses of a joint venture		–	(2,874)	(3,126)	(1,399)	–
LOSS BEFORE TAX	5	(1,944)	(5,777)	(19,414)	(6,345)	(9,699)
Income tax credit/(expense)	6	493	837	1,140	(111)	1,450
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD		(1,451)	(4,940)	(18,274)	(6,456)	(8,249)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE TARGET GROUP

	Notes	31 December 2016 RMB'000	31 December 2017 RMB'000	31 December 2018 RMB'000	30 June 2019 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	7	97	61	1,878	19,411
Investment in a joint venture	8	6,000	3,126	–	–
Right-of-use assets	9	–	–	809	60,321
Intangible assets	10	–	–	8	27
Deferred tax assets	11	493	1,330	2,470	3,920
Long-term prepayments		–	–	3,936	30,378
Total non-current assets		6,590	4,517	9,101	114,057
CURRENT ASSETS					
Other receivables	12	322	443	2,625	3,202
Inventories	13	–	–	–	252
Pledged deposits	14	–	–	–	2,052
Cash and cash equivalents	14	2,047	374	21,395	15,620
Total current assets		2,369	817	24,020	21,126
Total assets		8,959	5,334	33,121	135,183
CURRENT LIABILITIES					
Other payables	15	5,227	6,542	9,888	12,335
Lease liabilities	16	–	–	275	282
Total current liabilities		5,227	6,542	10,163	12,617
NET CURRENT (LIABILITIES)/ ASSETS		(2,858)	(5,725)	13,857	8,509
TOTAL ASSETS LESS CURRENT LIABILITIES		3,732	(1,208)	22,958	122,566
NON-CURRENT LIABILITIES					
Government grants	17	–	–	–	30,000
Lease liabilities	16	–	–	440	297
Puttable instruments	18	–	–	42,000	120,000
Total non-current liabilities		–	–	42,440	150,297
Net assets/(liabilities)		3,732	(1,208)	(19,482)	(27,731)
EQUITY					
Paid-in capital	18	5,952	5,952	5,952	5,952
Accumulated losses		(2,220)	(7,160)	(25,434)	(33,683)
Total equity/(net deficit)		3,732	(1,208)	(19,482)	(27,731)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OF THE TARGET GROUP

	Paid-in capital *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
As at 1 January 2016	2,240	(769)	1,471
Loss and total comprehensive loss for the year	–	(1,451)	(1,451)
Capital contribution	3,712	–	3,712
As at 31 December 2016 and 1 January 2017	5,952	(2,220)	3,732
Loss and total comprehensive loss for the year	–	(4,940)	(4,940)
As at 31 December 2017 and 1 January 2018	5,952	(7,160)	(1,208)
Loss and total comprehensive loss for the year	–	(18,274)	(18,274)
As at 31 December 2018 and 1 January 2019	5,952	(25,434)	(19,482)
Loss and total comprehensive loss for the year	–	(8,249)	(8,249)
As at 30 June 2019	5,952	(33,683)	(27,731)
As at 1 January 2018	5,952	(7,160)	(1,208)
Loss and total comprehensive loss for the period	–	(6,456)	(6,456)
As at 30 June 2018 (unaudited)	5,952	(13,616)	(7,664)

CONSOLIDATED STATEMENTS OF CASH FLOWS OF THE TARGET GROUP

	Notes	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000	Six months ended 30 June 2018 RMB'000 (Unaudited)	Six months ended 30 June 2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax		(1,944)	(5,777)	(19,414)	(6,345)	(9,699)
Adjustments for:						
Finance cost	16	–	–	8	–	17
Depreciation of property, plant and equipment	7	35	42	102	25	126
Depreciation of right-of-use assets	9	–	–	51	–	343
Amortisation of intangible assets	10	–	–	2	–	7
Expected credit losses	12	–	–	7,997	2,500	3,381
Loss on disposal of items of property, plant and equipment	5	–	–	–	–	86
Share of losses in a joint venture		–	2,874	3,126	1,399	–
		(1,909)	(2,861)	(8,128)	(2,421)	(5,739)
Increase in inventories		–	–	–	–	(252)
Increase in other receivables		(90)	(121)	(2,182)	(1,510)	(577)
Decrease in other payables		1,086	315	1,346	1,175	1,065
Increase in pledged deposits		–	–	–	–	(2,052)
Net cash used in operating activities		(913)	(2,667)	(8,964)	(2,756)	(7,555)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(34)	(6)	(5,855)	(3,247)	(35,885)
Receipt of government grants for property, plant and equipment		–	–	–	–	30,000
Prepayment for right-of-use assets		–	–	–	–	(59,855)
Purchases of intangible assets		–	–	(10)	–	(26)
Investment in a joint venture		(6,000)	–	–	–	–
Increase in other receivables		–	–	(7,997)	(2,500)	(3,381)
Net cash used in investing activities		(6,034)	(6)	(13,862)	(5,747)	(69,147)

	Note	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000	Six months ended 30 June 2018 RMB'000 (Unaudited)	Six months ended 30 June 2019 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from capital contribution		3,712	–	–	–	–
Proceeds from issue of puttable instruments		–	–	42,000	20,000	78,000
Principal portion of lease payments		–	–	(145)	–	(136)
Interest portion of lease payments		–	–	(8)	–	(17)
Increase/(decrease) in other payables		3,920	1,000	2,000	(2,424)	(6,920)
Net cash generated from financing activities		7,632	1,000	43,847	17,576	70,927
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		685	(1,673)	21,021	9,073	(5,775)
Cash and cash equivalents at beginning of year/period		1,362	2,047	374	374	21,395
Cash and cash equivalents at end of year/period	*14*	2,047	374	21,395	9,447	15,620

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. TARGET COMPANY AND TARGET GROUP INFORMATION

The Target Company is a private limited liability company established in the People's Republic of China (the "**PRC**"). The registered office of the Target Company is located at Room C602, 6/F, No.8, Block 1, Zhongguancun Road East, Beijing, China.

During the Relevant Periods, the Target Company and its subsidiaries were involved in the manufacture and sale of chemical products.

As at the date of this report, the Target Company had direct interests in its subsidiaries, all of which are private limited liability companies, the particulars of which are set out below:

Entity name	Place and date of establishment and place of operations	Registered capital	Percentage of equity interests directly attributable to the Target Company	Principal activities
		RMB'000		
Shandong Kairuiying Material Science & Technology Co., Ltd. ("山東凱瑞英材料科技有限公司") *(note a)*	PRC/Mainland China 30 March 2018	50,000	100	Manufacture and sale of chemical products
Shandong Gerui Material Science & Technology Co., Ltd. ("山東格瑞材料科技有限公司") *(note b)*	PRC/Mainland China 30 March 2018	50,000	100	Manufacture and sale of chemical products

(a) The statutory historical financial Information of the entity for the period from 30 March 2018 (the date of incorporation) to 31 December 2018 prepared under PRC Generally Accepted Accounting Principles ("**PRC GAAP**") were audited by Zhongcaihuixin (Beijing) Certified Public Accountants Co., Ltd. ("中財匯信(北京)會計師事務所有限公司"), certified public accountants registered in the PRC.

(b) The statutory historical financial Information of the entity for the period from 30 March 2018 (the date of incorporation) to 31 December 2018 prepared under PRC GAAP were audited by Shandong Shuntianxincheng Certified Public Accountants Co., Ltd. ("山東舜天信誠會計師事務所有限公司"), certified public accountants registered in the PRC.

The English names of the companies registered in the PRC represent the best efforts of management of the Target Company in directly translating the Chinese names of the companies as no English names have been registered.

2.1 BASIS OF PREPARATION AND PRESENTATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been early adopted by the Target Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

HKFRS 16 *Lease* are effective for the annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Target Group has applied HKFRS 16 consistently throughout the Relevant Period. It is considered that the adoption of HKFRS 16 did not have significant impact on financial position and performance during the Relevant Period.

The Historical Financial Information has been prepared under the historical cost convention.

Basis of consolidation

For the year ended 31 December 2018 and the six months ended 30 June 2019, the consolidated financial information include the financial information of the Target Company and its subsidiaries. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Company the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Company's voting rights and potential voting rights.

The financial information of the subsidiaries are prepared for the same reporting period as the Target Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Target Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Target Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Target Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in this Historical Financial Information.

Amendments to HKFRS 3	*Definition of Business*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

All the new and revised HKFRSs above are not expected to have a significant impact on the Target Group's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Target Group's investment in joint venture are stated in at the Target Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Target Group's share of the post-acquisition results and other comprehensive income of joint venture is included in the profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Target Group recognises its share of any changes, when applicable, in equity. Unrealised gains and losses resulting from transactions between the Target Group and its joint venture are eliminated to the extent of the Target Group's investments in the joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint venture is included as part of the Target Group's investments in joint venture.

If an investment in a joint venture becomes an investment in an associate, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of joint control over the joint venture, the Target Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Target Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, inventories, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Machinery	19.00%
Office equipment	31.67%
Motor vehicles	23.75%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each of the Relevant Periods.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each of the Relevant Periods.

Software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 2 years.

Leases

The Target Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Target Group as lessee

The Target Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Target Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land use right	50 years
Motor vehicles	3 years

If ownership of the leased asset transfers to the Target Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment, which has been further explained in the accounting policy for "Impairment of non-financial assets" above.

At the commencement date of the lease, the Target Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Group and payments of penalties for terminating the lease, if the lease term reflects the Target Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Target Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Financial assets

All the financial assets of the Target Group are classified as debt instruments at amortised cost and initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Target Group commits to purchase or sell the assets.

Debt instruments are measured at amortised cost using the effective interest rate method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

The Target Group applies the expected credit loss ("**ECL**") model on debt instruments are measured at amortised cost. Impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Target Group is required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure irrespective of the timing of the default. The Target Group considers a default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

Derecognition occurs when the rights to receive cash flows from the debt instruments at amortised cost expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Financial liabilities

Financial liabilities include financial liabilities included in other payables, lease liabilities and puttable instruments. They are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Employee benefits

The employees are required to participate in a central pension scheme operated by the local municipal government. This Target Group is required to contribute monthly to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying accounting policies, the following judgement has been made, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Determination of significant increase in credit risk

The calculation of ECLs under general approach are required to be categorised into different stages according to the changes in credit risk to apply respective calculation mechanics.

The following non-exhaustive factors are considered to judge whether the credit risk of a financial asset has increased significantly since initial recognition:

- an actual or expected significant change in the operating results of the borrower; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future, are described below.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 11 to the Historical Financial Information.

4. OTHER INCOME AND OTHER GAINS

	Year ended 31 December 2016 *RMB'000*	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2018 *RMB'000*	Six months ended 30 June 2018 *RMB'000* (Unaudited)	Six months ended 30 June 2019 *RMB'000*
Interest income	11	3	30	2	285
Government subsidies	19	1	131	–	67
	30	4	161	2	352

5. LOSS BEFORE TAX

	Notes	Year ended 31 December 2016 *RMB'000*	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2018 *RMB'000*	Six months ended 30 June 2018 *RMB'000* (Unaudited)	Six months ended 30 June 2019 *RMB'000*
Depreciation of property, plant and equipment	*7*	35	42	102	25	126
Depreciation expense of right-of-use assets	*9*	–	–	51	–	343
Amortisation of intangible assets	*10*	–	–	2	–	7
Research and development costs		84	990	2,327	906	2,201
Loss on disposal of items of property, plant and equipment		–	–	–	–	86
Employee benefit expenses:						
Wages and salaries		836	569	3,159	743	2,088
Pension scheme contributions (defined contribution scheme)		79	46	512	66	509
		915	615	3,671	809	2,597
Expense relating to short-term leases		537	928	1,025	501	399

6. INCOME TAX

According to the Corporate Income Tax ("**CIT**") Law of the PRC, which was effective from 1 January 2008, the CIT rate applicable to the Target Company and its subsidiaries established in the PRC is 25%.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, the Target Company has been qualified as a "High and New Technology Enterprise" and thus are entitled to the preferential tax rate of 15% for the year ended 31 December 2018 and the six months ended 30 June 2019.

	Year ended 31 December 2016	**Year ended 31 December 2017**	**Year ended 31 December 2018**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Deferred tax (credit)/expense	(493)	(837)	(1,140)	111	(1,450)

A reconciliation of the tax (credit)/expense applicable to loss before tax at the statutory rates for the countries or jurisdictions in which the Target Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Year ended 31 December 2016	**Year ended 31 December 2017**	**Year ended 31 December 2018**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Loss before tax	(1,944)	(5,777)	(19,414)	(6,345)	(9,699)
Tax at the statutory tax rate	(486)	(1,444)	(4,854)	(1,586)	(2,425)
Lower tax rates enacted by local authority	–	–	1,024	575	236
Super-deduction for research and development expense	(11)	(124)	(164)	(71)	(188)
Effect on opening deferred tax of decrease in tax rates	–	–	532	532	–
Losses attributable to a joint venture	–	718	469	210	–
Expenses not deductible for tax	4	13	54	26	82
Deductible temporary differences not recognised	–	–	1,799	425	845
	(493)	(837)	(1,140)	111	(1,450)

7. PROPERTY, PLANT AND EQUIPMENT

	Machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction In progress *RMB'000*	Total *RMB'000*
Cost					
As at 1 January 2016	–	104	–	–	104
Additions	–	34	–	–	34
As at 31 December 2016 and 1 January 2017	–	138	–	–	138
Additions	–	6	–	–	6
As at 31 December 2017 and 1 January 2018	–	144	–	–	144
Additions	14	275	541	1,089	1,919
As at 31 December 2018 and 1 January 2019	14	419	541	1,089	2,063
Additions	5	200	385	17,155	17,745
Disposals	–	(95)	–	–	(95)
As at 30 June 2019	19	524	926	18,244	19,713
Accumulated depreciation					
As at 1 January 2016	–	(6)	–	–	(6)
Depreciation	–	(35)	–	–	(35)
As at 31 December 2016 and 1 January 2017	–	(41)	–	–	(41)
Depreciation	–	(42)	–	–	(42)
As at 31 December 2017 and 1 January 2018	–	(83)	–	–	(83)
Depreciation	–	(59)	(43)	–	(102)
As at 31 December 2018 and 1 January 2019	–	(142)	(43)	–	(185)
Depreciation	(3)	(48)	(75)	–	(126)
Disposals	–	9	–	–	9
As at 30 June 2019	(3)	(181)	(118)	–	(302)
Net carrying amount					
As at 31 December 2016	–	97	–	–	97
As at 31 December 2017	–	61	–	–	61
As at 31 December 2018	14	277	498	1,089	1,878
As at 30 June 2019	16	343	808	18,244	19,411

8. INVESTMENT IN A JOINT VENTURE

	31 December 2016 *RMB'000*	31 December 2017 *RMB'000*	31 December 2018 *RMB'000*	30 June 2019 *RMB'000*
Share of net assets	6,000	3,126	–	–

Particulars of the Target Group's joint venture is as follows:

Name	Particulars of issued shares held	Place of registration and business	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Shandong Ruiao Material Science & Technology Co., Limited ("山東瑞奧材料科技有限公司")	Registered capital of RMB12,000,000	PRC/Mainland China	50	50	50	Manufacture and sales of chemical products

The following table illustrates the summarised financial information in respect of the joint venture adjusted for any differences in accounting policies and reconciled to the carrying amount in the Historical Financial Information.

	31 December 2016 *RMB'000*	31 December 2017 *RMB'000*	31 December 2018 *RMB'000*	30 June 2019 *RMB'000*
Cash and cash equivalents	10,646	2,396	546	141
Other current assets	4,876	1,507	4,271	4,054
Current assets	15,522	3,903	4,817	4,195
Non-current assets	2,299	9,707	10,230	10,111
Financial liabilities, excluding trade and other payables	–	(7,000)	(7,000)	(7,000)
Other current liabilities	(5,821)	(358)	(8,714)	(12,258)
Current liabilities	(5,821)	(7,358)	(15,714)	(19,258)
Net assets	12,000	6,252	(667)	(4,952)
Proportion of the ownership	50%	50%	50%	50%
Carrying amount of the investment	6,000	3,126	–	–

	Year ended 31 December 2016 *RMB'000*	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2018 *RMB'000*	Six months ended 30 June 2018 *RMB'000*	Six months ended 30 June 2019 *RMB'000*
Revenue	–	674	–	–	274
Interest income	–	1	2	–	–
Depreciation and amortisation	–	(569)	(1,064)	(490)	(591)
Interest expenses	–	–	(700)	(350)	(350)
Loss and total comprehensive loss for the year/period	–	(5,748)	(6,919)	(2,797)	(4,285)

During the year ended 31 December 2018, the accumulated share of losses of the joint venture exceeded interest in the joint venture, recognising share of further losses had been discontinued from then on.

9. RIGHT-OF-USE ASSETS

	Land use right	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017 and 1 January 2018	–	–	–
Addition	–	860	860
Depreciation	–	(51)	(51)
At 31 December 2018 and 1 January 2019	–	809	809
Addition	59,855	–	59,855
Depreciation	(200)	(143)	(343)
At 30 June 2019	59,655	666	60,321

10. INTANGIBLE ASSETS

	Software
	RMB'000
As at 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017 and 1 January 2018	–
Additions	10
Amortisation	(2)
As at 31 December 2018 and 1 January 2019	8
Additions	26
Amortisation	(7)
As at 30 June 2019	27

11. DEFERRED TAX

	Losses available for offsetting against future taxable profits
	RMB'000
At 1 January 2016	–
Deferred tax credited to the profit or loss during the year	493
At 31 December 2016 and 1 January 2017	493
Deferred tax credited to the profit or loss during the year	837
At 31 December 2017 and 1 January 2018	1,330
Effect on opening deferred tax of decrease in tax rates	(532)
Deferred tax credited to the profit or loss during the year	1,672
At 31 December 2018 and 1 January 2019	2,470
Deferred tax credited to the profit or loss during the period	1,450
At 30 June 2019	3,920

Deferred tax assets have not been recognised in respect of the following item:

	31 December 2016	**31 December 2017**	**31 December 2018**	**30 June 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deductible temporary differences	–	–	7,997	11,378

12. OTHER RECEIVABLES

	31 December 2016	**31 December 2017**	**31 December 2018**	**30 June 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits and other receivables	306	374	9,861	12,951
Deductible input value added tax	16	69	761	1,629
	322	443	10,622	14,580
Impairment allowance	–	–	(7,997)	(11,378)
	322	443	2,625	3,202

The movement of impairment allowance is as follows:

	RMB'000
At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017 and 1 January 2018	–
Impairment	7,997
At 31 December 2018 and 1 January 2019	7,997
Impairment	3,381
At 30 June 2019	11,378

A general approach has been applied in calculating ECLs for deposits and other receivables. Other receivables related to certain related parties are classified as Stage 3 and lifetime ECL rate was estimated to be 100% considering its financial difficulties. The remaining deposits and other receivables are classified as Stage 1 without any significant increase in credit risk tracked since initial recognition. Their recoverability was assessed with reference to the credit status of the debtors, and ECL at the end of each of the Relevant Periods is considered to be minimal.

13. INVENTORIES

	31 December 2016	31 December 2017	31 December 2018	30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	–	–	–	252

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

At the end of each of the Relevant Periods, all the cash and cash equivalents were dominated in RMB. The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Pledged deposits are restricted to specifically pay the salaries of migrant workers hired for construction.

15. OTHER PAYABLES

	31 December 2016	31 December 2017	31 December 2018	30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	5,207	6,536	9,085	10,692
Payroll payables	17	–	772	1,607
Other tax payable	3	6	31	36
	5,227	6,542	9,888	12,335

Other payables are unsecured, non-interest-bearing and repayable on demand.

16. LEASE LIABILITIES

	RMB'000
At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017 and 1 January 2018	–
Additions	860
Accretion of interest	8
Payments	(153)
At 31 December 2018 and 1 January 2019	715
Accretion of interest	17
Payments	(153)
At 30 June 2019	579

17. GOVERNMENT GRANTS

	RMB'000
At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	–
Receipt of government grants for property, plant and equipment	30,000
At 30 June 2019	30,000

18. PUTTABLE INSTRUMENTS AND PAID-IN CAPITAL

The movement of paid-in capital during the Relevant Period are presented on page II-6.

In addition to paid-in capital, three new investors subscribed the Target Company's registered capital of RMB15,000,000 at a total consideration of RMB120,000,000 during the year ended 31 December 2018 (the "**Subscribed Capital**"), which was classified as financial liability due to the Target Company might be obliged to repurchase the subscribed capital under certain circumstances. For the year ended 31 December 2018 and for the six months ended 30 June 2019, the Target Company received proceeds of RMB42,000,000 and RMB78,000,000, respectively.

19. LEASES

As lessee

The Target Group has various lease contracts for and Land use right, motor vehicle and office properties used in its operation with the following lease terms:

Land use right	50 years
Motor vehicles	3 years
Office properties	12 months (short-term lease exemption applied)

Detailed information regarding right-of-use assets and lease liabilities has been set out in notes 9 and 16, respectively, to the Historical Financial Information.

Total cash outflows for leases and non-cash additions to right-of-use assets and lease liabilities are as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Total cash outflows for leases	537	928	1,178	501	60,407
Non-cash additions to right-of-use assets and lease liabilities	–	–	860	–	–

20. COMMITMENTS

	31 December 2016	31 December 2017	31 December 2018	30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Property, plant and equipment	–	–	15,057	241,075

21. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party transactions

The compensation of key management personnel is as follows:

	Year ended 31 December 2016 *RMB'000*	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2018 *RMB'000*	Six months ended 30 June 2018 *RMB'000* (Unaudited)	Six months ended 30 June 2019 *RMB'000*
Short term employee benefits	126	233	762	471	1,014
Pension scheme contributions	16	32	105	64	146
	142	265	867	535	1,160

(b) Outstanding balances with related parties

The outstanding balances, in addition to those detailed elsewhere in the Historical Financial Information, are as follows:

	31 December 2016 *RMB'000*	31 December 2017 *RMB'000*	31 December 2018 *RMB'000*	30 June 2019 *RMB'000*
Amounts due from included in other receivables:				
Fellow subsidiaries	150	150	150	150
Owners	–	–	48	69
	150	150	198	219
Amounts due to included in other payables:				
Fellow subsidiaries	–	236	236	236
Owners	3,920	4,920	6,920	–
	3,920	5,156	7,156	236

22. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets – debt instruments at amortised cost

	31 December 2016	31 December 2017	31 December 2018	30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	2,047	374	21,395	15,620
Pledged deposits	306	374	–	2,052
Financial assets included in other receivables	–	–	1,864	1,573
	2,353	747	23,259	19,245

Financial liabilities – financial liabilities at amortised cost

	31 December 2016	31 December 2017	31 December 2018	30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities included in other payables	5,207	6,536	9,085	10,692
Lease liabilities	–	–	715	579
Puttable instruments	–	–	42,000	120,000
	5,207	6,536	51,800	131,271

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, financial assets included in other receivables, financial liabilities included in other payables and the current portion of lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the non-current portion of lease liabilities and puttable instruments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The differences between the carrying amounts and fair values of those financial liabilities are not significant.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the financial instruments are credit risk. The board of directors of the Target Company reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Target Group trades only with recognised and creditworthy parties and there is no requirement for collateral. In addition, receivable balances are monitored on an ongoing basis and the exposure to bad debts is not significant.

The credit risk of financial assets, which comprise cash and cash equivalents, term deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to owners, return capital to owners or request additional capital from owners. The Target Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Group monitors capital using current ratio, which is total current asset divided by total current liability. As at 31 December 2016, 2017, 2018 and 30 June 2019, the current ratios were 45%, 12%, 236% and 167% for the Target Group, respectively.

25. EVENTS AFTER THE REPORTING PERIOD

On 22 October 2019, the Target Company and Shandong Baiao Energy Science & Technology Co. Ltd. ("Shandong Baiao", "山東百奧能源科技有限公司") entered into an agreement pursuant to which the Target Company agreed to sell and Shandong Baiao agreed to acquire 50% equity interest of the joint venture disclosed in note 8 to the Historical Financial Information at the consideration of RMB1.

On 22 October 2019, all the owners of the Target Company, one new investor and the Target Company entered into an agreement pursuant to which the Target Company's obligation to repurchase the Subscribed Capital in note 18 to the Historical Financial Information were removed. Upon the agreement having become effective, the puttable instruments converted into equity of the Target Company.

26. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of its subsidiaries in respect of any period subsequent to 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2018 and the six months ended 30 June 2018 and 2019 (the "**Relevant Periods**"). All amounts are expressed in RMB and rounded to the nearest thousand except when otherwise indicated.

Set out below is the financial performance of the Target Group for the Relevant Periods as extracted from the accountants' report set out in Appendix II to this circular:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	–	–	–	–	–
Other income and gains	30	4	161	2	352
General and administrative expenses	(1,921)	(2,854)	(8,384)	(2,444)	(6,523)
Other expenses and losses	(53)	(53)	(60)	(4)	(130)
Finance costs	–	–	(8)	–	(17)
Expected credit losses	–	–	(7,997)	(2,500)	(3,381)
share of losses of a joint venture	–	(2,874)	(3,126)	(1,399)	–
LOSS BEFORE TAX	(1,944)	(5,777)	(19,414)	(6,345)	(9,699)
Income tax credit/(expense)	493	837	1,140	(111)	1,450
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD	(1,451)	(4,940)	(18,274)	(6,456)	(8,249)

Revenue

During the Relevant Periods, the Target Group did not derive any revenue.

Other income and gains

During the Relevant Periods, the other income and gains were comprised of interest income and government subsidies.

Results of the Relevant Periods

For the financial years ended 31 December 2016, 2017 and 2018, the loss of the Target Group amounted to approximately RMB(1,451,000), RMB(4,940,000) and RMB(18,274,000) respectively.

Loss for the year ended 31 December 2017 increased by RMB3,489,000 from the year ended 31 December 2016, which was mainly due to the share of losses of the PRC JV for the year ended 31 December 2017. Loss for the year ended 31 December 2018 increased by RMB13,334,000 from the year ended 31 December 2017, which was mainly due to (i) the increase in the general and administrative expenses primarily attributable to increase in employee benefit expenses as well as research and development costs; and (ii) the increase in impairment allowance on amount due from the PRC JV.

For the six months ended 30 June 2018 and 2019, the loss of the Target Group amounted to approximately RMB(6,456,000) and RMB(8,249,000) respectively. The increase in loss by RMB1,793,000 was mainly due to the increase in the general and administrative expenses primarily attributable to increase in employee benefit expenses as well as research and development costs.

Assets and liabilities

Set out below is the financial position of the Target Group for the Relevant Periods as extracted from the accountants' report set out in Appendix II to this circular:

	As at the year ended 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Non-current assets	6,590	4,517	9,101	114,057
Current assets	2,369	817	24,020	21,126
Total assets	8,959	5,334	33,121	135,183
Non-current liabilities	–	–	42,440	150,297
Current liabilities	5,227	6,542	10,163	12,617
Total liabilities	5,227	6,542	52,603	162,914
Net assets/(liabilities)	3,732	(1,208)	(19,482)	(27,731)

Assets

The decrease in total assets of the Target Group from 31 December 2016 to 31 December 2017 was mainly due to the decrease in non-current assets. The decrease in non-current assets was primarily attributable to the decrease in investment in the PRC JV resulted from the share of losses of the PRC JV.

There was substantial increase in total assets of the Target Group from 31 December 2017 to 31 December 2018. The increase in non-current assets was primarily attributable to (i) the increase in property, plant and equipment and long term prepayments as a result of the development of the Project; and (ii) the increase in deferred tax assets as a result of the accumulated loss in prior financial years. The increase in current assets was primarily attributable to the increase in cash and cash equivalents resulted from net cashflow generated from financing activities.

The substantial increase in total assets of the Target Group from 31 December 2018 to 30 June 2019 was primarily attributable to the increase in non-current assets resulted mainly from (i) the acquisition of the land use rights; (ii) the purchase of property, plant and equipment; and (iii) the increase in long term prepayments, as a result of the development of the Project.

Liabilities

The increase in total liabilities of the Target Group from 31 December 2016 to 31 December 2017 was primarily attributable to the increase in other payables.

Total liabilities of the Target Group increased from approximately RMB6,542,000 as at 31 December 2017 to approximately RMB52,603,000 as at 31 December 2018 and further increased to approximately RMB162,914,000 as at 30 June 2019. This was primarily attributable to the subscription of equity interest of the Target Company by the Investors. The subscription amounts were classified as puttable instruments which is a financial liability because the Target Company might be obliged to repurchase the subscribed capital under certain circumstances. For details, please refer to note 18 in Appendix II to this circular.

Current ratio

The current ratios of the Target Group (total current assets divided by total current liabilities) were approximately 45.32%, 12.49%, 236.35% and 167.44% as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019, respectively.

Gearing ratio

During the Relevant Periods, the Target Group had no debt. However, if the puttable instrument is treated as debt, the gearing ratios of the Target Group (total debts divided by total assets) were approximately 126.81% and 88.77% as at 31 December 2018 and 30 June 2019, respectively.

Leverage ratio

The leverage ratios of the Target Group (total liabilities divided by total assets) were approximately 58.34%, 122.65%, 158.82% and 120.51% as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019, respectively.

Capital structure

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to owners, return capital to owners or request additional capital from owners. The Target Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

Pledge of assets

As at 31 December 2016, 2017 and 2018, the Target Group had no pledge of assets. As at 30 June 2019, the Target Group had pledged deposits of approximately RMB2,052,000. For details, please refer to note 14 in Appendix II to this circular.

Contingent liabilities

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019, the Target Group did not have any other material contingent liabilities.

Capital commitments

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019, the Target Group's capital commitments amounted to approximately nil, nil, RMB 15,057,000 and RMB 241,075,000 respectively. The capital commitments were comprised of the contracted purchase of property, plant and equipment (mainly for the Project) which had not been provided.

Foreign exchange exposure

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019, the Target Group had no foreign exchange exposure.

Material acquisition or disposal

During the Relevant Periods, the Target Group had no material acquisition or disposal.

Significant investment

The Target Group formed the PRC JV with the PRC JV Partner during the year ended 31 December 2016. The PRC JV is permitted to engage in production of hydroxylamine hydrochloride, sale, research and development, promotion, transfer and consultation in relation to technology (excluding dangerous chemicals and precursor and hazardous chemicals).

The PRC JV has been owned as to 50% by the Target Company and 50% by the PRC JV Partner since its establishment. The initial capital contribution by the Target Company was RMB6,000,000. Due to the share of loss of the PRC JV, the Target Group's investment in the PRC JV decreased from approximately RMB6,000,000 as at 31 December 2016 to approximately RMB3,126,000 as at 31 December 2017, and further decreased to nil as at 31 December 2018. As at 30 June 2019, the Target Group's investment in the PRC JV was nil.

For details, please refer to note 8 in Appendix II to this circular.

Employees and remuneration policies

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 June 2019, the Target Group had 8, 10, 43, and 106 employees, respectively. During the year ended 31 December 2016, 2017 and 2018, the employee benefit expenses of the Target Group were approximately RMB915,000, RMB615,000 and RMB3,671,000, respectively. During the six months ended 30 June 2018 and 2019, the employee benefit expenses of the Target Group were approximately RMB809,000 and RMB2,597,000, respectively. The employee benefit expenses of the Target Group included wages, salaries and pension scheme contributions.

The remuneration packages of the employees are determined based on their work performance, human resource market conditions and economic environment. The remuneration policies are reviewed on a regular basis. The Target Group offers internal trainings to the employees for their self-elevation and improvement on skills related to their positions.

Dividend

No dividend was paid or declared by the Target Company during the Relevant Periods.

Future plans

As at the Latest Practicable Date, the Target Group was undergoing its plan to develop the Project. For details, please refer to the section headed "Information on the Target Group" in the letter from the Board contained in this circular.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(A) BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is a summary of illustrative unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and unaudited pro forma consolidated statement of cash flows (collectively referred to as the "**Unaudited Pro Forma Financial Information**"), in connection with the proposed acquisition of 30.875% equity interest of Beijing Chemical Reaction Engineering Science & Technology Co., Ltd. (together with its subsidiaries referred to as the "**Target Group**") (the "**Acquisition**"). It has been prepared by the directors of Kai Yuan Holdings Limited (the "Company") in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Unaudited Pro Forma Financial Information presented below is prepared to illustrate (i) the financial position of the Company and its subsidiaries (collectively referred to as "**the Group**") immediately after completion of the Acquisition (collectively referred to as the "**Enlarged Group**") as at 30 June 2019 as if the Acquisition had been completed on 30 June 2019; and (ii) the financial performance and cash flows of the Enlarged Group for the year ended 31 December 2018 as if the Acquisition had been completed on 1 January 2018.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the unaudited consolidated statement of financial position as at 30 June 2019 of the Group extracted from the Company's published 2019 interim report, after making pro forma adjustments in relation to the Acquisition as if the Acquisition had been completed on 30 June 2019.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group is prepared based on the consolidated statement of profit or loss, the consolidated statement of comprehensive income and the consolidated statement of cash flows for the year ended 31 December 2018 of the Group extracted from the Company's published 2018 annual report, after making pro forma adjustments in relation to the Acquisition as if the Acquisition had been completed on 1 January 2018.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, financial performance and cash flows of the Enlarged Group had the Acquisition been completed as of the specified dates or any other dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the Company's published 2018 annual report and the Company's published 2019 interim report of the Company and other financial information included elsewhere in this circular.

(B) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Unaudited pro forma consolidated statement of financial position of the Enlarged Group

	The Group as at 30 June 2019	**Pro forma adjustment**	**The Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 2)*	
NON-CURRENT ASSETS			
Property, plant and equipment	2,876,358	–	2,876,358
Right-of-use assets	29,907	–	29,907
Intangible assets	360	–	360
Investment in an associate	–	38,441	38,441
Deferred tax assets	18,821	–	18,821
Equity investments designated at fair value through other comprehensive income	24,757	(24,757)	–
Total non-current assets	2,950,203		2,963,887
CURRENT ASSETS			
Prepayments, other receivables and other assets	30,925	–	30,925
Loan receivables	50,000	–	50,000
Inventories	991	–	991
Pledged deposits	22,816	–	22,816
Trade receivables	45,047	–	45,047
Cash and cash equivalents	1,238,331	(13,684)	1,224,647
Total current assets	1,388,110		1,374,426
CURRENT LIABILITIES			
Trade payables	7,335	–	7,335
Other payables and accruals	64,962	–	64,962
Tax payable	1,248	–	1,248
Interest bearing bank loans	1,521,812	–	1,521,812
Lease liabilities	9,629	–	9,629
Derivative financial instruments	3,952	–	3,952
Total current liabilities	1,608,938		1,608,938
NET CURRENT ASSETS	(220,828)		(234,512)
TOTAL ASSETS LESS CURRENT LIABILITIES	2,729,375		2,729,375

	The Group as at 30 June 2019 *HK$'000* (Unaudited) *(Note 1)*	**Pro forma adjustment** *HK$'000* (Unaudited) *(Note 2)*	**The Enlarged Group** *HK$'000* (Unaudited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	237,203	–	237,203
Derivative financial instruments	17,949	–	17,949
Total non-current liabilities	255,152		255,152
Net assets	2,474,223		2,474,223
EQUITY			
Issued capital	1,277,888	–	1,277,888
Reserves	1,196,335	–	1,196,335
Total equity	2,474,223		2,474,223

Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group

	The Group for the year ended 31 December 2018	Pro forma adjustment	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 3)*	
CONTINUING OPERATIONS			
Revenue	300,710	–	300,710
Cost of sales	(223,070)	–	(223,070)
Gross profit	77,640		77,640
Other income and gains	14,873	–	14,873
Administrative expenses	(41,366)	–	(41,366)
Other expenses	(453)	–	(453)
Finance costs	(49,346)	–	(49,346)
Share of losses of an associate	–	(7,517)	(7,517)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	1,348		(6,169)
Income tax expense	(1,121)	–	(1,121)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	227		(7,290)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	338,629	–	338,629
PROFIT FOR THE YEAR	338,856		331,339

	The Group for the year ended 31 December 2018 *HK$'000* (Audited) *(Note 1)*	Pro forma adjustment *HK$'000* (Unaudited) *(Note 3)*	The Enlarged Group *HK$'000* (Unaudited)
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	(2,184)	–	(2,184)
Reclassification adjustments for loss included in the consolidated statement of profit or loss	13,632	–	13,632
Income tax effect	(3,549)	–	(3,549)
	7,899		7,899
Exchange differences on translation of foreign operations	(70,727)	–	(70,727)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(62,828)		(62,828)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(62,828)		(62,828)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	276,028		268,511

Unaudited pro forma consolidated statement of cash flows of the Enlarged Group

	The Group for the year ended 31 December 2018	**Pro forma adjustment**	**The Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 4)*	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations	1,348	–	1,348
From a discontinued operation	339,208	–	339,208
Adjustments for:			
Finance costs	49,346	–	49,346
Gain on disposal of subsidiaries	(335,570)	–	(335,570)
Depreciation	40,216	–	40,216
Amortisation of other intangible assets	135	–	135
	94,683		94,683
Decrease in inventories	67	–	67
Decrease in trade receivables	2,451	–	2,451
Increase in loan receivables	(210,000)	–	(210,000)
Increase in prepayments, other receivables and other assets	(4,215)	–	(4,215)
Decrease in trade payables	(4,244)	–	(4,244)
Decrease in other payables and accruals	(601)	–	(601)
Decrease in receipt in advance	(87)	–	(87)
Increase in contract liabilities	167	–	167
Cash used in operations	(121,779)		(121,779)
Luxemburg tax paid	(46)	–	(46)
Hong Kong tax paid	(496)	–	(496)
Net cash flows used in operating activities	(122,321)		(122,321)

	The Group for the year ended 31 December 2018	Pro forma adjustment	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 4)*	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	(6,090)	–	(6,090)
Disposal of subsidiaries	797,114	–	797,114
Purchase of an equity investment designated at fair value through other comprehensive income	(24,779)	24,779	–
Purchase of investment in an associate	–	(38,441)	(38,441)
Net cash flows generated from investing activities	766,245		752,583
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in pledged time deposits	1,090	–	1,090
Interest paid	(49,673)	–	(49,673)
Net cash flows used in financing activities	(48,583)		(48,583)
NET INCREASE IN CASH AND CASH EQUIVALENTS	595,341		581,679
Cash and cash equivalents at beginning of year	513,396	–	513,396
Effect of foreign exchange rate changes, net	(11,147)	–	(11,147)
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,097,590		1,083,928

(C) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The amounts of consolidated statement of financial position of the Group as at 30 June 2019 are extracted from the Company's published 2019 interim report. The amounts of the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Group for the year ended 31 December 2018 are extracted from the Company's published 2018 annual report.

2. As if the Acquisition had been completed on 30 June 2019, the Group would account for a total of 37.125% equity interest of the Target Company as investment in an associate with equity method. The details are as follows:

		HK$'000
Cash consideration	*(i)*	13,684
Equity investment designated as fair value through other comprehensive income	*(ii)*	24,757
Cost on initial recognition of the associate		38,441
Share of adjusted net identifiable assets at fair value of the Target Group	*(iii)*	37,954
Provisional goodwill on acquisition included in investment in an associate	*(iv)*	487
		38,441

(i) Pursuant to the Sale and Purchase Agreement entered on 22 October 2019 (the "**SPA**"), the Group had conditionally agreed to acquire 30.875% equity interest of the Target Company with a cash consideration of RMB12,350,000 (equivalent to approximately HK$13,683,800).

Pursuant to the SPA, the Group has undertaken a funding commitment in relation to providing financing to the Target Group of up to RMB180,000,000 (equivalent to approximately HK$199,440,000) (the "**Funding Commitment**").

In addition, on 22 October 2019, all the owners of the Target Company, one new investor and the Target Company entered into an agreement pursuant to which the Group has the right to require certain investors to acquire all or part of its equity interest of the Target Company under certain circumstances (the "**Right**"). In the absence of a formal valuation, the directors of the Company has not recognised any fair value of the Right and the Funding Commitment in the unaudited pro forma consolidated statement of financial position and in the unaudited pro forma consolidated statement of profit or loss and other comprehensive income.

(ii) Before the Acquisition, the Group had 6.25% equity interest of the Target Company as equity investment designated as fair value through other comprehensive income, converted into investment in an associate upon completion of the Acquisition.

(iii) The details are as follows:

Target Group's net identifiable liabilities at fair value as at 30 June 2019 *(in HK$'000)*	*a*	(30,726)
Puttable instruments converted from liabilities to equity upon completion of the Acquisition	*b*	132,960
Adjusted Target Group's net identifiable assets at fair value as at 30 June 2019 *(in HK$'000)*	*c=a+b*	102,234
Equity interest of the Target Company held by the Company	*d*	37.125%
Share of adjusted net identifiable assets at fair value of the Target Group *(in HK$'000)*	*c*d*	37,954

(a) The formal valuation on the fair value of net identifiable liabilities of the Target Group has not been completed. In the opinion of the directors of the Company, such fair value approximates to their carrying amounts of RMB27,731,000, which is extracted from the consolidated statement of financial position as at 30 June 2019 of the Target Group in the accountants' report set out in Appendix II to this circular and has been converted into HK$ based on the exchange rate of RMB1 to HK$1.108.

The Directors consider the fair value of the net identifiable liabilities approximates to their book value mainly based on:

- land and construction-in-progress are the core assets of the Target Group and are most likely to have fair value change against book value. Per the preliminary estimation, the fair value of the land and construction-in-progress appreciates by RMB1.9 million or 2.4% against book value. The fair value appreciation is not significant itself; and

- upon multiplying the equity interest of 37.125%, the Group's share of the appreciation amount will be further lessened to RMB0.7 million, representing 0.02% of the Group's total assets and 0.03% of the Group's net assets as at 30 June 2019, respectively. The fair value appreciation has insignificant impact on the Unaudited Pro Forma Financial Information of the Enlarged Group.

(b) Target Company issued registered capital of RMB15,000,000 at a total consideration of RMB120,000,000 during the year ended 31 December 2018 (the "**Subscribed Capital**"), which was classified as financial liability and presented as puttable instruments due to the Target Company might be obliged to repurchase the subscribed capital under certain circumstances. On 22 October 2019, all the owners of the Target Company, one new investor and the Target Company entered into an agreement pursuant to which the Target Company's obligation to repurchase the Subscribed Capital were removed. Upon the agreement having become effective, the puttable instruments converted into equity of the Target Company. As at 30 June 2019, such puttable instruments' balance was RMB120,000,000, which has been converted into HK$ based on the exchange rate of RMB1 to HK$1.108.

(iv) Upon completion of the Acquisition, any excess of the cost on initial recognition over the fair value of the Target Group's adjusted net identifiable assets would be accounted for as provisional goodwill included in the carrying amount of investment in an associate. As the formal valuation on the fair value of the Target Group's adjusted net identifiable assets has not been completed, such goodwill was still provisional.

3. As if the Acquisition had been completed on 1 January 2018, the Group would have accounted for a total of 37.125% equity interest of the Target Company as investment in an associate with equity method. For the year ended 31 December 2018, the Company's share of the Target Group's losses would have been recognised in the Enlarged Group's profit or loss. The details are as follows:

Target Group's losses for the year ended 31 December 2018 *(in HK$'000)*	*a*	(20,248)
Equity interest of the Target Company held by the Company	*b*	37.125%
Share of the Target Group's losses *(in HK$'000)*	*c=a*b*	(7,517)

The Target Group's loss of RMB18,274,000 is extracted from the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 of the Target Group in the accountants' report set out in Appendix II to this circular and has been converted into HK$ based on the exchange rate of RMB1 to HK$1.108.

As mentioned in note 2 (i) above, in the absence of a formal valuation, the directors of the Company has not recognised any fair value of the Right and the Funding Commitment in the unaudited pro forma consolidated statement of profit or loss and other comprehensive income.

The adjustment is expected to have continuing effect on the Enlarged Group's consolidated statement of profit or loss.

4. As if the Acquisition had been completed on 1 January 2018, the Group would have paid a cash consideration of RMB12,350,000 (equivalent to approximately HK$13,683,800) pursuant to the SPA and the payment to purchase of an equity investment designated at fair value through other comprehensive income would have been converted into a portion of the payment to purchase investment in an associate.

The adjustment is not expected to have continuing effect on the Enlarged Group's consolidated statement of cash flows.

The following is the text of a report received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular:

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To the Directors of Kai Yuan Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Kai Yuan Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 30 June 2019, the pro forma consolidated statement of profit or loss and other comprehensive income and the pro forma consolidated statement of cash flows for the year ended 31 December 2018, and related notes as set out on pages IV-2 to IV-10 of the circular dated 26 November 2019 (the "**Circular**") issued by the Company (the "**Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in note Section A of Appendix IV to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 30.875% equity interest of Beijing Chemical Reaction Engineering Science & Technology Co., Ltd. (the "**Acquisition**") on the Group's financial position as at 30 June 2019 and the Group's financial performance and cash flows for the year ended 31 December 2018 as if the Acquisition had taken place at 30 June 2019 and 1 January 2018, respectively. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited consolidated financial statements for the six months ended 30 June 2019, on which a review report has been published, and information about the Group's financial performance and cash flows has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2018, on which an audit report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants

Hong Kong

26 November 2019

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 October 2019 of the property interests held by the Target Group.

JLL
仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F One Taikoo Place 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

26 November 2019

The Board of Directors
Kai Yuan Holdings Limited
28th Floor
Chinachem Century Tower
178 Gloucester Road
Wanchai, Hong Kong

Dear Sirs,

In accordance with the instructions of Kai Yuan Holdings Limited (the "**Company**") to value the property interests held by Beijing Chemical Reaction Engineering Science & Technology Co., Ltd. (the "**Target Company**") and its subsidiaries (hereinafter together referred to as the "**Target Group**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 October 2019 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interest in Group I which is currently under development, we have assumed that it will be developed and completed in accordance with the latest development proposals provided to us by the Company. In arriving at our opinion of values, we have adopted the comparison approach by making reference to comparable sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the valuation date and the remainder of the cost and fees expected to be incurred for completing the development. We have relied on the accrued construction cost and professional fees information provided by the Company as at the valuation date, and we did not find any material inconsistency from those of other similar developments.

For the purpose of our valuation, property under development is that for which the Construction Work Commencement Permit(s) has (have) been issued while the Construction Work Completion and Inspection Certificate(s)/Table(s) of the building(s) has (have) not been issued.

We have valued the property interest in Group II which is held for future development by the Target Group by the comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

For the purpose of our valuation, property for future development is that the Construction Work Commencement Permits are not issued while the State-owned Land Use Rights Certificates/Real Estate Title Certificates have been obtained.

For the property interest in Group III which is contracted to be acquired by the Target Group, the Target Group has entered into agreements with the relevant government authorities. Since the Target Group has not yet obtained the State-owned Land Use Rights Certificates/Real Estate Title Certificates and/or the payment of the land premium has not yet been fully settled as at the valuation date, we have attributed no commercial value to the property interest.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation — Global Standards 2017 published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings and all other relevant matters.

We have been shown copies of title documents including State-owned Land Use Rights Grant Contracts, Real Estate Title Certificate and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC Legal Advisers – Global Law Office, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in November 2019 by Mr. Shawn Yang. Mr. Shawn Yang has more than 2 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our summary of values and valuation certificates are attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Notes: *Eddie T. W. Yiu is a Chartered Surveyor who has 25 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.*

SUMMARY OF VALUES

Abbreviation:

Group I: Property interest held under development by the Target Group in the PRC

Group II: Property interest held for future development by the Target Group in the PRC

Group III: Property interest contracted to be acquired by the Target Group in the PRC

"—": Not applicable or not available

No.	Property	Market value in existing state as at the valuation date *RMB* Group I:	Market value in existing state as at the valuation date *RMB* Group II:	Market value in existing state as at the valuation date *RMB* Group III:	The total market value in existing state as at the valuation date *RMB*
1.	A parcel of land and 22 buildings under construction located at the north-eastern side of the junction of Yingbin Road and Yuanqu 8th Road Tieying Chemical Industry Park Laoling City Dezhou City Shandong Province The PRC	145,900,000	13,590,000	—	159,490,000
2.	A parcel of land located at the north-eastern side of the junction of Yingbin Road and Yuanqu 8th Road Tieying Chemical Industry Park Laoling City Shandong Province Dezhou City The PRC	—	—	No Commercial Value	No Commercial Value
	Total:	145,900,000	13,590,000	Nil	159,490,000

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2019 *RMB*
1.	A parcel of land and 22 buildings under construction located at the north-eastern side of the junction of Yingbin Road and Yuanqu 8th Road Tieying Chemical Industry Park Laoling City Dezhou City Shandong Province The PRC	The property is located at the north-eastern side of the junction of Yingbin Road and Yuanqu 8th Road in Tieying Chemical Industrial Park, Laoling City. It is well-served by public transportation with about 15 minutes' driving distance to Laoling Bus Passenger Station and about 75 minutes' driving distance to Dezhou City Center. The locality of the property is a high-tech industrial area. The site area of the land parcel of the property is 317,527 sq.m.. The property comprises 22 buildings which were being constructed on portion of the aforesaid land parcel as at the valuation date ("**Part A**"). Part A will be developed into 3 industrial buildings, 8 warehouses, 10 ancillary buildings and an office building with a total planned gross floor area of approximately 24,490.59 sq.m. and it is scheduled to be completed in May 2020. As advised by the Target Group, the maximum plot ratio accountable gross floor area of this portion of land parcel is 247,484.19 sq.m. As advised by the Company, the construction cost of Part A is estimated to be approximately RMB335,710,000, of which approximately RMB89,010,000 had been incurred up to the valuation date. The land use rights of the property have been granted for a term expiring on 11 May 2069 for industrial use. In addition to Part A, the property also comprises 5 industrial buildings and various ancillary buildings with a total planned gross floor area of approximately 6,931.31 sq.m. which will be constructed on the remaining portion of the subject land parcel ("**Part B**"). As advised by the Target Group, the maximum plot ratio accountable gross floor area of this portion of land parcel is 70,042.81 sq.m. The construction of Part B had not been commenced as at the valuation date. The classification, usage and gross floor area details of the property were set out in note 7.	As at the valuation date, Part A was under construction and Part B was bare land.	159,490,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract and a Supplementary Agreement – Laoling-01-2019-013 dated 11 May 2019, the land use rights of a parcel of land with a site area of approximately 317,527 sq.m. were contracted to be granted to Shandong Kairuiying Material Science & Technology Co., Ltd. (山東凱瑞英材料科技有限公司, "Shandong Kairuiying", a wholly-owned subsidiary of the Target Company) for a term of 50 years for industrial use. The maximum plot ratio accountable gross floor area is approximately 317,527 sq.m. The land premium was RMB50,967,124. As advised by the Target Group, the land premium had been fully paid as at the valuation date.

2. Pursuant to a Construction Land Planning Permit – Di Zi Di No. 371481201913005, permissions towards the planning of a parcel of land with a site area of approximately 317,527 sq.m. have been granted to Shandong Kairuiying.

3. Pursuant to a Real Estate Title Certificate – Lu (2019) Lao Ling Shi Bu Dong Chan Quan Di No. 0003852, the land use rights of a parcel of land with a site area of approximately 317,527 sq.m. have been granted to Shandong Kairuiying for a term expiring on 11 May 2069 for industrial use.

4. Pursuant to a Construction Work Planning Permit – Jian Zi Di No. 371481201913005 in favour of Shandong Kairuiying, portions of the property with a total gross floor area of approximately 23,122.57 sq.m. have been approved for construction.

5. Pursuant to 4 Construction Work Commencement Permits – Nos. 371481201908200301, 371481201907010101, 371481201906180101 and 371481201907160201 in favour of Shandong Kairuiying, permissions by the relevant local authority were given to commence the construction of portions of the property with a total gross floor area of approximately 22,764.33 sq.m.

6. For the 7 buildings (an industrial building, a warehouse and 5 ancillary buildings) of Part A with a total gross floor area of approximately 1,726.26 sq.m., we have not been provided with any Construction Work Commencement Permits. As advised by the Target Group, the Construction Work Commencement Permits of such buildings are estimated to be obtained by Shandong Kairuiying in December 2019.

7. According to the information provided by the Company, the planned gross floor area of the property is set out as below:

Group	**Usage**	**Planned Gross Floor Area (sq.m.)**
Group I – held under development by the Target Group	Industrial	4,419.97
	Office	7,532.44
	Ancillary	5,512.12
	Warehouse	7,026.06
	Sub-total:	24,490.59
Group II – held for future development by the Target Group	Industrial	5,698.31
	Ancillary	1,233.00
	Sub-total:	6,931.31
	Total:	31,421.90

8. The market value of Part A as if completed as at the valuation date according to the development proposal as described above and which can be freely transferred in the market, would be RMB379,140,000.

9. Our valuation has been made on the following basis and analysis:

For Part B of the property in Group II, in undertaking our valuation, we have made reference to sales prices of land within the locality which have the similar characteristics comparable to the property. The accommodation value of these comparable land sites ranges from RMB160 to RMB182 per sq.m. basis for industrial use. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at our assumed unit rate.

10. We have been provided with a legal opinion regarding the property interest by the Company's PRC Legal Advisers, which contains, inter alia, the following:

a. Within the land use rights term, Shandong Kairuiying legally owns the land use rights of the property. Shandong Kairuiying can legally occupy, use, lease, mortgage or otherwise dispose of the land use rights of the property in accordance with relevant regulations;

b. The land use rights of the property are not subject to any mortgages or sequestrations;

c. Except for the buildings mentioned in note 6, Shandong Kairuiying has obtained the main requisite approvals and permits in respect of the construction work of the property; and

d. The buildings mentioned in note 6 were under construction as at the valuation date. There is a risk for Shandong Kairuiying to be punished due to the lack of relevant Construction Work Planning Permits or Construction Work Commencement Permit. According to the Statement Letter provided by the Target Group and the communication with relevant government authorities, administrative punishments or investigations to Shandong Kairuiying are not expected in the future.

11. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the buildings under construction mentioned in note 6 which have not obtained any Construction Work Commencement Permits. However, for reference purpose, we are of the opinion that the replacement cost of such buildings (excluding the land) would be RMB2,440,000 as at the valuation date.

12. For the purpose of this report, the property is classified into the following groups according to the purpose for which it is held, we are of the opinion that the market value of each group as at the valuation date in its existing state is set out as below:

Group	**Market value in existing state as at the valuation date** *(RMB)*
Group I – held under development by the Target Group in the PRC	145,900,000
Group II – held for future development by the Target Group in the PRC	13,590,000
Total:	159,490,000

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2019 *RMB*
2.	A parcel of land located at the north-eastern side of the junction of Yingbin Road and Yuanqu 8th Road Tieying Chemical Industry Park Laoling City Dezhou City Shandong Province The PRC	The property is next to property no. 1, which is also located at the north-eastern side of the junction of Yingbin Road and Yuanqu 8th Road in Tieying Chemical Industrial Park, Laoling City. It is well-served by public transportation with about 15 minutes' driving distance to Laoling Bus Passenger Station and about 75 minutes' driving distance to Dezhou City Center. The locality of the property is a high-tech industrial area. The property occupies a parcel of land with a site area of approximately 20,860 sq.m., which will be developed into an industrial complex. The construction of the property had not been commenced as at the valuation date. The property will have a planned plot ratio accountable gross floor area of approximately 20,860 sq.m. The land use rights of the property would be contracted to be granted for a term of 50 years from the land delivery date for industrial use.	As at the valuation date, the property was bare land.	No Commercial Value

Notes:

1. Pursuant to a State-owned Construction Land Use Rights Grant Contract – Laoling-01-2019-029 dated 27 September 2019, the land use rights of a parcel of land with a site area of approximately 20,860 sq.m. were contracted to be granted to Shandong Kairuiying for a term of 50 years for industrial use. The land premium was RMB3,350,000. As advised by the Target Group, the land premium had been fully paid as at the valuation date.

2. As at the valuation date, the property had not been assigned to Shandong Kairuiying and thus the title of the property had not been vested in Shandong Kairuiying. Besides, the relevant land use rights certificates had not been obtained. Therefore, we have attributed no commercial value to this property. However, for reference purpose, we are of the opinion that the market value of the property as at the valuation date would be RMB3,460,000, assuming the title certificates have been fully obtained by Shandong Kairuiying and the property can be freely transferred.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC Legal Advisers, which contains, inter alia, the following:

   There is no existing circumstance that the aforesaid State-owned Construction Land Use Rights Grant Contract will be deemed as invalid due to violation of the mandatory provisions of laws and regulations.

4. For the purpose of this report, the property is classified into the group as "Group III – contracted to be acquired by the Target Group in the PRC" according to the purpose for which it is held.

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 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.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

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

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate percentage of shareholding
Xue Jian	The Company	Beneficial owner	127,780,000 Shares (L) *(Note)*	1.00%
Law Wing Chi, Stephen	The Company	Beneficial owner	10,000,000 Shares (L) *(Note)*	0.08%

(L) denotes the long position held in the Shares

Note: These Shares represent the Shares which may be allotted and issued to the relevant Directors upon exercise in full of the subscription rights attached to the share options granted by the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Persons having 5% or more shareholding

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Enlarged Group or had options in respect of such capital:

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate percentage of shareholding
Du Shuang Hua *(Note 1)*	The Company	Interest of controlled corporation	708,000,000 Shares (L)	5.54%
Happy Sino International Limited *(Note 1)*	The Company	Beneficial owner	708,000,000 Shares (L)	5.54%
Zhang He Yi	The Company	Beneficial owner	1,400,000,000 Shares (L)	10.96%
Lu Xiaomei *(Note 2)*	The Company	Interest of controlled corporation	753,190,000 Shares (L)	5.89%
Sincere Profit Group Limited *(Note 2)*	The Company	Beneficial owner	753,190,000 Shares (L)	5.89%

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate percentage of shareholding
Ga Leung Investment Company Limited *(Note 3)*	The Company	Beneficial owner	1,866,666,666 Shares (L)	14.61%
Sun Yong Feng *(Note 3)*	The Company	Interest of controlled corporation	1,866,666,666 Shares (L)	14.61%
		Beneficial interest	133,000,000 Shares (L)	1.04%
Meng Ya *(Note 4)*	The Company	Interest of spouse	1,999,666,666 Shares (L)	15.65%
Hu Yishi	The Company	Beneficial interest	1,300,000,000 Shares (L)	10.17%

(L) denotes long position in the Shares

Notes:

1. Du Shuang Hua and Zhang He Yi beneficially own 85% and 15% interest respectively in the issued share capital of Happy Sino International Limited. Du Shuang Hua is deemed to be interested in the 708,000,000 Shares held by Happy Sino International Limited under the SFO.

2. Lu Xiaomei beneficially owns 100% interest in the issued share capital of Sincere Profit Group Limited. Lu Xiaomei is deemed to be interested in the 753,190,000 Shares held by Sincere Profit Group Limited under the SFO.

3. Sun Yong Feng beneficially owns 100% interest in the issued capital of Ga Leung Investment Company Limited. Sun Yong Feng is deemed to be interested in the 1,866,666,666 Shares held by Ga Leung Investment Company Limited under the SFO.

4. Meng Ya is the spouse of Sun Yong Feng. Meng Ya is deemed to be interested in the 1,999,666,666 Shares in which Sun Yong Feng is interested.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no person (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Enlarged Group or who had any options in respect of such capital.

3. SERVICE CONTRACT

As at the Latest Practicable Date, there was no service contract or any proposed service contract entered between any of the Directors or proposed Directors and the Company or any member of the Group, excluding contracts expiring or determinable by the Group within a year without payment of any compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or their respective close associates had any interests in any business which competed or might compete, either directly or indirectly, with the business of the Group as at the Latest Practicable Date.

5. MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in the assets which had been, since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or dispose of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting on the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, there were no litigation or claims of material importance pending or threatened against any member of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within two years immediately preceding the date of this circular:

(a) the sale and purchase agreement dated 13 April 2018 entered into among the Company, Ridge Avis Limited and Swift China Limited in relation to the disposal of (i) the entire issued shares of Leading Prospect Limited ("**LPL**", together with its subsidiaries, the "**LPL Group**") and (ii) the shareholder's loan owing by LPL Group to the Company upon completion at the aggregate consideration of the audited consolidated net current assets of LPL as at the date of completion and HK$810,000,000;

(b) the capital increase agreement dated 13 September 2018 entered into among the Purchaser, the Founder Group, the Investors and the Target Company in relation to the subscription of 5% equity interest in the Target Company at the aggregate consideration of RMB 22,000,000 (equivalent to approximately HK$24,376,000);

(c) the shareholders' agreement dated 13 September 2018 entered into among the Purchaser, the Founder Group, the Investors and the Target Company in relation to regulation of shareholders' rights of the Target Group;

(d) the termination agreement dated 18 December 2018 entered into among the Purchaser, the Founder Group, the Investors and the Target Company in relation to termination of the capital increase agreement set out in paragraph (b) above;

(e) the capital increase agreement dated 18 December 2018 entered into among the Purchaser, the Founder Group, the Investors and the Target Company in relation to the subscription of 6.25% equity interest in the Target Company at the aggregate consideration of RMB 22,000,000 (equivalent to approximately HK$24,376,000);

(f) the shareholders' agreement dated 18 December 2018 entered into among the Purchaser, the Founder Group, the Investors and the Target Company in relation to the regulation of shareholders' rights of the Target Group;

(g) the supplemental agreement dated 22 October 2019 entered into among the Purchaser, the Founder Group, the Investors and the Target Company in relation to the amendment to the capital increase agreement dated 18 December 2018 set out in paragraph (e) above;

(h) the Sale and Purchase Agreement; and

(i) the Shareholders' Agreement.

8. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinions or advices contained in this circular:

Name	Qualification
Ernst & Young	certified public accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	professional valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any interests, directly or indirectly, in any assets which had been, since 31 December 2018, being the date to which the latest audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

9. MISCELLANEOUS

(a) The registered office of the Company is located at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.

(b) The head office and principal place of business in Hong Kong of the Company is at 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The secretary of the Company is Mr. Law Wing Chi, Stephen who is an associate member of The Hong Kong Institute of Certified Public Accountants.

(e) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong during 9:00 a.m. to 6:00 p.m. on any Business Day, from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the letter from the Board, the text of which is set out on pages 5 to 31 of this circular;

(c) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(d) the accountants' report of the Target Group, the text of which is set out in Appendix II to this circular;

(e) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(f) the valuation report, the text of which is set out in Appendix V to this circular;

(g) the annual reports of the Company for the two years ended 31 December 2018;

(h) the written consent(s) referred to in the paragraph headed "Experts and consents" in this appendix; and

(i) this circular.

KAI YUAN HOLDINGS LIMITED
開源控股有限公司

(incorporated in Bermuda with limited liability)
(Stock Code: 1215)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the "**Meeting**") of Kai Yuan Holdings Limited (the "**Company**") will be held at 9:30 a.m. on 12 December 2019 at Board Room, Level 1, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT:**

(i) the sale and purchase agreement (the "**Sale and Purchase Agreement**", a copy of which has been produced to the Meeting marked "A" and signed by the chairman of the Meeting for the purpose of identification) dated 22 October 2019 entered into among 上海泰普星坦新材料有限公司 (Shanghai Top Star Advanced Materials Co. Ltd*) (a wholly-owned subsidiary of the Company) as purchaser, 靳輝 (Jin Hui*) as vendor and 北京凱瑞英科技有限公司 (Beijing Chemical Reaction Engineering Science & Technology Co., Ltd*) as the target company (the "**Target Company**") in relation to the sale and purchase of 30.875% equity interest of the Target Company at the aggregate consideration of RMB12,350,000, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) the directors of the Company be and are hereby authorised on behalf of the Company to do all such things and sign, seal, execute, perfect and deliver all such documents as they may in their discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation and/or give effect to any matters relating to the Sale and Purchase Agreement and the transactions contemplated thereunder."

2. "**THAT** conditional on the passing of the resolution numbered 1 as set out in the notice convening the SGM:

   (i) the shareholders' agreement (the "**Shareholders Agreement**", a copy of which has been produced to the Meeting marked "B" and signed by the chairman of the Meeting for the purpose of identification) dated 22 October 2019 entered into, among others, 上海泰普星坦新材料有限公司 (Shanghai Top Star Advanced Materials Co. Ltd*) (a wholly-owned subsidiary of Kai Yuan Holdings Limited) (the "**Purchaser**") and 北京凱瑞英科技有限公司 (Beijing Chemical Reaction Engineering Science & Technology Co., Ltd*) as the target company (the "**Target Company**"), pursuant to which the shareholders of the Target Company agreed to regulate the shareholders' rights in the Target Company and its subsidiaries upon completion of the acquisition of 30.875% equity interest of the Target Company by the Purchaser and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

   (ii) the directors of the Company be and are hereby authorised on behalf of the Company to do all such things and sign, seal, execute, perfect and deliver all such documents as they may in their discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation and/or give effect to any matters relating to the Shareholders Agreement and the transactions contemplated thereunder."

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

Hong Kong, 26 November 2019

Registered office:
Victoria Place
5th Floor
31 Victoria Street
Hamilton, HM 10
Bermuda

Principal place of business in Hong Kong:
28th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

* *For identification purpose only*

Notes:

1. A form of proxy for use at the Meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either executed under its common seal or under the hand of any officer, attorney or other person duly authorised to sign the same.

3. Any shareholder entitled to attend and vote at the Meeting or at any adjourned meeting thereof (as the case may be) is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares may appoint not more than two proxies (who must be an individual or individuals) to attend vote instead of him/her on the same occasion. A proxy need not be a shareholder of the Company but must attend the Meeting in person to represent him/her.

4. 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, or a notarially certified copy of such power or authority, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, not later than 48 hours before the time appointed for holding the Meeting or any adjourned meeting thereof (as the case may be). Such prescribed form of proxy for use at the Meeting is also published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at http://www.kaiyuanholdings.com/en_us/home_eng.php.

5. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the Meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

6. Where there are joint registered holders of any share(s), any one such joint holders may attend and vote at the Meeting or at any adjourned meeting thereof (as the case may be), either in person or by proxy, in respect of such share(s) as if he/she were solely entitled thereto; but if more than one of such joint holders are present at the Meeting or at any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

7. As at the date of this notice, the executive directors of the Company are Mr. Xue Jian and Mr. Law Wing Chi, Stephen; and the independent non-executive directors of the Company are Mr. Tam Sun Wing, Mr. Ng Ge Bun and Mr. He Yi.