
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

**Ko Yo Chemical (Group) Limited****玖源化工(集團)有限公司***(Incorporated in the Cayman Islands with limited liability)***(Stock Code: 00827)****PROPOSED AMENDMENTS TO THE TERMS OF CONVERTIBLE BONDS
AND
NOTICE OF EGM**

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

**雋匯國際金融有限公司**
Jun Hui International Finance Limited

A letter from the Board is set out on pages 7 to 44 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 45 to 46 of this circular.

A letter from Jun Hui International Finance Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 47 to 72 of this circular.

A notice convening the EGM to be held at 3:00 p.m. on Wednesday, 23 December 2020 at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong is set out on pages 83 to 85 of this circular. Whether or not you intend to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event, not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish.

CONTENTS

	<i>Page</i>
PRECAUTIONARY MEASURES FOR EGM.	ii
DEFINITIONS	1
LETTER FROM THE BOARD	7
LETTER FROM INDEPENDENT BOARD COMMITTEE	45
LETTER FROM JUN HUI INTERNATIONAL	47
APPENDIX I – GENERAL INFORMATION	73
NOTICE OF EGM.	83

PRECAUTIONARY MEASURES FOR EGM

In view of the ongoing Novel Coronavirus (“COVID-19”) pandemic and recent requirements, if any, for prevention and control of its spread, the Company will implement the following preventive measures at its EGM:

- (i) Compulsory body temperature check will be conducted on every shareholder, proxy and other attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be asked to leave the EGM venue.
- (ii) Shareholders that (a) have travelled, and have been in close contact with any person who has travelled, outside of Hong Kong (as per guidelines issued by the Hong Kong government at www.chp.gov.hk/en/features/102742.html) at any time in the preceding 14 days; (b) are, and have been, in close contact with any person who is, subject to any Hong Kong Government prescribed compulsory quarantine (including home quarantine); (c) are, and have been, in close contact with anyone who has contracted COVID-19, has been tested preliminarily positive of COVID-19 or is suspected of contracting COVID-19; or (d) have any flu-like symptoms, may be denied entry into the EGM venue and be asked to leave the EGM venue.
- (iii) All shareholders, proxies and other attendees are required to wear surgical face masks inside the EGM venue at all times. Any person who does not comply with this requirement may be denied entry into the EGM venue and be asked to leave the EGM venue. A safe distance between seats are also recommended.
- (iv) No refreshments will be served, and there will be no corporate gifts.

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all stakeholders’ health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Company reminds all shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative to attending the meeting in person, shareholders are encouraged to consider appointing the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM by submitting forms of proxy with voting instructions inserted.

The form of proxy is attached to this circular for shareholders who opt to receive printed copies of the Company’s corporate communications. Alternatively, the form of proxy can be downloaded from the Company’s website at <http://www.koyochem.com> and the website of The Stock Exchange of Hong Kong Limited at <http://www.hkexnews.hk>. If you are not a registered shareholder (if your shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

DEFINITIONS

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

“2008 Share Option Scheme”	the share option scheme adopted by the Company on 18 September 2008;
“2017 Annual Report”	the annual report of the Company for the year ended 31 December 2017;
“2018 Annual Report”	the annual report of the Company for the year ended 31 December 2018;
“2019 Annual Report”	the annual report of the Company for the year ended 31 December 2019;
“2020 Interim Report”	the interim report of the Company for the six months ended 30 June 2020;
“2020 Share Option Scheme”	the share option scheme adopted by the Company on 9 October 2020;
“acting in concert”	the meaning ascribed to it under the Takeover Code;
“Announcement”	the announcement dated 28 September 2020 of the Company in relation to, among others, (i) the Second Supplemental Deed and the transactions contemplated thereunder, including the Proposed Amendments and the grant of the New Specific Mandate for the issue and allotment of the Conversion Shares; and (ii) the proposed change in intended use of proceeds of the Convertible Bonds;
“associate”	the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Business Day(s)”	means a day (other than Saturdays, Sundays and on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business;

DEFINITIONS

“Business Update Announcement”	the announcement dated 15 September 2020 of the Company in relation to, among others, the recent developments of the Group’s negotiations with the relevant banks on the renewals of certain loans extended to the Group;
“Closing”	completion of the Subscription for the Convertible Bonds in accordance with the terms of the Subscription Agreement as supplemented by the First Supplemental Agreement and the Second Supplemental Deed;
“Closing Date”	the date of the Closing;
“Company”	Ko Yo Chemical (Group) Limited (Stock Code: 827), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange;
“Conditions Precedent”	the conditions precedent required for the completion of the Subscription Agreement as supplemented by the First Supplemental Agreement and the Second Supplemental Deed to take place as set out in the section headed “Conditions Precedent” in this circular;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“Conversion Shares(s)”	the Share(s) which may fall to be issued and allotted upon exercise of the conversion rights attaching to the Convertible Bond;
“Convertible Bond(s)”	convertible bonds issued pursuant to the Subscription Agreement as supplemented by the First Supplemental Agreement and the Second Supplemental Deed;
“Convertible Bonds Certificate”	a certificate issued to each Convertible Bonds holder in respect of its registered holding of Convertible Bonds;
“Directors”	the directors of the Company;

DEFINITIONS

- “Distribution”
- (i) any distribution of assets in specie by the Company for any financial period whenever paid or made, on a per Share basis, and however described (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully-paid) by way of capitalization of reserves); and
 - (ii) any cash dividend or distribution including, without limitation, the relevant cash amount of a Scrip Dividend of any kind by the Company for any financial period (whenever paid and however described) unless it comprises a purchase or redemption of Shares by or on behalf of the Company (or a purchase of Shares by or on behalf of a subsidiary of the Company) where the average purchase or redemption price (before expenses) on any one day in respect of such purchases or redemptions does not exceed 105% of the then current market price of the Shares on that day.

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

- “EGM”
- the extraordinary general meeting of the Company to be held at 3:00 p.m. on Wednesday, 23 December 2020 to approve, among others, the Second Supplemental Deed and the transactions contemplated thereunder (including but not limited to the Proposed Amendments and the grant of the New Specific Mandate for the issue and allotment of the Conversion Shares);

DEFINITIONS

“Existing Bonds”	the outstanding convertible bonds issued on: (a) 13 November 2014 with a conversion price of HK\$0.32 amounted to HK\$320,856,000 which can convert into 1,002,675,000 Shares; (b) 31 January 2019 and 15 March 2019 with a conversion price of HK\$0.108 amounted to HK\$141,480,000 which can convert into 1,310,000,000 Shares; and (c) 28 September 2020 with a conversion price of HK\$0.141 amounted to HK\$70,500,000 which can convert into 500,000,000 Shares;
“Existing Shares”	existing ordinary shares of HK\$0.10 each in the share capital of the Company;
“First Supplemental Agreement”	the supplemental agreement dated 29 April 2020 entered into between the Company and the Subscriber to vary and supplement the terms of the Subscription Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors formed for the purpose of advising the Independent Shareholders in respect of the Second Supplemental Deed and the transactions contemplated thereunder;
“Independent Financial Adviser” or “Jun Hui International”	Jun Hui International Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Second Supplemental Deed and the transactions contemplated thereunder (including the Proposed Amendments and the issue and allotment of the Conversion Shares under the New Specific Mandate);
“Independent Shareholders”	Shareholders other than the Subscriber and his associates who are involved or interested in the Subscription;

DEFINITIONS

“Issue Date”	the date on which completion of the Subscription Agreement as supplemented by the First Supplemental Agreement and the Second Supplemental Deed takes place and the Convertible Bonds are issued in accordance with the Subscription Agreement as supplemented by the First Supplemental Agreement and the Second Supplemental Deed;
“Latest Practicable Date”	30 November 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	31 October 2020, or such other date as may be agreed between the Company and the Subscriber;
“Maturity Date”	means the date falling on the fifth (5th) anniversary of the Issue Date;
“New Specific Mandate”	the new specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to issue and allot the Conversion Shares pursuant to the terms of the Second Supplemental Deed;
“Notice of Closing”	the written notice to be given by the Subscriber to the Company during the Proposed Subscription Period stating the principal amount of the Convertible Bond which the Subscriber would subscribe;
“PRC”	the People’s Republic of China;
“Rate of Interest”	5% per annum;
“Relevant Period”	the period beginning 10 July 2019 to the Latest Practicable Date;
“RMB”	Renminbi, the lawful currency of the PRC;

DEFINITIONS

“Second Supplemental Deed”	the supplemental deed dated 28 September 2020 entered into between the Company and the Subscriber to vary and supplement the terms of the Subscription Agreement as supplemented by the First Supplemental Agreement;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Share Options”	the total of 5,700,000 and 300,000,000 outstanding share options granted by the Company pursuant to the 2008 Share Option Scheme and the 2020 Share Option Scheme adopted by the Company respectively;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber”	Mr. Tang Guoqiang;
“Subscription”	the subscription for the Convertible Bonds by the Subscriber pursuant to the Subscription Agreement as supplemented by the First Supplemental Agreement and the Second Supplemental Deed;
“Subscription Agreement”	the subscription agreement dated 10 July 2019 entered into between the Company and the Subscriber;
“Subscription Period”	up to 31 October 2020, or such later date as the Company and the Subscriber may agree;
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules;
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers;
“Trading Day”	means a day when the Stock Exchange is open for dealing business, provided that if no Closing Price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days; and
“%”	per cent.

LETTER FROM THE BOARD



Ko Yo Chemical (Group) Limited

玖源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

Executive Directors:

Mr. Tang Guoqiang (*Chairman*)
Mr. Shi Jianmin (*Chief Executive Officer*)
Mr. Zhang Weihua

Registered office:

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

Independent Non-executive Directors:

Mr. Hu Xiaoping
Mr. Shi Lei
Mr. Xu Congcai

Principal place of business in Hong Kong:

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

4 December 2020

To the Shareholders

Dear Sir or Madam,

**PROPOSED AMENDMENTS TO THE TERMS OF CONVERTIBLE BONDS
AND
NOTICE OF EGM**

1. INTRODUCTION

Reference is made to the announcements dated 10 July 2019, 8 November 2019 and 29 April 2020, and the circular dated 16 October 2019 (the “**2019 Circular**”) of Ko Yo Chemical (Group) Limited (the “**Company**”) in relation to the issue of the Convertible Bonds under specific mandate. On 10 July 2019 (after trading hours), the Subscriber and the Company entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for the Convertible Bonds which may be converted into the Conversion Shares pursuant to the terms and conditions of the Convertible Bonds, in the principal amount of HK\$987,000,000.

LETTER FROM THE BOARD

Reference is made to the Announcement. The closing of the first tranche of the Subscription (the “**First Tranche**”) took place on 28 September 2020, pursuant to which the Convertible Bonds in the principal amount of HK\$70,500,000 was subscribed by the Subscriber in accordance with the terms of the Subscription Agreement as supplemented by the First Supplemental Agreement. Following the Closing of the First Tranche, pursuant to which the Convertible Bonds in the principal amount of HK\$70,500,000 was subscribed by the Subscriber, the remaining balance of the principal amount of the Convertible Bonds amounted to HK\$916,500,000. On 28 September 2020, the Company and the Subscriber entered into the Second Supplemental Deed to vary and supplement the terms of the Subscription Agreement as supplemented by the First Supplemental Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Second Supplemental Deed and the transactions contemplated thereunder, including the Proposed Amendments and the grant of the New Specific Mandate, and the proposed change in intended use of proceeds of the Convertible Bonds; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Second Supplemental Deed and the transactions contemplated thereunder; and (iv) a notice of the EGM.

2. PROPOSED AMENDMENTS TO THE TERMS OF CONVERTIBLE BONDS

On 28 September 2020, the Company and the Subscriber entered into the Second Supplemental Deed to vary and supplement the terms of the Subscription Agreement as supplemented by the First Supplemental Agreement.

The principal amendments to the Convertible Bonds (the “**Proposed Amendments**”) are summarised below:

1. Extension of the Long Stop Date

In view of the Long Stop Date on 31 October 2020 as set out in the First Supplemental Agreement approaching soon, the parties agreed to extend the Long Stop Date from 31 October 2020 to 30 June 2021 (the “**Proposed Long Stop Date**”), or such later date as the Company and the Subscriber may agree.

2. Extension of the Subscription Period

To align with the proposed extension of the Long Stop Date, the parties agreed to extend the Subscription Period from 31 October 2020 to 30 June 2021 (the “**Proposed Subscription Period**”), or such later date as the Company and the Subscriber may agree.

LETTER FROM THE BOARD

3. Initial Conversion Price

The parties agreed to reduce the initial Conversion Price per Conversion Share from HK\$0.141 to HK\$0.108, subject to adjustments in accordance with the terms and conditions of the Convertible Bonds.

The proposed adjusted initial Conversion Price of HK\$0.108 represents:

- (i) a premium of approximately 44.00% to the closing price of HK\$0.075 per Share as quoted on the Stock Exchange on 28 September 2020, being the date of the Second Supplemental Deed;
- (ii) a premium of approximately 44.77% to the average closing price of HK\$0.0746 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately before the date of the Second Supplemental Deed;
- (iii) a premium of approximately 42.67% to the average closing price of HK\$0.0757 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately before the date of the Second Supplemental Deed; and
- (iv) a premium of approximately 56.52% to the closing price of HK\$0.0690 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The proposed initial Conversion Price was determined after arm's length negotiations between the Company and the Subscriber, taking into account, among others, (i) the recent performance of the Shares (the average closing price per Share for the 90 consecutive trading days immediately before the date of the Second Supplemental Deed was approximately HK\$0.0766 per Share); (ii) the adjusted initial Conversion Price represents a premium of approximately 41% to the average closing price per Share at various points in time (as set out above), albeit the performance of the Shares and the uncertainty in the current market. In addition, the Directors (other than the Subscriber) considered the proposed adjusted initial Conversion Price would (i) incentivize the Subscriber to subscribe the outstanding principal amount of the Convertible Bonds, thereby created certainty to the financing resources of the Company, and (ii) allow the adjusted initial Conversion Price to more realistically reflect the Conversion Rights attached to the Convertible Bonds, which may incentivize the Subscriber to exercise his conversion rights attaching to the Convertible Bonds and lessen the financial burden of the Company. Please refer to the section headed "Reasons for the Proposed Amendments" for further details. In view of the above, the proposed adjusted initial Conversion Price is fair and reasonable based on the current market conditions and is in the interests of the Company and Shareholders as a whole.

LETTER FROM THE BOARD

4. Additional Principal Amount

The parties agreed to increase the principal amount of the Convertible Bonds from HK\$987,000,000 to HK\$988,500,000.

5. Additional Conversion Shares

Based on the proposed initial Conversion Price of HK\$0.108 and the increase in the principal amount of the Convertible Bonds, an additional 2,000,000,000 Conversion Shares will be issued and allotted upon full conversion of the Convertible Bonds. The maximum number of 8,500,000,000 Conversion Shares shall be issued and allotted upon exercise in full of the aggregate outstanding principal amount of the Convertible Bonds and the additional principal amount of the Convertible Bonds to be issued (i.e. in the amount of HK\$918,000,000). The total number of Conversion Shares to be issued and allotted represents:

- (i) approximately 154.88% of the existing issued share capital of the Company; and
- (ii) approximately 60.77% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon exercise in full of the Conversion Rights.

The Conversion Shares shall be allotted and issued pursuant to the New Specific Mandate to be granted by the Independent Shareholders.

Save for the Proposed Amendments above, all other principal terms and conditions of the Convertible Bonds remain unchanged.

As a result of the proposed adjustment to the initial Conversion Price, whilst maintaining the amount of proceeds to be raised by the Company (including the additional costs involved in entering into the Second Supplemental Deed), an additional 2,000,000,000 Conversion Shares will be issued and allotted upon full conversion of the Convertible Bonds, which would lead to an amplification of potential dilutive effect of the conversion on the existing Shareholders (i.e., the Subscriber would obtain an additional 13.8% in the share capital of the Company, immediately following the exercise of all the conversion rights attaching to the Convertible Bonds). Please refer to the section headed “8. Effects on Shareholding Structure Resulting from the Proposed Amendments” for further details of the dilutive effect. Despite the potential dilutive effect of the conversion on existing Shareholders, the Directors are of the view that the entering into the Second Supplemental Deed would be in the interests of the Company and the Shareholders, having considered, among others, the current market situation, availability of suitable investors and support of financial institutions, and funding needs for the projects. Please refer to sections headed “2. Proposed Amendments to the Terms of the Convertible Bonds – 3. Initial Conversion Price” and “3. Reasons for the Proposed Amendments” for further details.

LETTER FROM THE BOARD

A. *Conditions Precedent*

The Second Supplemental Deed shall become effective on the first day after the occurrence of all the following events:

- (a) the Independent Shareholders having granted their approval regarding the entering into of the Second Supplemental Deed and the transactions contemplated thereunder;
- (b) the Stock Exchange having granted its approval for the Proposed Amendments in accordance with the Second Supplemental Deed pursuant to Rule 28.05 of the Listing Rules; and
- (c) the Listing Committee of the Stock Exchange having granted its approval regarding the listing of, and permission to deal in, the Conversion Shares which shall fall to be issued by the Company upon conversion of the Convertible Bonds, if required.

B. *Principal terms of the Convertible Bonds as amended and supplemented by the Second Supplemental Deed*

The principal terms of the Convertible Bond (as amended and supplemented by the Second Supplemental Deed) are as follows:

Principal Amount	:	HK\$988,500,000
Outstanding Principal Amount	:	HK\$918,000,000
Interest Rate	:	5% per annum, payable annually in arrears
Tranches	:	No more than five tranches. Following the Closing of the First Tranche on 28 September 2020, the Subscriber shall subscribe for the outstanding Convertible Bonds in no more than four tranches on or before the Proposed Long Stop Date, and the principal sum of the Convertible Bonds to be subscribed in each tranche shall not be less than HK\$50,000,000.
Proposed Subscription Period	:	Up to 30 June 2021, or such later date as the Company and the Subscriber may agree.

LETTER FROM THE BOARD

Closing of the Subscription : Closing of the Subscription shall take place at the principal place of business of the Company in Hong Kong (or such other place as may be agreed by the parties). In respect to the Closing of each tranche of Subscription, it shall take place within three Business Days after receipt of a Notice of Closing issued by the Subscriber to the Company in connection with the relevant principal amount of the Convertible Bonds.

Maturity : On the fifth (5th) anniversary of the Issue Date

Conversion Price : HK\$0.108

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

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

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

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

Where:

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

LETTER FROM THE BOARD

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

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

(b) capitalization of profits or reserves

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

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

LETTER FROM THE BOARD

Where:

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

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

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

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

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

Where:

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

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

C = is the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

LETTER FROM THE BOARD

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

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

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

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

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

Where:

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

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

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

LETTER FROM THE BOARD

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

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

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

Where:

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

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

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

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

LETTER FROM THE BOARD

(e) rights issues of other securities

If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

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

Where:

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

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

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

LETTER FROM THE BOARD

(f) issue of any Shares

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

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

Where:

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

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

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

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

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

LETTER FROM THE BOARD

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

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

Where:

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

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

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

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

LETTER FROM THE BOARD

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

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

Where:

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

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

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

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

LETTER FROM THE BOARD

- Conversion : Following the closing of the First Tranche on 28 September 2020 and based on the proposed adjusted initial Conversion Price of HK\$0.108 per Share and the increase in the principal amount of the Convertible Bonds, the maximum number of 8,500,000,000 Conversion Shares, which represents (i) approximately 154.88% of the existing issued share capital of the Company of 5,488,042,599 Shares as at the Latest Practicable Date; and (ii) approximately 60.77% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon exercise in full of the Conversion Rights.
- Ranking of Conversion Shares : The Conversion Shares, when issued and fully paid, will rank *pari passu* among themselves and with Shares in issue at the time of issue and allotment of the Conversion Shares.
- Conversion Period : The Conversion Period shall be the period beginning on, and including, the date of issue of the Convertible Bonds and ending on, and including, 5:00 p.m. on the day which is five (5) Trading Days before the Maturity Date, provided that the conversion of the Convertible Bonds (i) does not trigger any mandatory offer obligations under Rule 26 of the Takeovers Code on the part of the Subscriber which exercised the conversion rights, namely more than 30% (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (ii) does not reduce the public float of the Shares to less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares.
- Conversion Rights : The holder of the Convertible Bonds has the right (subject to the conditions stated in the section headed “**Conversion Period**”) to convert the principal amount of the Convertible Bonds into fully-paid Shares to be issued by the Company and listed and traded on the Stock Exchange at the bondholder’s election at any time during the Conversion Period.

LETTER FROM THE BOARD

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

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

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

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

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

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

C. Closing of the Subscription

As stated in the 2019 Circular, the Closing of the Subscription shall take place at the principal place of business of the Company in Hong Kong (or such other place as may be agreed by the parties) in no more than five tranches on or before the Long Stop Date (the “**Arrangement**”). Following the closing of the First Tranche on 28 September 2020, the Subscriber shall subscribe for the outstanding Convertible Bonds in no more than four tranches. The Company has the discretion to decide the timing and the principal amount of each tranche. As at the Latest Practicable Date, it is expected that the Company would issue the second, third, fourth and fifth tranche (each with the principal amount of not less than HK\$50,000,000) of the Convertible Bonds at the end of February 2021, April 2021, May 2021 and June 2021, respectively. The expected timing and amount for each of the remaining tranches of the Convertible Bonds were determined by the Board (other the Subscriber) with reference to the progress of construction of the various production lines (which the proceeds from the Convertible Bonds would be applied).

LETTER FROM THE BOARD

The Directors are of the view that the Arrangement is in the interests of the Group and the Shareholders as a whole having considered, among others, (i) the proximity of the expected issuance date of each tranche of the Convertible Bonds; (ii) the flexibility it provides to the Company, especially in view of the impact arising from the outbreak of COVID-19, such that the Company could time the availability of the subscription monies to the timeline for the purchase of the equipment and machinery for the Dazhou New Production Line, the Guangan New Material Plant and the Guangan Chemical Plant. This would alleviate the financial pressure on the Group as it would minimise the amount of interests payable by the Company to the Subscriber. Further, the Proposed Subscription Period and Proposed Long Stop Date may be extended to a date as may be necessary and agreed between the Company and the Subscriber, and as approved by the Company. In the event that the Proposed Subscription Period and the Proposed Long Stop Date extended to a date after the validity period of the New Specific Mandate, the Company will comply with all the relevant requirements under the Listing Rules including obtaining the Independent Shareholders' approval.

In respect to the closing of each tranche of the Subscription, it shall take place within three Business Days after receipt of a Notice of Closing issued by the Subscriber in connection with the relevant principal amount of the Convertible Bonds. The timing and the principal amount of issuance for each tranche of the Convertible Bonds may be agreed by the Company and the Subscriber. As at the Latest Practicable Date, it is expected that the Company would issue the remaining four tranches by 30 June 2021.

3. REASONS FOR THE PROPOSED AMENDMENTS

Events leading up to the Second Supplemental Deed

On 10 July 2019, the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Subscriber would subscribe for the Convertible Bonds, in the principal amount of HK\$987,000,000 at the conversion price of HK\$0.141 per Share.

On 29 April 2020, in view of, among others, the outbreak of the novel coronavirus pandemic in the mainland China and Hong Kong, the postponement of the establishments of the Dazhou New Production Line and the Guangan New Production Line (proceeds from the Convertible Bonds were intended to be applied for the establishment of the production lines), the Company and the Subscriber entered into the First Supplemental Agreement. Pursuant to the First Supplemental Agreement, both the long stop date and the subscription period were extended from 30 April 2020 to 31 October 2020. Please refer to the announcement dated 29 April 2020 for details. At the material time, the Board anticipated that the novel coronavirus pandemic would begin to peter down, and suppliers and workers would be able to resume the construction process. However, due to, among others, the intermittent resurgence of the novel coronavirus pandemic (which involved imported cases and sporadic local cases being detected and identified in the Sichuan Province where the Company and the contemplated production lines are located. In accordance with "Notice of Sichuan Provincial Emergency Response Command Against Novel Coronavirus Pneumonia on the Further Detailed Implementation of Normalized Prevention and Control Measures of Novel Coronavirus Pneumonia" (Chuan Yi

LETTER FROM THE BOARD

Zhi Fa [2020] No. 46) (the “**Notice**”) (which remained in effect as at the Latest Practicable Date), strict control measures over the movement of people and vehicles were implemented. As a result of the implementation of the strict control measures, both local and migrant construction workers were reluctant to attend to construction work as planned. The construction work was further affected by the delay in the provision of equipment and raw materials required for the construction work as manufacturers and logistics service providers have not resumed full-scale service); and continued China-US trade war which affected the domestic economy in China and around the world, the construction of the production lines was further delayed.

Since June 2020, the effects of the novel coronavirus pandemic in the PRC, in particular Sichuan province, began to ease due to the effective measures taken in the mainland China – which resulted in the gradual resumption of supply of raw materials and equipment for construction, and return of construction workers which facilitated the resumption of the construction of the production lines.

In late August 2020, representatives of the Company approached the Subscriber for a further extension of the extended long stop date and the subscription period. In early September, the Subscriber indicated that he would be prepared to extend the long stop date and the subscription period if the Company is prepared to adjust certain material terms, including the initial Conversion Price and the principal amount of the Convertible Bonds. In view of the gradual resumption of the construction process and the anticipated funding needs for the construction, representatives of the Company subsequently engaged in negotiations with the Subscriber in relation to the Subscription. On 28 September 2020, the Company and the Subscriber entered into the Second Supplemental Deed. Pursuant to the Second Supplemental Deed, all the salient terms of the Subscription Agreement as supplemented by the First Supplemental Agreement would remain the same other than the Long Stop Date, the Subscription Period, the Initial Conversion Price, the principal amount of the Convertible Bonds and the number of Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Bonds.

The Company expected that the construction process of the production lines would continue to gradually pick up, and subject to any unforeseen circumstances, the expected timeline of the construction would not be materially affected as a result of the implementation of the control measures set out in the Notice.

With the completion of the subscription of the first tranche of the Convertible Bonds (for the principal amount of HK\$70,500,000) on 28 September 2020, the majority of those proceeds were used for the construction of the production lines – please refer to the section headed “5. Equity fund raising activities in the past twelve months” of this circular for details of the actual use of proceeds as at the Latest Practicable Date.

LETTER FROM THE BOARD

As at the Latest Practicable Date, subject to any unforeseen circumstances and the ever changing situation of COVID-19, the Board anticipated that the Company's plans and expected timeline of the construction of the production lines would not be materially affected by the recent development of COVID-19. However, if the COVID-19 situation in the PRC changes, which may result in, among others, imposition of stringent containment measures by the relevant authorities, the expected timeline for the construction of the production lines would be affected.

Disadvantages of entering into the Second Supplemental Deed

- (i) As a result of the proposed adjustment to the initial Conversion Price, whilst maintaining the amount of proceeds to be raised by the Company (including the additional costs involved in entering into the Second Supplemental Deed), an additional 2,000,000,000 Conversion Shares will be issued and allotted upon full conversion of the Convertible Bonds, which would lead to an amplification of potential dilutive effect of the conversion on the existing Shareholders (i.e., the Subscriber would obtain an additional 13.8% in the share capital of the Company, immediately following the exercise of all the conversion rights attaching to the Convertible Bonds). Please refer to the section headed "8. Effects on Shareholding Structure Resulting from the Proposed Amendments" for further details of the dilutive effect.
- (ii) Additional costs would be incurred as a result of entering into the Proposed Amendments. It is estimated that administrative costs and expenses amounting to approximately HK\$1,500,000 would be incurred.

Reasons for entering into the Second Supplemental Deed

The Board (other than the Subscriber and the independent non-executive Directors) considered that entering into of the Second Supplemental Deed (rather than exercising its rights under the Subscription Agreement as supplemented by the First Supplemental Agreement) would be in the best interests of the Company and the Shareholders as a whole:

- (i) Use of proceeds and progress of construction of the production lines – as stated in the 2019 Circular and approved by the Independent Shareholders on 8 November 2019, the proceeds of the Convertible Bonds would be used for limited purposes, i.e., HK\$780 million would be used for the construction of the production lines; and HK\$206 million would be used as general working capital of the Group (HK\$150 million of which would be used for repayment of loans and interests); and the Company would issue the Convertible Bonds in tranches, subject to the status of the construction of the production lines. However, due to the outbreak of COVID-19 together with the lockdown measures in the PRC, the Company's plans and timeline for the construction of the production lines were postponed. Accordingly, the Company would issue the relevant tranches of the Convertible Bonds to match the status of the construction and the expected timeline for the construction of the production lines. The entering into the Second Supplemental Deed and the

LETTER FROM THE BOARD

transactions contemplated thereunder (including the extension of the Subscription Period) would be in line with the approval previously given by the Independent Shareholders on 8 November 2019 that the majority of the proceeds from the Convertibles would be used for the construction of the production lines with the view to generate positive cash flow and strengthen the financial position of the Group in the long run;

- (ii) Prevailing market conditions – there was a significant decrease in the price of the Shares during the period between the date of the Subscription Agreement and the date of the Second Supplemental Deed. The price of the Shares shown a general downward trend from HK\$0.176 per Share as at 10 July 2019 (i.e., the date of the Subscription Agreement) to HK\$0.075 as at 28 September 2020 (i.e., the date of the Second Supplemental Deed), which represents approximately a 57.4% decrease in the Share price. In addition to the changes to the price of the Share, the selling price of the Company’s products have also been affected. In line with the downturn in the economy, the Company has recorded a decrease in the selling price of Urea and Methanol. The average selling price of Urea has decreased by approximately 8% during the six months ended 30 June 2020 as compared to the corresponding period in 2019; and the average selling price of Methanol has decreased by approximately 23% during the six months ended 30 June 2020 as compared to the corresponding period in 2019;
- (iii) Availability of suitable investors and support from financial institutions – given the economic downturn, the prevailing market conditions (price of the Shares and the selling price of the Company’s price), and the Group’s financial position, it is difficult to identify and secure equity or debt financing of similar terms (including the quantum, interests, security required, terms and availability of funds available). Please refer to the section headed “7. Proposed change in use of proceeds – C. Other financing alternatives” of this circular for details of other financing alternatives which have been considered by the Company;
- (iv) Subscriber’s continuous support to the Company – the Subscriber is an executive Director and chairman of the Board, who has since his appointment contributed time and efforts in the continued development of the Company (despite the challenges that it is facing during these unprecedented times) as well as financial support to the Group (as reflected in this subscription to the convertible bonds previously issued by the Company and the subscription of the first tranche of the Convertible Bonds (for the principal amount of HK\$70,500,000). Please refer to section headed “6. Information about the parties – B. Information about the Subscriber” of this circular which contains certain information of the Subscriber including his investment in the Company and other businesses. In view of the Subscriber’s continuous support to the Company, the Company did not request the Subscriber to provide any guarantee or security upon entering into the Second Supplemental Deed. In the event that the Company elected to exercise its rights under the Subscription Agreement as supplemented by the First Supplemental Agreement (despite the delay in the

LETTER FROM THE BOARD

construction – i.e., contrary to the approval granted by the Independent Shareholders on the issuance of the Convertible Bonds and the timing for the issuance of the relevant tranches of the Convertible Bonds) and the Subscriber fails or refuses to perform his obligations thereunder, it would give rise to protracted negotiations, argument or litigation between the Company and the Subscriber in relation to the Subscription; as a result, the construction of the new production lines will be further postponed, and the continued development of the Company will be further delayed;

- (v) The Subscription Period for the Subscription Agreement as supplemented by the First Supplemental Agreement would, but for the Proposed Amendments, expire on 31 October 2020. The Proposed Amendments would in effect allow the Subscriber to subscribe for the outstanding Convertible Bonds whereby the Company would be able to continue to apply the net proceeds to be raised from the issue of the Convertible Bonds to support the Dazhou New Production Line, the new production lines in the Guangan New Material Plant and the Guangan Chemical Plant, and enable the Company to retain certain funds for general working capital;
- (vi) The issue of the outstanding Convertible Bonds represents a good opportunity for the Group to raise additional capital, and would allow the Company to increase its capital base if the holder of the Convertible Bonds converts its Convertible Bonds into the Conversion Shares;
- (vii) Facilitate the Company's discussions with financial institutions in relation to renewal, extension and rescheduling of loans. As disclosed in the 2019 Circular, the use of proceeds of the Convertible Bonds as previously approved by the Independent Shareholders is limited to certain purposes and the timing for the issuance of the Convertible Bonds (in tranches) would need to align with the construction progress of the production lines. Despite the delay in the construction of the production lines, the above-mentioned prevailing market conditions and the effect of COVID-19 pandemic, the continued support of the Subscriber to invest in the Group's construction of the new production lines, provided additional comfort to the financial institutions that the Company is well supported. In addition, with the anticipated construction of the production lines, the Company would be able to generate more cash flow, which would bolster the Group's financial position and help the Company in repaying its outstanding loans and interests. Furthermore, the continued commitment by the Subscriber (having regard to the size of the Subscription, the current financial position of the Company (which has been in a net current liability position for the past three years), and that no security or guarantee is required to be provided by the Company or its Shareholders to secure the Subscription), provide further confidence in the business operations and prospects of the Company. As such, it provided the Company with more bargaining power to negotiate with financial institutions for the renewal, extension and rescheduling of loans. In the event that the Company elected to exercise its rights under the Subscription Agreement as supplemented by the First Supplemental Agreement (despite the delay in the construction – i.e., contrary to the approval granted by the

LETTER FROM THE BOARD

Independent Shareholders on the issuance of the Convertible Bonds and the timing for the issuance of the relevant tranches of the Convertible Bonds), and the Subscriber fails or refuses to perform his obligations thereunder; it may give rise to protracted negotiations, argument or litigation between the Company and the Subscriber in relation to the Subscription, the effect of which will be opposite to that mentioned above; and

- (viii) The raising of funds of the Company can be secured and the progress of new projects can be moved forward by accepting the Second Supplemental Deed. The increase in the principal amount of the Convertible Bonds will finance the relevant costs and expenses to be incurred in connection with the Proposed Amendments. As such, it is expected that the net proceeds from the Convertible Bonds would remain as HK\$986,000,000. The Board considers that such costs and expenses to be incurred in the Proposed Amendments are minimal relative to the aggregate amount of proceeds to be raised from the issuance of the Convertible Bonds, which only results in a dilution impact of approximately 0.25% of the total issued share capital of the Company. Furthermore, the additional 2,000,000,000 Conversion Shares represented approximately 13.8% of the enlarge issued share capital of the Company after full conversion of all Conversion Shares. In view of the certainty and timing to the financing resources of the Company, the amount of net proceeds remaining unchanged under the Proposed Amendments, the future development of the Company, avoidance of any adverse effect from argument or litigation with the Subscriber, the difficulties of finding alternatives financial resources, the Board considers that it is still worth entering into the Second Supplemental Deed.

In view of the above, the Board (other than the Subscriber) are of the view that the entering into the Second Supplemental Deed and the Proposed Amendments are in the best interest of the Company and the Shareholders as a whole.

4. NEW SPECIFIC MANDATE

The Conversion Shares will be issued and allotted pursuant to the New Specific Mandate proposed to be sought from the Independent Shareholders' at the EGM. In view of the Arrangement, it is intended that the New Specific Mandate would last 12 months from the date of approval by the Independent Shareholders at the EGM.

As at the Latest Practicable Date, the Convertible Bonds in the principal amount of HK\$916,500,000 remain unsubscribed. Based on the initial Conversion Price of HK\$0.141 per Share and assuming full conversion of the Convertible Bonds, a maximum number of 7,000,000,000 Conversion Shares will be issued and allotted by the Company. As a result of the proposed revision to the initial Conversion Price to HK\$0.108 per Conversion Share, and the increase in the principal amount of the Convertible Bonds, an additional 2,000,000,000 Conversion Shares will be issued and allotted upon full conversion of all the Convertible Bonds. An aggregate number of 9,000,000,000 Conversion Shares will be issued and allotted upon full conversion of all the Convertible Bonds in the principal amount of HK\$988,500,000,

LETTER FROM THE BOARD

represents approximately 163.99% of the issued share capital of the Company as at the Latest Practicable Date and approximately 62.12% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares.

5. EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Except for the equity fund raising activities as mentioned below, there has not been any other equity fund raising exercise made by the Company in the twelve months immediately preceding the Latest Practicable Date.

Date of completion	Description of fund raising activities	Actual use of proceeds as at the Latest Practicable Date
28 September 2020	Closing of the First Tranche, pursuant to which Convertible Bonds in the principal amount of HK\$70,500,000 was subscribed by the Subscriber	<p>(a) approximately HK\$3,365,000 has been used for the installation of new machinery and equipment for the Dazhou New Production Line;</p> <p>(b) approximately HK\$61,151,000 has been used for the establishment of the PBAT production line in Guangan New Material Plant, among which (i) approximately HK\$60,369,000 for the purchase of new machinery and equipment for the production of PBAT in Guangan New Material Plant; and (ii) approximately HK\$782,000 for the installation of such machinery and equipment for the new production line; and</p> <p>(c) approximately HK\$622,000 has been used for the establishment of a new production line of nylon 66 in Guangan Chemical Plant.</p> <p>As at the Latest Practicable Date, the proceeds in the amount of HK\$5,362,000 has not yet been utilized.</p>

6. INFORMATION ABOUT THE PARTIES

A. Information about the Group

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

LETTER FROM THE BOARD

B. Information about the Subscriber

The Subscriber joined the Company as an executive Director and the chairman of the Board on 20 July 2018. Pursuant to the subscription agreement entered into between the Company and the Subscriber on 19 July 2018, the issuance of convertible bonds in the principal amount of HK\$270,000,000 was completed on 15 March 2019. As at the Latest Practicable Date, the Subscriber held convertible bonds of the Company (i) in the principal amount of HK\$8,640,000 with conversion price of HK\$0.108 per Share and (ii) in the principal amount of HK\$70,500,000 with initial conversion price of HK\$0.141 per Share.

The Subscriber was the chairman of Shunfeng International Clean Energy Ltd. (stock code: 1165), a listed company on the Main Board of the Stock Exchange, from July 2011 to July 2013. As at the Latest Practicable Date, the Subscriber is also the chairman of Liyang Huakan Jianda Health Co., Ltd., a private limited liability company established in the PRC, which is primarily engaged in the provision of elderly care services, tourism services, food production services of Chinese cuisine and accommodation services.

To the best information, belief and knowledge of the Directors (save for the Subscriber), as at the Latest Practicable Date, the Board anticipated that the Subscriber would perform his obligations in accordance with the terms of the Subscription Agreement as supplemented by the First Supplemental Agreement and the Second Supplemental Deed.

7. PROPOSED CHANGE IN USE OF PROCEEDS

A. Proposed change in use of proceeds

Reference is made to the 2019 Circular, the net proceeds from the Convertible Bonds would be applied for the establishment and development of a new production line in dimethyl carbonate in Dazhou plant (the “**Dazhou New Production Line**”), a new production line of propylene oxide in Guangan plant; and general working capital of the Group.

With the impact of the recent outbreak of the COVID-19, which has among others, led to the delay in the setup of the Dazhou New Production Line, and in view of the funding needs of the production lines, on 28 September 2020, the Board proposed to reallocate the net proceeds from the Convertible Bonds to enhance the Group’s business, and generate a satisfactory return to the Group.

The gross proceeds from the issue of Convertible Bonds as further amended by the Second Supplemental Deed will amount to approximately HK\$988,500,000, after taking into account the proceeds raised from the First Tranche. The net proceeds from the issue of the Convertible Bonds pursuant to the Subscription Agreement as supplemented by the First Supplemental Agreement and the Second Supplemental Deed, after deduction of all the relevant costs and expenses, is estimated to be approximately HK\$986,000,000, and is expected to be utilized in accordance with the production schedules of the Dazhou New

LETTER FROM THE BOARD

Production Line, the new production lines of the Guangan New Material Plant and the Guangan Chemical Plant, and the general working capital within 12 months from the date of approval by the Independent Shareholders.

The Board intends to apply the net proceeds from the Convertible Bonds to the following:

- (i) approximately HK\$230 million will be used for the establishment of the Dazhou New Production Line, among which (i) approximately HK\$170 million for the purchase of new machinery and equipment for the production of dimethyl carbonate; and (ii) approximately HK\$60 million for the installation of such machinery and equipment for the new production line;
- (ii) approximately HK\$350 million will be used for the establishment of a new production line of polybutylene adipate terephthalate (“**PBAT**”) of new material plant in Guangan (“**Guangan New Material Plant**”), among which (i) approximately HK\$200 million for the purchase of new machinery and equipment for the production of PBAT in Guangan New Material Plant; and (ii) approximately HK\$150 million for the installation of such machinery and equipment for the new production line;
- (iii) approximately HK\$250 million will be used for the establishment of a new production line of nylon 66 of chemical plant in Guangan (“**Guangan Chemical Plant**”), among which (i) approximately HK\$200 million for the purchase of new machinery and equipment for the production of nylon 66 in Guangan Chemical Plant; and (ii) approximately HK\$50 million for the installation of such machinery and equipment for the new production line; and
- (iv) approximately HK\$156 million will be used as general working capital of the Group, of which HK\$100 million will be applied towards repayment of certain loans and interest. As at the Latest Practicable Date, the aggregate outstanding principal amount of such loans amounted to approximately RMB1,848 million with an annual interest payment of approximately RMB101 million and the interest rates of such loans ranged between 4.35% p.a. to 12% p.a. The loans were taken out to finance, among others, the working capital of the Group, and the construction of the two Guangan plants and the Dazhou plant. The remaining balance of approximately HK\$56 million will be used in operational costs including administrative expenses and distribution expenses. Alternatively, if the relevant loans with the aggregate principal amount of RMB177 million as mentioned in the Business Update Announcement are not renewed, the Company may apply such amount of net proceeds together with the Group’s cash position (excluding the pledged bank deposits) of approximately RMB17.8 million as at 31 August 2020 to fulfill its repayment obligations under those loans. As at the Latest Practicable Date, the Company continued to negotiate with (i) China Minsheng Bank in relation to the loan extended to Dazhou Ko Yo Chemical Co., Ltd. (a subsidiary of the Company) for the initial principal loan amount of RMB49,000,000; (ii) the Bank of Communications Limited in relation to the loan extended to Sichuan Ko Yo

LETTER FROM THE BOARD

Agrochem Co., Ltd. (a subsidiary of the Company) for the initial principal loan amount of RMB68,000,000; (iii) the Bank of Shanghai Co., Ltd. Chengdu Branch for the initial aggregate principal loan amount of RMB60,000,000 extended to Koyo Agrochem Co., Ltd.; and (iv) the Bank of Dalian Co., Ltd. in relation to the initial aggregate principal loan amount of RMB80,000,000 extended to Dazhou Ko Yo Chemical Co., Ltd. The relevant financial institutions have withheld taking further legal actions pending the results of the negotiations. Further announcement(s) would be made as and when appropriate in accordance with the Listing Rules.

B. Dazhou New Production Line, Guangan New Material Plant and Guangan Chemical Plant

Set out below is a summary of the business plan for the Dazhou New Production Line, the Guangan New Material Plant and the Guangan Chemical Plant:

(i) Dazhou New Production Line

In respect of the Dazhou New Production Line, the Company intends to apply approximately HK\$230 million from the net proceeds from the issue of the Convertible Bonds, among which (i) approximately HK\$170 million will be used to purchase new machinery and equipment for the production of dimethyl carbonate; and (ii) approximately HK\$60 million will be applied for the installation of such machinery and equipment. In addition to the proceeds from the Convertible Bonds, the Company would also finance the Dazhou plant through (A) taking out loans from financial institutions; and (B) utilising cashflow generated from the ordinary course of business of the Company. Further, the Company intends to negotiate with the suppliers for more favourable payment terms and longer repayment schedule with equipment providers and installers. Subject to the general market demand, prevailing market conditions and financial situations, it is estimated that the establishment of the Dazhou New Production Line would be completed within two years following commencement of the construction work.

Based on the information available to the Group, it is expected that the average sales income to be generated from the Dazhou New Production Line during the production period would amount to RMB2,900 million annually, and the expected payback period of investment would be around four years (including a construction period of two years).

(ii) Guangan New Material Plant

In respect of the Guangan New Material Plant, the Company intends to apply approximately HK\$350 million from the net proceeds from the issue of the Convertible Bonds to finance the current phase of establishment, among which (i) approximately HK\$200 million for the purchase of new machinery and equipment for the production of PBAT in Guangan New Material Plant; and (ii) approximately HK\$150 million for the installation of such machinery and equipment for the new

LETTER FROM THE BOARD

production line. The existing construction plan of PBAT production line in Guangan New Material Plant is expected to commence before the end of 2020. It is anticipated that the current phase would be fully funded by the net proceeds from the issue of the Convertible Bonds. In addition, the Company intends to negotiate more favourable payment terms and longer repayment schedule with equipment providers and installers to provide more room to finance the establishment of the new production line. Subject to the general market demand, prevailing market and financial situations, it is estimated that the current phase of establishment of the PBAT production line would be completed in about one year following commencement of the construction work.

Based on the information available to the Group, it is expected that the average annual operating revenue of the PBAT production line would be approximately RMB1,800 million, the expected payback period of investment would be around two years (including a construction period of one year). It is expected that the short construction period of the PBAT production line will enable it to generate cash flow for the development of other projects of the Group.

(iii) Guangan Chemical Plant

In respect of the Guangan Chemical Plant, the Company intends to apply approximately HK\$250 million for the establishment of a new production line of nylon 66 of chemical plant in Guangan Chemical Plant, among which (i) approximately HK\$200 million for the purchase of new machinery and equipment for the production of nylon 66 in Guangan Chemical Plant; and (ii) approximately HK\$50 million for the installation of such machinery and equipment for the new production line. In addition to the proceeds from the Convertible Bonds, the Company would also finance the nylon 66 production line through (A) taking out loans from financial institutions; and (B) cashflow generated from the ordinary course of business of the Company. In addition, the Company intends to negotiate more favourable payment terms and longer repayment schedule with equipment providers and installers to provide more room to finance the establishment of the new production line. Subject to the general market demand, prevailing market and financial situations, it is estimated that the current phase of establishment of the nylon 66 production line in the Guangan Chemical Plant would be completed in around two years following commencement of the construction work.

Based on the information available to the Group, it is expected that the average annual operating revenue of the nylon 66 production line in the Guangan Chemical Plant would be approximately RMB4,701 million, and the expected payback period of investment would be around four years (including a construction period of two years).

LETTER FROM THE BOARD

With the introduction of the Dazhou New Production Line, and the new production lines in the Guangan New Material Plant and the Guangan Chemical Plant, the Directors (other than members of the Independent Board Committee, whose opinion is set out on pages 7 to 44 of this circular) believe that the above proposed change in intended use of proceeds will improve efficiency and effectiveness of its deployment, which can overall strengthen the capital base and financial position of the Group.

C. Other financing alternatives

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

With respect to bank borrowings, the Directors consider that the ability for the Group to obtain bank borrowings largely depends on the Group's profitability, financial position and the then prevailing market condition. As illustrated under the section headed "Financial Summary of the Group – Financial overview of the Group" of this circular, the Group recorded a loss attributable to equity holders of the Company of approximately RMB731,564,000 for the year ended 31 December 2019. As at the Latest Practicable Date, the Group has approached several financial institutions; however, given the unsatisfactory financial performance of the Group, no concrete feedback has been received nor immediate debt financing could be obtained by the Group. In view of the Group's unfavourable financial results, the Directors considered that it shall take the Group with more efforts and time to secure or negotiate a new debt financing with favourable terms.

With respect to equity financing, the Directors have considered several means including rights issue, open offer and placing of new Shares. As at the Latest Practicable Date, the Group has approached several financial institutions to identify potential investors for equity financing but did not receive any concrete feedback from those financiers in light of the financial position of the Group and the prevailing market conditions.

The Directors (other than members of the Independent Board Committee, whose opinion is set out on pages 7 to 44 of this circular) consider raising funds by issuing the Convertible Bonds is justifiable considering the recent market conditions which present an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position of the Group. Having considered the advantages and disadvantages of different forms of debt financing and equity financing, the Directors consider that the issue of the Convertible Bonds is an appropriate mean of raising additional capital for the Company since (i) the issue of the Convertible Bonds incurs relatively lower interest burden and financial costs of the Group compared to bank borrowings (the interest rates of the outstanding borrowings of the Group as at the Latest Practicable Date ranged from 4.35% to 12% and the average effective interest rate of bank borrowings as at 31 December 2019 was 6.24%), and the proposed adjusted initial Conversion Price of HK\$0.108 represents a premium of approximately 44% to the closing price of HK\$0.075 per Share on 28 September 2020; (ii) the time horizon for the issue of the Convertible Bonds is relatively shorter compared to alternative equity fund raising

LETTER FROM THE BOARD

methods; (iii) there will not be any liability and obligations on the Company for payment or repayment (whether in cash or otherwise) in respect of the Convertible Bond in the short term; (iv) the Group was not able to receive any concrete feedback from potential financiers or investors; and (v) the Subscription will enable the Company to improve its financial position and provide the Company with financial resources to establish the Dazhou New Production Line, and the new production lines in the Guangan New Material Plant and the Guangan Chemical Plant to enhance its product types without causing an immediate dilution effect on the shareholding of the existing Shareholders.

Having considered the above factors, the Directors (other than members of the Independent Board Committee, whose opinion is set out on pages 7 to 44 of this circular) considered that the terms of the Second Supplemental Deed and the transactions contemplated thereunder, including the Proposed Amendments, has been entered into on normal commercial terms that are fair and reasonable and is in the interests of the Company and the Shareholders as a whole. The Directors (other than members of the Independent Board Committee, whose opinion is set out on pages 7 to 44 of this circular) are of the view that the entering of the Second Supplemental Deed is not in the ordinary and usual course of business of the Company. As the Directors are confident about the prevailing and future business development of the Group, the Directors believe that the issue and allotment of the Convertible Bonds under the New Specific Mandate will allow the Company to raise the necessary funds at a reasonable cost to meet the additional cash requirements for its operation and future development. The terms of the Second Supplemental Deed and the transactions contemplated thereunder will be subject to the approval of the Independent Shareholders at the EGM. In the event that the entering into of the Second Supplemental Deed and the transactions contemplated thereunder are not approved by the Independent Shareholders, the construction of the production lines would be further delayed. In such event, the Directors would, among others, explore other financing options (which may be difficult, especially in the prevailing market conditions and the financial position of the Company (i.e., the Company has been in a net current liability position for the past three years)); and negotiate with the Subscriber which will entail, among others, exercising the rights of the Company under the Subscription Agreement as supplemented by the First Supplemental Agreement.

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

LETTER FROM THE BOARD

8. EFFECTS ON SHAREHOLDING STRUCTURE RESULTING FROM THE PROPOSED AMENDMENTS

As at the Latest Practicable Date, the Company has 5,488,042,599 Shares in issue.

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the conversion of all the Convertible Bonds in the principal amount of HK\$988,500,000; and (iii) immediately after the full conversion of all the Convertible Bonds in the principal amount of HK\$988,500,000 and Existing Bonds are as follows (*for illustrative purposes only*):

Shareholders	As at the Latest Practicable Date		Immediately after the issue and allotment of the Conversion Shares upon full conversion of the Convertible Bonds in the principal amount of HK\$988,500,000		Immediately after the full conversion of the Convertible Bonds in the principal amount of HK\$988,500,000 and Existing Bonds	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
		<i>(approx.)</i>		<i>(approx.)</i>		<i>(approx.)</i>
Asia Pacific Resources Development Investment Limited <i>(Note 1)</i>	800,000,000	14.58	800,000,000	5.52	1,801,375,000	10.72
The Subscriber <i>(Note 2)</i>	100,000,000	1.82	4,344,963,975	29.99	5,038,535,208	29.99
Shi Jianmin <i>(Note 3)</i>	200,300,000	3.65	200,300,000	1.38	200,300,000	1.19
Zhang Weihua <i>(Note 4)</i>	500,000,000	9.11	500,000,000	3.45	1,520,000,000	9.05
Public Shareholders	3,887,742,599	70.84	8,642,778,624	59.65	8,240,507,391	49.05
Total	<u>5,488,042,599</u>	<u>100.00</u>	<u>14,488,042,599</u>	<u>100.00</u>	<u>16,800,717,599</u>	<u>100.00</u>

LETTER FROM THE BOARD

Note 1: Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming who held convertible bonds of the Company in the principal amount of HK\$320,440,000 with conversion price of HK\$0.32 per Share and 800,000,000 Shares.

Note 2: The Subscriber held (a) convertible bonds of the Company (i) in the principal amount of HK\$8,640,000 with conversion price of HK\$0.108 per Share and (ii) in the principal amount of HK\$70,500,000 with initial conversion price of HK\$0.141 per Share; and (b) 100,000,000 Shares.

Note 3: Mr. Shi Jianmin is an executive Director and is the beneficial owner of 200,300,000 Shares.

Note 4: As at the Latest Practicable Date, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held a total amount of 500,000,000 Shares and an amount of HK\$110,160,000 convertible bonds of the Company which can be converted into 1,020,000,000 Shares.

Note 5: According to the Convertible Bonds instrument, it is intended that the conversion of the Convertible Bonds (i) does not trigger any mandatory offer obligations under Rule 26 of the Takeovers Code on the part of the Subscriber which exercised the conversion rights, namely more than 30% (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (ii) does not reduce the public float of the Shares to less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares.

9. IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 28.05 of the Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. As at the Latest Practicable, the Company has applied to the Stock Exchange for approval for the Proposed Amendments contemplated by the Second Supplemental Deed pursuant to Rule 28.05 of the Listing Rules. In addition, an application will also be made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

The Subscriber is an executive Director and the chairman of the Board. Accordingly, the Subscriber is a connected person for the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Second Supplemental Deed would constitute a connected transaction for the Company and would be subject to, among others, the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, the Subscriber held 100,000,000 Shares (representing approximately 1.82% of the total issued share capital of the Company). The Subscriber shall abstain from voting at the EGM. To the best of the Directors' information, belief and knowledge, save for the Subscriber, no other parties have any material interest which is different from other Shareholders in relation to the Second Supplemental Deed and the transactions contemplated thereunder including the Proposed Amendments and the grant of the New Specific Mandate.

LETTER FROM THE BOARD

The Independent Board Committee comprising all the independent non-executive Directors, namely Messrs. HU Xiaoping, SHI Lei and XU Congcai, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Second Supplemental Deed and as to voting after taking into account the advice from the Independent Financial Adviser. Jun Hui International, the Independent Financial Adviser has been approved by the Independent Board Committee and appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Second Supplemental Deed and the transactions contemplated thereunder (including the Proposed Amendments and the issue and allotment of the Conversion Shares under the New Specific Mandate).

10. FINANCIAL SUMMARY OF THE GROUP

A. Audited consolidated financial statements of the Company

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 are respectively disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk):

- (a) the annual report of the Company for the year ended 31 December 2017 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0409/lt20180409027.pdf>);
- (b) the annual report of the Company for the year ended 31 December 2018 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0409/lt20190409047.pdf>);
- (c) the annual report of the Company for the year ended 31 December 2019 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0409/2020040900027.pdf>);
and
- (d) the interim report of the Company for the six months ended 30 June 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0902/2020090200855.pdf>).

LETTER FROM THE BOARD

B. Financial overview of the Group

Set out below is certain financial information of the Group for the three years ended 31 December 2019 and the six months ended 30 June 2020 as extracted from the 2017 Annual Report, the 2018 Annual Report, the 2019 Annual Report and the 2020 Interim Report respectively:

	For the year ended 31 December			For the six months	
				ended 30 June	
	2019	2018	2017	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,964,476	3,101,031	3,678,169	994,724	953,581
Cost of sales	(1,958,077)	(2,877,039)	(3,643,775)	(991,837)	(939,301)
Gross profit/(loss)	6,399	223,992	34,394	2,887	14,280
Loss before tax	(712,242)	(347,685)	(471,170)	(115,509)	(341,434)
Income tax (expenses)/credit	(19,570)	(601)	16,737	12,187	13,068
Loss attributable to equity holders of the Company	(731,564)	(348,209)	(454,339)	(103,309)	(328,260)

Profit and loss

As depicted in the above table, the Group's revenue recorded a decrease by approximately 36.7% for the two years ended 31 December 2019. The Group recorded a total revenue of approximately RMB1,964,476,000 for the year ended 31 December 2019 as compared to that of approximately RMB3,101,031,000 for the year ended 31 December 2018. The loss attributable to equity holders of the Company has increased by approximately 110.1% from approximately RMB348,286,000 for the year ended 31 December 2018 to approximately RMB731,564,000 for the year ended 31 December 2019. The increase in the loss of the Group was mainly due to (i) the decrease in gross profit by approximately RMB217,593,000; and (ii) the increase in other loss resulting from the deduction in fair value changes on derivative financial assets by approximately RMB176,000,000.

The revenue of the Group decreased by approximately 15.6% from approximately RMB3,678,169,000 for the year ended 31 December 2017 to approximately RMB3,101,031,000 for the year ended 31 December 2018. Based on the 2018 Annual Report, The decrease in the loss of the Group was mainly due to (i) the increase in gross profit by approximately RMB189,598,000; and (ii) the decrease in other loss resulting from the deduction in fair value changes on derivative financial assets by approximately RMB144,038,000, which was partially offset by the increase in other expenses including the administrative expenses and the impairment losses on the production equipment of phosphoric acid plant and the phase II of the Dazhou plant.

LETTER FROM THE BOARD

The Group recorded a total revenue of approximately RMB994,724,000 for the six months ended 30 June 2020, representing an increase by approximately 4.31% as compared to that of approximately RMB953,581,000 for the six months ended 30 June 2019. The loss attributable to equity holders of the Company has decreased by approximately 68.6% from approximately RMB328,360,000 for the six months ended 30 June 2019 to approximately RMB103,309,000 for the six months ended 30 June 2020. As disclosed in the 2020 Interim Report, the increase in turnover of the Group was mainly due to the increase in production volume. The total sales volume (excluding the trading portion) of the Group reached approximately 587,750 tonnes, representing an increase of 24.8% as compared with that of the same period last year.

C. Liquidity and Working Capital

As stated in the 2019 Annual Report, the current assets of the Group amounted to approximately RMB221,375,000 and the current liabilities of the Group amounted to approximately RMB2,022,828,000 as at 31 December 2019. The Group had cash and cash equivalents of approximately RMB10,110,000 as at 31 December 2019.

Set out below is certain financial information of the Group for the three years ended 31 December 2019 as extracted from the 2018 Annual Report and the 2019 Annual Report respectively:

	For the year ended 31 December		
	2019	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	<u>10,110</u>	<u>4,545</u>	<u>16,312</u>
Current assets	221,375	214,874	357,071
Current liabilities	<u>2,022,828</u>	<u>2,155,534</u>	<u>2,386,330</u>
Net current liabilities	<u>1,801,453</u>	<u>1,940,660</u>	<u>2,029,259</u>
Net cash generated from operating activities	<u>34,672</u>	<u>53,709</u>	<u>144,913</u>

The net current liabilities of the Group amounted to approximately RMB2,029,259,000, RMB1,940,660,000 and RMB1,801,453,000 for the three years ended 31 December 2019 respectively. Following the continued streamlining of operations of the Company, the liquidity position of the Company has improved with the continued decrease in the net current liability position. Furthermore, the Group's net cash generated from operating activities (after the deduction of the account operating expenses and interest paid) has remained positive for the three years ended 31 December 2019.

LETTER FROM THE BOARD

With the continued commitment from the Subscriber to inject capital through the Subscription, the Company would be in a better position to negotiate with banks and financial institutions for the renewal of its loans. With respect to the loans in an aggregate amount of RMB177 million as mentioned in the Business Update Announcement (the “**Relevant Loans**”), it is expected that the negotiation with the relevant banks would be finalised by mid of 2021. Even if in the scenario that the Company fails to negotiate for the renewal, extension or rescheduling of the Relevant Loans in the aggregate amount of RMB177 million, the Directors believe that, taking into consideration the proceeds from the Subscription, the presently available financial resources of the Company, the cashflow of the Group and the average annual operating revenue of the PBAT production line of approximately RMB1,800 million, the Company would have sufficient working capital to repay the such loans.

The Directors further consider that the issue of the Convertible Bonds will allow the Company to (i) raise a considerable amount of fund for a longer period to strengthen the financial position of the Group; (ii) enhance its working capital and strengthen its capital base, which would ease the liquidity pressure of the Group caused by the imminent due date certain loans and the interest expenses on such loans; (iii) enable the Group to repay some of the outstanding loans when they fall due; and (iv) generally replenish the working capital of the Group and enable the Group to finance the establishment of the production lines with the view to generate positive cash flow and strengthen the financial position of the Group in the long run. Taking into account of the amount of the Subscription, the previous successful renewal, extension or rescheduling of loans with financial institutions (in the particular, with the continued support by the Subscriber with whom the Company entered into the Second Supplemental Deed), the capital requirement and the presently available financial resources of the Company, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the Latest Practicable Date, in the absence of unforeseeable circumstances.

D. Statement of Indebtedness

Borrowings

As at the close of business on 30 November 2020, the total borrowings and notes payable balances of the Group amounted to approximately RMB2,168,330,000, in which approximately RMB1,114,030,000 were short-term borrowings.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal accounts payables in the ordinary course of business, as at the close of business on 30 November 2020, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages, charges, guarantees or other contingent liabilities.

LETTER FROM THE BOARD

E. Financial prospects of the Group

The Group remained focused on manufacturing and distribution of chemical fertilizers and chemical products, including BB fertilizers and complex fertilizers, methanol, urea and ammonia for the year ended 31 December 2019. The Group recorded turnover of approximately RMB1,964 million, a decrease of approximately 36.7% during the year ended 31 December 2019 as compared to the same period in 2018. The loss attributable to shareholders of the Company amounted to approximately RMB731 million, representing an increase in loss of approximately RMB383 million during the year ended 31 December 2019 as compared to the same period in 2018.

In 2020, the Company will continue to capitalize on opportunities arising from the recovery of the chemical fertilizers and chemical industries while it will establish new production lines including the Dazhou New Production Line, the PBAT production line in the Guangan New Material Plant and the nylon 66 production line in the Guangan Chemical Plant.

11. EGM

Set forth on pages 83 to 85 of this circular is a notice convening the EGM to be held at 3:00 p.m., on Wednesday, 23 December 2020 at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong at which ordinary resolution will be proposed to approve, among other things, the Second Supplemental Deed and the transactions contemplated thereunder (including but not limited to the Proposed Amendments and the grant of the New Specific Mandate for the issue and allotment of the Conversion Shares); and the proposed change in intended use of proceeds of the Convertible Bonds. Pursuant to the Listing Rules, the Subscriber and its associates, interested in 1.82% of the total issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the relevant resolution at the EGM.

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

LETTER FROM THE BOARD

12. CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the Company's register of members will be closed from Friday, 18 December 2020 to Wednesday, 23 December 2020 (both days inclusive), during which period no transfer of Shares will be effected. Shareholders whose names appeared on the register of members of the Company on Wednesday, 23 December 2020 shall be entitled to attend and vote at the EGM. In order to qualify for attending and voting at the EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration no later than 4:00 p.m. on Thursday, 17 December 2020.

13. RECOMMENDATION

In respect of the resolution to be proposed at the EGM relating to the terms of the Second Supplemental Deed, the Directors (including the independent non-executive Directors) consider that the Second Supplemental Deed and the transactions contemplated thereunder (including but not limited to the Proposed Amendments and the grant of the New Specific Mandate for the issue and allotment of the Conversion Shares) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Independent Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM to approve the Second Supplemental Deed and the transaction contemplated thereunder.

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 45 to 46 of this circular which contains its views in relation to the Second Supplemental Deed and the transactions contemplated thereunder (including but not limited to the Proposed Amendments and the grant of the New Specific Mandate for the issue and allotment of the Conversion Shares). The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 47 to 72 of this circular, considers that the terms of the Second Supplemental Deed and the transactions contemplated thereunder (including but not limited to the Proposed Amendments and the grant of the New Specific Mandate for the issue and allotment of the Conversion Shares), are fair and reasonable so far as the Company and the Independent Shareholders are concerned as a whole. Accordingly, the Independent Board Committee recommends that the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Second Supplemental Deed and the transactions contemplated thereunder (including but not limited to the Proposed Amendments and the grant of the New Specific Mandate for the issue and allotment of the Conversion Shares).

LETTER FROM THE BOARD

14. RESPONSIBILITY STATEMENT

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

15. ADDITIONAL INFORMATION

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

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

LETTER FROM INDEPENDENT BOARD COMMITTEE

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



Ko Yo Chemical (Group) Limited

玫源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

4 December 2020

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED AMENDMENTS TO THE TERMS OF CONVERTIBLE BONDS

INTRODUCTION

We refer to the circular dated 4 December 2020 of the Company (the “**Circular**”), of which this letter forms part. Capitalised terms used herein have the same meanings as those defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to: (i) whether the terms of the Second Supplemental Deed and the transactions contemplated thereunder (including but not limited to the Proposed Amendments and the grant of the New Specific Mandate for the issue and allotment of the Conversion Shares) are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the terms of the Second Supplemental Deed and the transactions contemplated thereunder (including but not limited to the Proposed Amendments and the grant of the New Specific Mandate for the issue and allotment of the Conversion Shares) are in the interests of the Company and the Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolution to approve the Second Supplemental Deed and the transactions contemplated thereunder at the EGM. Jun Hui International Finance Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 47 to 72 of the Circular, which contains its advices and recommendations as to whether or not the Second Supplemental Deed and the transactions contemplated thereunder (including the Proposed Amendments and the issue and allotment of the Conversion Shares under the New Specific Mandate) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, as well as the principal factors and reasons taken into consideration for its advices and recommendations.

We also wish to draw your attention to the letter from the Board set out on pages 7 to 44 of the Circular and the additional information set out in the appendices to the Circular.

RECOMMENDATION

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

Yours faithfully,

For and on behalf of the Independent Board Committee of

Ko Yo Chemical (Group) Limited

Mr. Hu Xiaoping

Mr. Shi Lei

Mr. Xu Congcai

Independent Non-executive Directors

LETTER FROM JUN HUI INTERNATIONAL

The following is the text of the letter of advice from Jun Hui International Finance Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders in respect of the Second Supplemental Deed, which has been prepared for the purpose of inclusion in this circular.



Jun Hui International Finance Limited
Unit 1406, Office Plus
93-103 Wing Lok Street
Sheung Wan, Hong Kong

4 December 2020

*To: the Independent Board Committee and the Independent Shareholders of
Ko Yo Chemical (Group) Limited*

Dear Sir or Madam,

PROPOSED AMENDMENTS TO THE TERMS OF CONVERTIBLE BONDS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Second Supplemental Deed, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 4 December 2020 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the Announcement. On 28 September 2020 (after trading hours), the Company and the Subscriber entered into the Second Supplemental Deed, pursuant to which the Company and the Subscriber agreed to (1) extend the Long Stop Date to 30 June 2021, or such later date as the Company and the Subscriber may agree; (2) extend the Subscription Period to 30 June 2021, or such later date as the Company and the Subscriber may agree; (3) reduce the initial Conversion Price to HK\$0.108 per Conversion Share; (4) the principal amount of the Convertible Bonds will be increased from HK\$987,000,000 to HK\$988,500,000; and (5) an additional 2,000,000,000 Conversion Shares will be issued upon full conversion of the Convertible Bonds (collectively as the “**Proposed Amendments**”). Save for the Proposed Amendments, all other principal terms and conditions of the Convertible Bonds remain unchanged. On the same date, the Board proposed to reallocate the net proceeds from the Convertible Bonds to enhance the Group’s business, and generate a satisfactory return to the Group.

Pursuant to Rule 28.05 of the Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. The

LETTER FROM JUN HUI INTERNATIONAL

Subscriber is an executive Director and the chairman of the Board. Accordingly, the Subscriber is a connected person for the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Second Supplemental Deed would constitute a connected transaction for the Company and would be subject to, among others, the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, the Subscriber held 100,000,000 Shares (representing approximately 1.82% of the total issued share capital of the Company). The Subscriber shall abstain from voting at the EGM. Referring to the Letter from the Board, to the best of the Directors' information, belief and knowledge, save for the Subscriber, no other parties have any material interest which is different from other Shareholders in relation to the Second Supplemental Deed and the transactions contemplated thereunder including the Proposed Amendments and the grant of the New Specific Mandate.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai, has been formed to advise the Independent Shareholders as to (i) the fairness and reasonableness of the terms of the Second Supplemental Deed; and (ii) how to vote at the EGM, after taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice.

In this connection, we, Jun Hui International, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Second Supplemental Deed. We do not, by this letter, warrant the merits of the Second Supplemental Deed and the transactions contemplated thereunder, other than to form an opinion, for the purpose of the Listing Rules. As at the Latest Practicable Date, we did not have any relationships or interests with the Company, the Subscriber or any other parties, nor we were engaged by the Company as an independent financial adviser in its other transactions in the past two years, that could reasonably be regarded as relevant to our independence, and accordingly, we are considered eligible to give independent advice in respect of the Second Supplemental Deed. Apart from normal professional fees payable to us for this appointment, no arrangement exists whereby we will receive any fees or benefits from any party abovementioned.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the information, opinions and representations contained or referred to in the Circular (or otherwise provided to us by the Directors and the management of the Group (the "**Management**")), and have assumed that all information, opinions and representations contained or referred to in the Circular (or otherwise provided to us by the Directors and the Management) were true, accurate and complete in all respects at the time when they were made and up to the date of this letter. We have also assumed that all statements of belief, opinions and intention made by the Directors in the Circular (or otherwise provided to us by the Directors and the Management) are reasonably made after due and careful enquiry. We have no reason to doubt that any relevant information has been withheld or omitted, nor are we aware of any fact or circumstance which would render the information, opinions and representations provided or made to us untrue, inaccurate or misleading.

LETTER FROM JUN HUI INTERNATIONAL

The Directors jointly and severally accept full responsibility for the accuracy of the information contained or referred to in the Circular (or otherwise provided to us by the Directors and the Management) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions and representations expressed in the Circular (or otherwise provided to us by the Directors and the Management) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have received sufficient information to enable us to reach an informed view, and have performed all the necessary steps as required under Rule 13.80 of the Listing Rules to justify our reliance on the information, opinions and representations provided or made to us so as to form a reasonable basis for our opinion and recommendation, which include, among other things:

- (a) reviewed the announcements of the Company and its circular dated 16 October 2019 (the “**2019 Circular**”) in relation to the issue of, and the subsequent amendments made to, the Convertible Bonds, the Letter from the Board, 2019 Annual Report and 2020 Interim Report;
- (b) reviewed the Second Supplemental Deed and other related information and documents;
- (c) conducted market and comparable researches to analyse the revision of major terms of the Convertible Bonds under the Second Supplemental Deed; and
- (d) discussed with the Directors and the Management regarding, among other things, the business and financial conditions of the Group, the reasons for entering into of the Second Supplemental Deed (including the reasons for not electing to exercise the Company’s rights under the Subscription Agreement as supplemented by the First Supplemental Agreement and proposed change in intended use of proceeds of the Convertible Bonds), and the basis of the Proposed Amendments.

We have not, however, for the purpose of this exercise, conducted any independent detailed verification or audit into the businesses, affairs, development plans or future prospects of the Group. Our opinion was necessarily based on the legal, financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

LETTER FROM JUN HUI INTERNATIONAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Second Supplemental Deed, we have considered the following principal factors and reasons:

I. Background and financial information of the Group

The Group is principally engaged in the manufacturing and sale of chemical products and chemical fertilisers in the PRC. The following table summarises the results of operation and financial positions of the Group for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020:

	For the year ended		For the six months	
	31 December		ended 30 June	
	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	3,101,031	1,964,476	953,581	994,724
Finance costs, net	(161,933)	(154,266)	(67,919)	(65,121)
Loss for the year/period	(348,286)	(731,812)	(328,366)	(103,322)
Net cash inflow/(outflow)				
from operating activities	53,709	34,672	(30,724)	28,978
				As at
				30 June
				2020
				<i>RMB'000</i>
				(unaudited)
Pledged bank deposits		24,339	30,116	29,417
Cash and bank deposits		4,545	10,110	6,415
Total assets		3,282,871	2,982,762	2,903,780
Short-term borrowings		1,239,668	1,302,714	1,302,313
Long-term borrowings				
– Current portion		433,921	158,419	26,869
– Non-current portion		343,500	428,300	564,300
Total liabilities		2,697,660	2,749,382	2,773,109
Net assets		585,211	233,380	130,671
Net current liabilities		(1,940,660)	(1,801,453)	(1,704,697)

Source: 2019 Annual Report and 2020 Interim Report published by the Company on the website of the Stock Exchange

LETTER FROM JUN HUI INTERNATIONAL

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB1,964.5 million, representing a year-on-year decrease of approximately 36.7% mainly led by the decrease in trading portion of its revenue. It is revealed in 2019 Annual Report that the Group faced economic downturn and unstable conditions of the fertiliser and chemical industry in 2019, while the price of natural gas rose and the price of products decreased. Net loss of the Group was approximately RMB731.8 million for the year ended 31 December 2019, which further deteriorated from the net loss of approximately RMB348.3 million for the corresponding period of last year. During the six months ended 30 June 2020, the Group continued recording net loss which amounted to approximately RMB103.3 million, comparing to the net loss of approximately RMB328.4 million for the corresponding period of last year. The better operating result during the six months ended 30 June 2020 was principally as a matter of the provision of approximately RMB211 million made from the valuation loss on the convertible bonds in the first half of 2019 whereas no such provision was made in the first half of 2020.

The Group's net assets decreased from approximately RMB585.2 million as at 31 December 2018 to approximately RMB233.4 million as at 31 December 2019, and further decreased to approximately RMB130.7 million as at 30 June 2020. As at the dates indicated, the Group had relatively low cash position whereas its borrowings were significant comparatively. As at 30 June 2020, the Group had cash and bank deposits of approximately RMB6.4 million and pledged bank deposits of approximately RMB29.4 million, whereas its short-term borrowings and long-term borrowings amounted to approximately RMB1,302.3 million and RMB591.2 million respectively.

The Group continued recording net current liabilities as at 31 December 2018, 31 December 2019 and 30 June 2020 which amounted to approximately RMB1,940.7 million, RMB1,801.5 million and RMB1,704.7 million respectively. Referring to 2020 Interim Report, it is noted that the Directors have given due consideration to the liquidity of the Group and have adopted the going concern basis in preparing the consolidated financial statements for the six months ended 30 June 2020 on the basis that the positive cash flow from Guangan Plant and Dazhou Plant, and that it will succeed in negotiating with its bankers to roll over the outstanding bank loans. The Business Update Announcement voluntarily published by the Company on 15 September 2020 revealed that the Company was negotiating with three banks on the renewals of certain loans (with aggregate principal loan amount of RMB177.0 million).

II. Reasons for the entering into of the Second Supplemental Deed

References are made to the announcements of the Company dated 10 July 2019 and 29 April 2020 and the 2019 Circular in relation to the issue of, and the subsequent amendments made to, the Convertible Bonds convertible into Shares at the then initial Conversion Price of HK\$0.141 per Conversion Share to the Subscriber. The original principal amount of the Convertible Bonds is HK\$987,000,000, with the Subscription Period extended to 31 October 2020 (or such later date as the Company and the Subscriber may agree). On 28 September 2020, the Convertible Bonds in the principal amount of HK\$70,500,000 were subscribed by the Subscriber at the initial Conversion Price of HK\$0.141 per Conversion Share in accordance

LETTER FROM JUN HUI INTERNATIONAL

with the terms of the Subscription Agreement as supplemental by the First Supplemental Agreement (the “**First Tranche**”). Such Convertible Bonds under the First Tranche were not converted into any Shares, and the remaining balance of the principal amount of the Convertible Bonds (i.e. HK\$916,500,000) was not subscribed by the Subscriber further as at the Latest Practicable Date.

(1) Events leading up to the Second Supplemental Deed

As stated in the Letter from the Board, the events leading up to the Second Supplemental Deed were, among others, the outbreak and the intermittent resurgence of the Novel Coronavirus (“**COVID-19**”) pandemic in the mainland China and Hong Kong, and continued China-US trade war which affected the domestic economy in China and around the world. The results of which led to delays in the establishments of the Dazhou New Production Line and the Guangan New Production Line. In late August 2020, representatives of the Company approached the Subscriber for a further extension of the extended long stop date and the subscription period, and had subsequently negotiated with the Subscriber and both parties came up with the entering into of the Second Supplemental Deed and the Proposed Amendments on 28 September 2020.

Despite that, referring to the Letter from the Board, the Subscriber shall subscribe for the outstanding Convertible Bonds in no more than four tranches on or before the Proposed Long Stop Date, and the principal sum of the Convertible Bonds to be subscribed in each tranche shall not be less than HK\$50,000,000 following the closing of the First Tranche on 28 September 2020. While, the Company has the discretion to decide the timing and the principal amount of each tranche. The Board (other than the Subscriber and the independent non-executive Directors) considered that entering into of the Second Supplemental Deed (rather than exercising its rights under the Subscription Agreement as supplemented by the First Supplemental Agreement (the “**Company’s Rights**”)) would be in the best interests of the Company and the Shareholders as a whole due to, in particular (with details set out under the section headed “Reasons for the Proposed Amendments – Reasons for entering into the Second Supplemental Deed” in the Letter from the Board):

- (a) the progress of construction of the production lines and the Company would issue the Convertible Bonds in tranches to match the status of the construction – we consider issuing the Convertible Bonds to match the construction status is reasonable given the proceeds from issue of the Convertible Bonds will be mostly applied to the new production lines as described under the sub-section headed “(3) Change in intended use of proceeds from the Convertible Bonds” below and the Company could also avoid any unnecessary interest expenses to be incurred (i.e. the 5% per annum) upon the Convertible Bonds are issued;
- (b) the prevailing market conditions (i.e. while the Company faced the general downward trend of the Share price and its relevant product price pressure), the availability of suitable investors and support from financial institutions, and the Subscriber’s continuous support to the Company – we have discussed with the

LETTER FROM JUN HUI INTERNATIONAL

Management about the Group's financial performance, the need for business development and the current fund-raising difficulties (as further discussed under the sub-section headed "(2) The Proposed Amendments" below) as well as the need for continuous contribution by the Subscriber who is an executive Director and chairman of the Board to the Group's business. We note that the Directors had sought other debt or equity financing alternatives but feedbacks from which were generally not concrete or immediate to accommodate its business plans of the new production lines, whereas the Subscriber expressed his willingness to invest in the plans at an early stage and therefore we agree with the Company that negotiating and sorting out means by entering into of the Second Supplemental Deed with the Subscriber is appropriate, or otherwise, argument or litigation between the Company and Subscriber could further postpone its plans on the new production lines and affect the Group's business development and the Company, on the other hand, has difficulties in raising funds or obtaining financing with favourable terms by other means;

- (c) the Proposed Amendments would in effect allow the Subscriber to subscribe for the outstanding Convertible Bonds, and the issue of the outstanding Convertible Bonds represents a good opportunity for the Group to raise additional capital – in the view that the entering into of the Second Supplemental Deed is appropriate as described in (b) above, it is fair to extend the Subscription Period (under the Proposed Amendments) in order to provide extra time to the Subscriber to further subscribe the Convertible Bonds, and that the proceeds raised therefrom could enable the Group to apply for business development and general working capital purposes (as further described under the sub-section headed "(3) Change in intended use of proceeds from the Convertible Bonds" below);
- (d) the Second Supplemental Deed could facilitate the Company's discussions with financial institutions in relation to renewal, extension and rescheduling of loans as advised by the Company – we consider it is commercially sound that the continued support of the Subscriber who is the executive Director and chairman of the Board and the investment by him in the Group's business development could maintain certain comfort/confidence to the financial institutions in, among others, the business prospects of the Group when considering the Group's loan terms; and
- (e) the raising of funds of the Company can be secured and the progress of new projects can be moved forward by accepting the Second Supplemental Deed – the Board advised that in view of the certainty and timing to the financing resources of the Company, the amount of net proceeds remained unchanged under the Proposed Amendments, the future development of the Company, avoidance of any adverse effect from argument or litigation with the Subscriber, the difficulties of finding alternatives financial resources, and the Board considered that it is still worth entering into the Second Supplemental Deed. We consider the Board had balanced different factors among possible alternatives currently available to the Group.

LETTER FROM JUN HUI INTERNATIONAL

Based on the foregoing and the factors as further discussed in the conclusion paragraph under the sub-section headed “(2) The Proposed Amendments” below, we agree with the Board (other than the Subscriber) that the entering into the Second Supplemental Deed, rather than exercising the Company’s Rights, is in the interests of the Company and the Shareholders as a whole, and it is fair and reasonable to come up with the Second Supplemental Deed between the Company and the Subscriber.

(2) The Proposed Amendments

On 28 September 2020 (after trading hours), the Company and the Subscriber entered into the Second Supplemental Deed, pursuant to which, among other changes on the terms of the Convertible Bonds, the parties agreed to (i) reduce the initial Conversion Price per Conversion Share from HK\$0.141 to HK\$0.108 (the “**New Conversion Price**”); (ii) extend the Subscription Period, accompanied with the extension of the Long Stop Date, from 31 October 2020 to 30 June 2021 (or such later date as the Company and the Subscriber may agree); and (iii) increase the principal amount of the Convertible Bonds from HK\$987,000,000 to HK\$988,500,000.

We note that the existing initial Conversion Price, being HK\$0.141 per Conversion Share, represents a significant premium of approximately 88.0% over the closing price per Share of HK\$0.075 on the date of the Second Supplemental Deed. We are given to understand from the Company that, following the closing of the First Tranche, the Subscriber had no intention to further subscribe the Convertible Bonds under the Subscription Agreement (as supplemented by the First Supplemental Agreement) at the existing initial Conversion Price of HK\$0.141 per Conversion Share. By revising the initial Conversion Price to HK\$0.108 per Conversion Share, the Directors (other than the Subscriber) advised that (i) the Subscriber could be incentivised to subscribe the outstanding principal amount of the Convertible Bonds so that the Group could apply the net proceeds therefrom for its business growth and general working capital with immediate term upon subscribed and could create certainty to the financing resources of the Company; (ii) the New Conversion Price will reflect a more realistic price of the conversion rights attached to the Convertible Bonds which may incentivise the Subscriber to exercise the conversion rights and lessen the financial burden of the Company; and (iii) the New Conversion Price was determined after arm’s length negotiations between the Company and the Subscriber. We agree with the Directors that it is fair and reasonable to revise the existing initial Conversion Price to be in line with the prevailing market price of the Shares having also considered the Share price performance after the Subscription Agreement was entered, which declined by more than half from HK\$0.176 per Share on 10 July 2019 (being the date of the Subscription Agreement) to HK\$0.075 per Share on 28 September 2020 (being the date of the Second Supplemental Deed).

The Convertible Bonds were originally expected to be issued by five tranches at the end of December 2019, January 2020, February 2020, March 2020 and April 2020 respectively as referred to the 2019 Circular and the Subscription Period was further extended to 31 October 2020, whereas only around 7.1% of the Convertible Bonds in principal amount was subscribed by the Subscriber as at the Latest Practicable Date. The Directors advised us that, in the event

LETTER FROM JUN HUI INTERNATIONAL

that the entering into of the Second Supplemental Deed and the transactions contemplated thereunder are not approved by the Independent Shareholders, they would, among others, explore other financing options which may be difficult. However, the Directors further advised that, if the Second Supplemental Deed fails to become effective and in the absence of other financing options, the Group shall not have sufficient funds to support its business growth and has an immediate need to enter into the Second Supplemental Deed which is considered as the best alternative in view of the Group's current financial conditions and business development. Having discussed with the Management, we note that:

- as illustrated under the section headed "Background and financial information of the Group" above in this letter, the Group continued incurring net loss of approximately RMB103.3 million during the six months ended 30 June 2020 and recording net current liabilities of approximately RMB1,704.7 million (among which, its short-term borrowings and current portion of long-term borrowings amounted to approximately RMB1,302.3 million and RMB26.9 million respectively) as at 30 June 2020. Based on the unaudited consolidated management accounts of the Group for the eight months ended 31 August 2020, it is noted that the Group's cash position (excluding the pledged bank deposits) was approximately RMB17.8 million as at 31 August 2020. Despite of HK\$70,500,000 raised from the First Tranche, the relatively low cash position of the Group as at 31 August 2020 may still not be sufficient to support its business development in view of its current short-term repayment obligations. The Group has a funding need to establish the new production lines while the construction plans are expected to commence in late 2020 or 2021(as illustrated below);
- other than entering into of the Second Supplemental Deed, the Directors had considered debt financing such as bank borrowings. However, obtaining bank borrowings would normally require lengthy due diligence with banks on the Group's financial healthiness. As at the Latest Practicable Date, the Group had approached several financial institutions on possible debt financing to the new production lines, whereas none of which was concrete or immediate to catch up with the construction expected to commence in late 2020 or 2021. In view of the Group's financial results (which recorded net losses and net current liabilities in the recent financial periods as illustrated above), the Directors considered that it shall take the Group with more efforts and time to secure/negotiate on the new debt financing with favourable terms and may not serve its immediate need for the construction plans as aforesaid; and
- the Directors had also considered equity financing such as rights issue and open offer. However, the pre-emptive issues would incur undue administrative workload and additional charges such as underwriting commissions and would be more time consuming to conduct taking into account the negotiation process with potential underwriters due to the difficult financial conditions of the Group. While placing of new Shares would result in immediate dilution to the shareholdings of the existing Shareholders and similarly would incur commission expenses, and it is also difficult for the Company to identify suitable prospective investors to undergo placing of new Shares as a result of the previous discussed factors as considered by the Directors.

LETTER FROM JUN HUI INTERNATIONAL

Having balanced possible alternatives, the Directors consider the Proposed Amendments are the suitable means currently available to the Group to fund the establishment of the new production lines in its production plants with the expected construction plans as aforementioned. We agree with the Directors' view that the Proposed Amendments by entering into of the Second Supplemental Deed is appropriate and could support the Group's business development and operation with immediate term in view of its difficult financial conditions, and it is fair to extend the Subscription Period in order to provide extra time and incentive to the Subscriber to further subscribe the Convertible Bonds and the arrangement of which is in the interests of the Company and the Shareholders as a whole.

The parties also agree, pursuant to the Second Supplemental Deed, to increase the principal amount of the Convertible Bonds from HK\$987,000,000 to HK\$988,500,000. Referring to the Letter from the Board, such increase in the principal amount will finance the relevant costs and expenses to be incurred in the Proposed Amendments. The effect will result in an additional Conversion Shares to be issued and allotted upon conversion. Pursuant to an instrument of the Convertible Bonds of the Company, it is noted that there are restrictions provided that the conversion of the Convertible Bonds (i) does not trigger any mandatory offer obligations under Rule 26 of the Takeovers Code on the part of holders of the Convertible Bonds (i.e. the Subscriber) which exercised the conversion rights, namely more than 30% (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (ii) does not reduce the public float of the Shares to less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares. In view of the existence of such restrictions, we consider that it is acceptable to slightly adjust the principal amount of the Convertible Bonds upward where the additional proceed therefrom is intended to settle relevant costs and expenses in relation to the Proposed Amendments.

Have considered the above including (i) it is fair and reasonable to come up with the Second Supplemental Deed between the Company and the Subscriber rather than exercising the Company's Rights as discussed under the sub-section headed "(1) Events leading up to the Second Supplemental Deed"; (ii) the revision of the existing initial Conversion Price closer to the prevailing Share price could incentivise the Subscriber to subscribe the Convertible Bonds for the Group's funding need, in view of the decreasing trend of the Share price after the Subscription Agreement was entered in July 2019 and it is reasonably expected that the significant premium of the existing initial Conversion Price over the prevailing Share price would hesitate the Subscriber to further subscribe the Convertible Bonds; (iii) it is also fair to correspondingly revise the Subscription Period to provide extra time to encourage further subscription by the Subscriber under the New Conversion Price; (iv) the immediate funding need of the Group for business development in view of its financial conditions; (v) the Proposed Amendments by entering into of the Second Supplemental Deed is considered as the appropriate means among the financing alternatives available to the Group to generate immediate funds under the current circumstance; and (vi) it is acceptable to upward adjust the principal amount of the Convertible Bonds to compensate relevant costs and expenses in relation to the Proposed Amendments, we are therefore of the view that it is fair and reasonable for the Group to enter into the Second Supplemental Deed with the Subscriber, and the entering into of which is in the interests of the Company and the Shareholders as a whole.

LETTER FROM JUN HUI INTERNATIONAL

(3) *Change in intended use of proceeds from the Convertible Bonds*

The gross proceeds from the Convertible Bonds under the existing terms, if issue in full, will be HK\$987,000,000. Upon the Second Supplemental Deed becomes effective, the gross proceeds from the issue of the Convertible Bonds (including the First Tranche) will be revised slightly to HK\$988,500,000, while the net proceeds from the issue of the Convertible Bonds (after deduction of all the relevant costs and expenses) is estimated to be approximately HK\$986,000,000. Apart from the Proposed Amendments, the Company also intends to reallocate part of the net proceeds from the Convertible Bonds as follows:

Original intended use of proceeds proposed to reallocate (<i>Note 1</i>)	Proposed change in intended use of proceeds (collectively, the “Latest Intended Use of Proceeds”)	Further details of the Latest Intended Use of Proceeds
<ul style="list-style-type: none"> • approximately HK\$550 million will be used for the establishment of a new production line of propylene oxide in Guangan plant (i.e. the Guangan New Production Line) 	<ul style="list-style-type: none"> • approximately HK\$350 million will be used for the establishment of a new production line of polybutylene adipate terephthalate (“PBAT”) of new material plant in Guangan (“Guangan New Material Plant”). • the Company intends to apply (i) approximately HK\$200 million for the purchase of new machinery and equipment for the production of PBAT in Guangan New Material Plant; and (ii) approximately HK\$150 million for the installation of such machinery and equipment for the new production line. 	<p>According to the Company’s feasibility study (<i>Note 2</i>) and as advised by the Management:</p> <ul style="list-style-type: none"> • PBAT is a biodegradable raw material, and can be used to manufacture biodegradable/compostable plastic bags and wraps. This biodegradable project will be one of the major components to the environmental projection work promoted by the Group and is in line with the Group’s business strategy. • the establishment of the PBAT production line in Guangan New Material Plant will be constructed by altering and enhancing the existing production facilities in the production plant, which enables the Group to save costs and time (i.e. shorten period of investment payback) by utilising the current resources available to the Group. • the existing construction plan of the PBAT production line is expected to commence before the end of 2020 and is anticipated to take around one year to complete the current phase, subject to the general market demand, prevailing market and financial situations.

LETTER FROM JUN HUI INTERNATIONAL

Original intended use of proceeds proposed to reallocate (<i>Note 1</i>)	Proposed change in intended use of proceeds (collectively, the “Latest Intended Use of Proceeds”)	Further details of the Latest Intended Use of Proceeds
	<ul style="list-style-type: none"> • approximately HK\$250 million will be used for the establishment of a new production line of nylon 66 of chemical plant in Guangan (“Guangan Chemical Plant”). • the Company intends to apply (i) approximately HK\$200 million for the purchase of new machinery and equipment for the production of nylon 66 in Guangan Chemical Plant; and (ii) approximately HK\$50 million for the installation of such machinery and equipment for the new production line. 	<ul style="list-style-type: none"> • estimated investment costs under the current phase would be fully funded by the proceeds from the Convertible Bonds. • it is anticipated that the PBAT production line would commence generating revenue in the second year. The expected investment payback period (including construction period) for the current phase would be around two years. • the shorter investment payback period of the PBAT production line enables the Group to generate cash flow for the development of other projects of the Group as considered by the Directors. <p>According to the Company’s feasibility study (<i>Note 2</i>) and as advised by the Management:</p> <ul style="list-style-type: none"> • nylon 66 is a type of engineering plastic, and could be widely used in, among others, automotive and textile industries. Nylon 66 is a downstream product of ammonia and methanol which are the major products of Guangan Chemical Plant, and provides synergy effect by extending its future product offering and broadening the then revenue stream. • the existing construction plan of the nylon 66 production line in Guangan Chemical Plant is expected to commence in late 2021 and is anticipated to take around two years to complete the current phase, subject to the general market demand, prevailing market and financial situations.

LETTER FROM JUN HUI INTERNATIONAL

Original intended use of proceeds proposed to reallocate (<i>Note 1</i>)	Proposed change in intended use of proceeds (collectively, the “Latest Intended Use of Proceeds”)	Further details of the Latest Intended Use of Proceeds
<ul style="list-style-type: none"> • approximately HK\$206 million will be used as general working capital of the Group. 	<ul style="list-style-type: none"> • approximately HK\$156 million will be used as general working capital of the Group, of which RMB100 million will be applied towards repayment of certain loans and interest. 	<ul style="list-style-type: none"> • estimated capital expenditures including construction costs for the current phase would be around RMB2,507 million to be funded by, among others, the proceeds from the Convertible Bonds, the Group’s internal cash flows from operating activities and loans from financial institutions. • it is anticipated that the nylon 66 production line would commence generating revenue in the third year. The expected investment payback period (including construction period) for the current phase would be around four years. • Intends to apply for general working capital purpose which could provide the Group with certain flexibility in operations and where its certain loan and interest repayment obligations arisen.

Notes:

1. approximately HK\$230 million intended to be applied for the establishment of a new production line of dimethyl carbonate in Dazhou plant remained unchanged.
2. the Company engaged an independent third party, which possesses 工程設計資質證書(化工石化醫藥行業甲級) (Class A Engineering Design Certificate for Chemical, Petrochemical and Pharmaceutical Industry*) issued by the Ministry of Housing and Urban-Rural Development of the PRC and 工程諮詢單位甲級資信證書(石化、化工、醫藥) (Class A Engineering Consulting Certificate for Chemical, Petrochemical and Pharmaceutical*) issued by China National Association of Engineering Consultants, to conduct feasibility studies for the purpose of the establishments of the PBAT production line and the nylon 66 production line.

* *for identification purpose only.*

We are advised by the Directors that facing the economic downturn and unstable conditions of the fertiliser and chemical industry, the Group has allocated resources in recent years to examine and conduct research on possible new materials, aiming to diversify products within the Group to keep pace with the changing market and to improve its operating results. Especially the sudden outbreak of COVID-19 epidemic at the beginning of 2020 has led to great impact on its production arrangement, logistics and transportation and price of products.

LETTER FROM JUN HUI INTERNATIONAL

The Company reviews and concludes on its research results on new materials/products from time to time, and considers the Latest Intended Use of Proceeds could better enhance the Group's business and generate return after considering the recent market conditions. The proposed change in intended use of proceeds by the Group as illustrated above is therefore to re-position its projects based on the review outcomes and to better reallocate internal resources to higher value-added projects to achieve the said. Referring to the Letter from the Board, it is noted that, with the introduction of the relevant new production lines, the above proposed change in intended use of proceeds will improve efficiency and effectiveness of its deployment, which can overall strengthen the capital base and financial position of the Group as considered by the Directors.

We have furnished by the Company with the feasibility studies in relation to the establishments of the PBAT production line and the nylon 66 production line, and (i) conducted desktop search on the party issuing the feasibility studies and noted the two certificates, namely 工程設計資質證書(化工石化醫藥行業甲級) and 工程諮詢單位甲級資信證書(石化、化工、醫藥) obtained by it; (ii) discussed with the Management on, among others, the Group's business strategy, reasons for and benefits of establishing the new production lines, its proposed plans and details of the Latest Intended Use of Proceeds by making reference to the feasibility studies to examine any discrepancies relating to such plans, while nothing abnormal is noted; and (iii) conducted desktop research independently to further examine the uses of PBAT and nylon 66 and the potential demands of/drivers to such products, apart from solely relying on descriptions in the feasibility studies. Based on our desktop research, it is noted that nylon 66 has extensive applications in different industries such as automotive and textile industries. In particular, for the automotive industry, nylon 66 has been widely applied to production of various automotive parts (including engine, electrical and body parts). According to National Bureau of Statistics of China, production volume of automobiles in the PRC experienced steady growth at a CAGR of approximately 3.4% over the past ten years to approximately 25.5 million sets in 2019. In January 2019, the National Development and Reform Commission of China ("NDRC"), together with nine other ministries, issued a policy plan to, among others, stimulate automobile sales, which would expect positive effect to the automotive industry of the PRC. Such market growth/driver indicates the need of nylon 66. As for biodegradable market, it is noted that the NDRC and the Ministry of Ecology and Environment of China jointly issued opinions on further strengthening the treatment of plastic pollution in January 2020, among others, setting out timeframe for banning or restricting use of nondegradable plastic products in prescribed sectors/areas in the PRC and promoting green packaging such as biodegradable bags and other environmental-friendly alternatives. It is reasonably expected that, with the support of the PRC government's policies, the potential demand for biodegradable products in the PRC could be observed.

The Company intends to apply the Latest Intended Use of Proceeds from the Convertible Bonds mainly for the Group's business developments (i.e. the establishment of the new production lines) in accordance with the production schedules of the production plants, while the remaining HK\$156 million for general working capital purpose. We have further discussed with the Company about the rationale of such allocation and are given to understand that (i) it is the most crucial for the Group to figure out ways and allocate resources to broaden its

LETTER FROM JUN HUI INTERNATIONAL

revenue stream and improve operating results while the introduction of the new production lines could achieve such goal after the Company's due and careful consideration, and thereby enhancing the Group's ability to generate operating cash flows to serves its existing and future business needs and improve its financial healthiness in long run; and (ii) the remaining HK\$156 million of the net proceeds for general working capital purpose could provide the Group with certain flexibility in operations and where its certain loan and interest repayment obligations arisen, in particular the Company was in negotiations with the banks on the renewals of certain loans as disclosed in the Business Update Announcement. Accordingly, having considered that:

- (a) it is acceptable to allocate the majority portion of the net proceeds for the Group's business developments aiming to generating future revenue which shall benefit the Group from a long-term perspective, in the view of, as discussed in the foregoing, (i) the potential demands of/drivers to the need of biodegradable products and nylon 66 in markets; (ii) the biodegradable project of the PBAT production line is in line with the Group's business strategy, and could leverage to the Group's existing production facilities for alternation thereby shortening the investment payback period as advised by the Company; (iii) the synergy effect from the nylon 66 production line (by using ammonia and methanol as initial raw materials in the production of nylon 66) to broaden the Group's future revenue stream; (iv) based on the Company's feasibility studies, the shorter investment payback periods are expected for the PBAT production line and the nylon 66 production line (which would be around two years and four years respectively), comparing to that of around five years for the Guangan New Production Line as referring to the 2019 Circular; (v) it is reasonable for the Company to prioritise and better utilise its internal resources to projects with higher value/return after its due consideration and assessment in view of the Group's financial results as previously illustrated; and (vi) the positive cash flow from its production plants serves as a basis relating to the Group's going concern matter as advised by the Directors;

- (b) it is also fair and reasonable to set assign the remaining HK\$156 million of the net proceeds to enable the Group to have greater flexibility in operations and for debt repayment, particularly after considering that such amount of the proceeds together with the Group's cash position (excluding the pledged bank deposits) of approximately RMB17.8 million as at 31 August 2020 could ease the Group's immediate burden in dealing with its repayment obligations to a significant extent should the Company fails to renew the relevant loans with the aggregate principal loan amount of RMB177.0 million as mentioned in the Business Update Announcement in the worst case scenario;

and also the reasons discussed under the sub-section headed "(2) The Proposed Amendments" above, we are of the view that the change in the intended use of proceeds from the Convertible Bonds is acceptable, and agree with the Directors that the entering into of the Second Supplemental Deed is in the interests of the Company and the Shareholders as a whole.

LETTER FROM JUN HUI INTERNATIONAL

III. Principal terms of the Second Supplemental Deed

The Proposed Amendments under the Second Supplemental Deed include (i) the extension of the Long Stop Date from 31 October 2020 to 30 June 2021, or such later date as the Company and the Subscriber may agree; (ii) the extension of the Subscription Period from 31 October 2020 to 30 June 2021, or such later date as the Company and the Subscriber may agree; (iii) the revision of the existing initial Conversion Price per Conversion Share from HK\$0.141 to HK\$0.108, subject to adjustments in accordance with the terms and conditions of the Convertible Bonds; (iv) the increase of the principal amount of the Convertible Bonds from HK\$987,000,000 to HK\$988,500,000; and (v) the additional 2,000,000,000 Conversion Shares to be issued and allotted upon full conversion of the Convertible Bonds, while the Conversion Shares shall be allotted and issued pursuant to the New Specific Mandate.

Referring to the Letter from the Board, the New Conversion Price was determined after arm's length negotiations between the Company and the Subscriber with reference to, among others, the prevailing market price of the Shares. The New Conversion Price represents:

- (i) a premium of approximately 44.00% to the closing price of HK\$0.075 per Share as quoted on the Stock Exchange on 28 September 2020, being the date of the Second Supplemental Deed;
- (ii) a premium of approximately 44.77% to the average closing price of HK\$0.0746 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately before the date of the Second Supplemental Deed;
- (iii) a premium of approximately 42.67% to the average closing price of HK\$0.0757 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately before the date of the Second Supplemental Deed; and
- (iv) a premium of approximately 56.52% to the closing price of HK\$0.0690 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

(1) *Historical Share performance*

- *Share prices*

Set out below a chart showing the daily closing price of the Shares as quoted on the Stock Exchange from 10 July 2019 (being the date of the Subscription Agreement) up to and including 28 September 2020 (being the date of the Second Supplemental Deed) (the "**Share Price Review Period**"), while we consider it is fair and reasonable to review the closing prices of the Shares since the date of the Subscription Agreement by which time

LETTER FROM JUN HUI INTERNATIONAL

the existing initial Conversion Price was agreed in order to provide a complete picture on the Share price performance up to the date of the Second Supplemental Deed:



Source: the website of the Stock Exchange

During the Share Price Review Period, the Shares closed on the Stock Exchange were between a low of HK\$0.06 per Share on 3 and 5 August 2020 and a high of HK\$0.226 per Share on 23 July 2019, with an average closing Share price of approximately HK\$0.125 per Share. It is noted that the New Conversion Price is within the range of the lowest and highest closing prices of the Shares during the said period. Subsequent to the entering into of the Subscription Agreement, the closing Share price had a decreasing trend overall during the Share Price Review Period. Significant decline in the closing Share price was observed especially during 2020 as illustrated in the chart above, where the closing Share prices in 2020 up to the date of the Second Supplemental Deed were between HK\$0.167 per Share and HK\$0.06 per Share representing a decline of approximately 64.1% from the highest to the lowest in the closing Share prices during the said period.

We also note that the existing initial Conversion Price represents a premium of approximately 12.95% over the average closing Share price of the Share Price Review Period, and a premium of approximately 43.03% over the average closing Share price of the period in 2020 up to the date of the Second Supplemental Deed. The existing initial Conversion Price was far above the recent Share prices which encountered significant decline subsequent to the entering into of the Subscription Agreement in July 2019.

Having considered including (i) the existing initial Conversion Price was far above the recent Share prices which declined significantly overall after the Subscription Agreement was entered; (ii) accompanying with the unfavourable financial performance of the Group as described previously in this letter, the recent Share performance could reasonably hesitate the Subscriber, who actually expressed no intention, to further subscribe the Convertible Bonds to serve the Group's immediate funding need; (iii) the

LETTER FROM JUN HUI INTERNATIONAL

New Conversion Price falls within the range of the lowest and highest Share prices during the Share Price Review Period; and (iv) the existing initial Conversion Price was determined after arm's length negotiations between the Company and the Subscriber to reflect a more realistic price of the conversion rights attached to the Convertible Bonds as previously mentioned, while the New Conversion Price still represents premiums (approximately 44.77% and 42.67% respectively) over the average closing Share price for the last five and the last ten consecutive trading days immediately before the date of the Second Supplemental Deed, we therefore are of the view that the New Conversion Price is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

- *Trading volumes*

Further set out below is the average daily trading volume of the Shares per relevant month/period, and the respective percentage of the average daily trading volume of the Shares to the total number of issued Shares as at the end of relevant month/period, in the 12-month period immediately prior to and including the date of the Second Supplemental Deed (the “**Trading Volume Review Period**”):

Year/Month	Total trading volume of the Shares	Number of trading days	Average daily trading volume of the Shares	Percentage of average daily trading volume to total number of issued Shares as at the end of relevant month/period ^(Note)
<u>2019</u>				
September (from 29 September 2019)	236,000	1	236,000	0.005%
October	17,252,000	21	821,524	0.017%
November	10,077,000	21	479,857	0.009%
December	31,640,000	20	1,582,000	0.030%
<u>2020</u>				
January	15,432,000	20	771,600	0.014%
February	14,116,000	20	705,800	0.013%
March	30,980,000	22	1,408,182	0.026%
April	14,504,000	19	763,368	0.014%
May	9,460,000	20	473,000	0.009%
June	21,048,000	21	1,002,286	0.018%

LETTER FROM JUN HUI INTERNATIONAL

Year/Month	Total trading volume of the Shares	Number of trading days	Average daily trading volume of the Shares	Percentage of average daily trading volume to total number of issued Shares as at the end of relevant month/period ^(Note)
July	23,508,000	22	1,068,545	0.019%
August	15,696,000	21	747,429	0.014%
September (up to the date of the Second Supplemental Deed)	12,768,000	20	638,400	0.012%
Maximum	31,640,000	22	1,582,000	0.030%
Minimum	236,000	1	236,000	0.005%
Average	16,670,538	19	822,922	0.015%

Source: the website of the Stock Exchange

Note: changes in the total number of issued Shares occurred during the month of October 2019 and December 2019. For illustrative purpose, weighted average number of issued Shares in the relevant month is used for calculation.

As illustrated in the table above, it is noted that the average daily trading volume of the Shares per month/period accounted for only a small portion of the total number of issued Shares as at the end of the relevant month/period, which ranges from approximately 0.005% to 0.030% during the Trading Volume Review Period. The trading volume of the Shares was relatively thin during the said period, indicating a generally low liquidity of the Shares and may impose difficulty for the Company to attract other investors and/or Shareholders to invest in it through equity financing.

(2) Comparable analysis

In order to further assess the fairness and reasonableness of the Proposed Amendments, we have reviewed comparable transactions involving issue of convertible bonds/notes under specific mandates (excluding issue as part of consideration in acquisitions) announced by companies listed on the Stock Exchange in the past 12 months immediately preceding to the date of the Second Supplemental Deed (the “**Comparable Transactions**”). We have, to our best effort and so far as we are aware, identified 25 Comparable Transactions which we consider to be exhaustive. We also consider the following list of the Comparable Transactions is fair, representative and comparable to the Second Supplement Deed, taking into account that (i) they are of the same transaction type, i.e. involving issue of convertible bonds or notes under specific mandates and not issuing as part of consideration in acquisitions, while the conversion rights attached thereto relate to shares of listed companies on the Stock Exchange;

LETTER FROM JUN HUI INTERNATIONAL

(ii) the 12-month period immediately prior to the date of the Second Supplemental Deed represents a reasonable and meaningful time period to capture the recent market practice for the issue of such convertible securities for fund raising purposes; and (iii) a list of 25 Comparable Transactions identified in accordance with the aforesaid selection criteria shall be adequate to provide a general reference for comparison purpose. Independent Shareholders should note that the businesses, operations and prospects of the Group may not be the same as, or vary from, those of the listed companies conducting the Comparable Transactions, and the Comparable Transactions set out below are for the purpose of providing a general insight on the terms of issue of convertible bonds/notes under specific mandates during the said 12 months' period. Details of the Comparable Transactions are set out below:

Date of announcement	Name of company	Stock code	Maturity (Year)	Interest rate (per annum)	Premium/(discount) of conversion price over/(to) closing price per share on the last trading day prior to or on the date of subscription agreement	Premium/(discount) of conversion price over/(to) average closing price per share for the last five trading days prior to or including the date of subscription agreement
21 Sept 2020	Wai Chun Bio-Technology Limited	660.HK	3.0	4.0%	0.0%	(6.3)%
18 Sept 2020	China Ocean Industry Group Limited	651.HK	2.0	10.0%	8.7%	5.7%
14 Sept 2020	Chinese Strategic Holdings Limited	8089.HK	1.0	24.0%	(14.1)%	(14.1)%
10 Sept 2020	Eagle Ride Investment Holdings Limited	901.HK	1.0	8.0%	23.5%	70.5%
31 Jul 2020	E-House (China) Enterprise Holdings Limited	2048.HK	3.0	2.0%	5.0%	(1.1)%
29 Jul 2020	Changyou Alliance Group Limited	1039.HK	3.0	3.5%	7.7%	4.7%
28 Jul 2020	Wai Chun Bio- Technology Limited	660.HK	3.0	4.0%	0.0%	(9.1)%
24 Jul 2020	Value Convergence Holdings Limited	821.HK	3.0	0.0%	(4.3)%	(4.8)%
22 Jul 2020	Green Leader Holdings Group Limited	61.HK	2.0	0.0%	0.0%	0.0%

LETTER FROM JUN HUI INTERNATIONAL

Date of announcement	Name of company	Stock code	Maturity (Year)	Interest rate (per annum)	Premium/(discount) of conversion price over/(to) closing price per share on the last trading day prior to or on the date of subscription agreement	Premium/(discount) of conversion price over/(to) average closing price per share for the last five trading days prior to or including the date of subscription agreement
18 Jun 2020	Standard Chartered PLC	2888.HK	Perpetual	6.0%	(1.5)%	(0.6)%
4 Jun 2020	Asiaray Media Group Limited	1993.HK	Perpetual	4.0%	15.0%	8.0%
21 May 2020	Wai Chun Group Holdings Limited	1013.HK	3.0	4.0%	5.9%	4.7%
18 Apr 2020	Century Sunshine Group Holdings Limited	509.HK	2.0	8.0%	18.7%	18.8%
7 Apr 2020	South China Financial Holdings Limited	619.HK	3.0	0.0%	0.0%	0.9%
1 Apr 2020	Sunshine Oilsands Ltd.	2012.HK	2.0	8.0%	26.4%	0.0%
27 Mar 2020	Asia Energy Logistics Group Limited	351.HK	3.0	0.0%	(3.0)%	(7.0)%
2 Mar 2020	China Regenerative Medicine International Limited	8158.HK	3.0	0.0%	(5.7)%	(16.8)%
25 Feb 2020	Wai Chun Group Holdings Limited	1013.HK	Perpetual	5.0%	2.4%	5.0%
23 Jan 2020	Wai Chun Bio-Technology Limited	660.HK	3.0	4.0%	(7.4)%	(9.5)%
22 Jan 2020	Huajun International Group Limited	377.HK	5.0	0.0%	192.3%	204.5%
13 Jan 2020	Best Food Holding Company Limited	1488.HK	5.0	0.0%	7.3%	9.9%
29 Nov 2019	Shougang Concord International Enterprises Company Limited	697.HK	2.0	0.0%	(13.0)%	(15.3)%
31 Oct 2019	Pacific Basin Shipping Limited	2343.HK	6.0	3.0%	31.9%	36.4%

LETTER FROM JUN HUI INTERNATIONAL

Date of announcement	Name of company	Stock code	Maturity (Year)	Interest rate (per annum)	Premium/(discount)	Premium/(discount)
					of conversion price over/(to) average closing price per share for the last five trading days prior to or including the date of subscription agreement	of conversion price over/(to) closing price per share on the last trading day prior to or on the date of subscription agreement
14 Oct 2019	Ban Loong Holdings Limited	30.HK	2.0	3.0%	(0.8)%	0.0%
9 Oct 2019	China Touyun Tech Group Limited	1332.HK	2.0	8.0%	(7.7)%	(2.9)%
		<i>Maximum</i>	<i>Perpetual</i>	<i>24.0%</i>	<i>192.3%</i>	<i>204.5%</i>
		<i>Minimum</i>	<i>1.0</i>	<i>0.0%</i>	<i>(14.1)%</i>	<i>(16.8)%</i>
		<i>Average</i>	<i>2.8^(Note)</i>	<i>4.4%</i>	<i>12.0%</i>	<i>12.0%</i>
28 Sept 2020	The Company	827.HK	5.0	5.0%	44.00%	44.77%

Source: the website of the Stock Exchange

Note: the Comparable Transactions with perpetual maturity are excluded for illustrative purpose.

As illustrated in the table above, the conversion price per share issued under the Comparable Transactions ranged from (i) a discount of approximately 14.1% to a premium of approximately 192.3% over their respective closing price per share on the last trading day prior to or on the date of subscription agreement, with an average premium of approximately 12.0%; and (ii) a discount of approximately 16.8% to a premium of approximately 204.5% over their respective average closing price per share for the last five trading days prior to or including the date of subscription agreement, with an average premium of approximately 12.0%. We note that the premiums of the New Conversion Price over the closing Share price on the date of the Second Supplemental Deed and for the last five trading days immediately before the date of the Second Supplemental Deed, which were approximately 44.00% and 44.77% respectively, are within the respective range of the Comparable Transactions and above the respective average of the Comparable Transactions as described above. We therefore consider the New Conversion Price is fair and reasonable.

LETTER FROM JUN HUI INTERNATIONAL

(3) *Conversion price of other convertible bonds currently held by the Subscriber*

On 31 January 2019 and 15 March 2019, the Company issued convertible bonds in aggregate principal amount of HK\$270,000,000 at conversion price of HK\$0.108 per Share to the Subscriber pursuant to a subscription agreement dated 19 July 2018 entered into between both parties (as supplemented by the first and the second supplemental agreements dated 27 December 2018 and 31 January 2019 respectively). Details of which can be referred to the relevant completion announcement of the Company dated 15 March 2019. We note that the New Conversion Price is equivalent to the said conversion price of other convertible bonds currently held by the Subscriber, and without such conversion price difference, the New Conversion Price shall better incentivise the Subscriber to subscribe the remaining Convertible Bonds for the Group's funding need. While the New Conversion Price still represents premiums to the prevailing Share prices as mentioned in the previous paragraph which is in the Company's interest.

Having considered the foregoing and the reasons for entering into of the Second Supplemental Deed illustrated under section II above in this letter, we therefore consider the Proposed Amendments including the New Conversion Price are fair and reasonable, and the entering into of the Second Supplemental Deed and the transactions contemplated thereunder (including the Proposed Amendments and the issue and allotment of the Conversion Shares under the New Specific Mandate) are in the interests of the Company and the Shareholders as a whole.

IV. Potential dilution to the shareholding of the Shareholders resulting from the Proposed Amendments

Referring to the Letter from the Board, an additional 2,000,000,000 Conversion Shares will be issued and allotted upon full conversion of the Convertible Bonds under the Proposed Amendments. Set out below is the table for the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the conversion of all the Convertible Bonds in the principal amount of HK\$988,500,000 under the Second Supplemental Deed:

Shareholders	As at the Latest Practicable Date		Immediately after the issue and allotment of the Conversion Shares upon full conversion of all the Convertible Bonds in the principal amount of HK\$988,500,000	
	<i>Number of Shares</i>	<i>% (approx.)</i>	<i>Number of Shares</i>	<i>% (approx.)</i>
Asia Pacific Resources Development Investment Limited	800,000,000	14.58	800,000,000	5.52
The Subscriber ^(Note)	100,000,000	1.82	4,344,963,975	29.99

LETTER FROM JUN HUI INTERNATIONAL

Shareholders	As at the		Immediately after the issue and	
	Latest Practicable Date		allotment of the Conversion	
	Shares		Shares upon full conversion of	
	<i>Number of</i>	<i>%</i>	<i>Number of</i>	<i>%</i>
	<i>Shares</i>	<i>(approx.)</i>	<i>Shares</i>	<i>(approx.)</i>
			the principal amount of	
			HK\$988,500,000	
Shi Jianmin	200,300,000	3.65	200,300,000	1.38
Zhang Weihua	500,000,000	9.11	500,000,000	3.45
Public Shareholders	<u>3,887,742,599</u>	<u>70.84</u>	<u>8,642,778,624</u>	<u>59.65</u>
Total	<u>5,488,042,599</u>	<u>100.00</u>	<u>14,488,042,599</u>	<u>100.00</u>

Note: the Subscriber held (a) convertible bonds of the Company (i) in the principal amount of HK\$8,640,000 with conversion price of HK\$0.108 per Share and (ii) in the principal amount of HK\$70,500,000 with initial Conversion Price of HK\$0.141 per Share; and (b) 100,000,000 Shares.

As at the Latest Practicable Date, the Company had 5,488,042,599 Shares in issue. Upon full conversion of all the Convertible Bonds in the principal amount of HK\$988,500,000, an aggregate number of 9,000,000,000 Conversion Shares will be issued and allotted, representing approximately 163.99% of the issued share capital of the Company as at the Latest Practicable Date and approximately 62.12% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares.

In the view of, as illustrated previously, (i) the reasons for entering into of the Second Supplemental Deed; (ii) the relatively thin trading volume of the Shares in the last 12 months prior to and including the date of the Second Supplement Deed, indicating the possible difficulty for the Company to pursue equity financing and other financing alternatives currently available to the Group; (iii) the Proposed Amendments are considered to be fair and reasonable so far as the Independent Shareholders are concerned; and (iv) the existence of the restrictions to holders of the Convertible Bonds on not triggering any mandatory offer obligations under Rule 26 of the Takeovers Code or not reducing the public float of the Shares below 25% when excising the conversion rights, we consider that the above potential dilution effect on the shareholding of the existing Shareholders is acceptable.

V. Financial impact of the Proposed Amendments

(i) Net asset value

According to 2020 Interim Report, the net assets of the Group was approximately RMB130.7 million as at 30 June 2020. Upon the subscription of the Convertible Bonds under the Second Supplemental Deed, they will consist of an equity portion and a liability portion. The exact figures of respective fair value of the liability and equity components of the Convertible Bonds and their financial impacts to the Group will be subject to the valuation from independent valuer. While upon conversion of the Convertible Bonds, the liabilities of the Group will decrease and therefore the net asset value of the Group is expected to increase, as advised by the Directors.

(ii) Liquidity

According to 2020 Interim Report, the cash and bank deposits of the Group was approximately RMB6.4 million as at 30 June 2020. Taking into account the First Tranche and immediately upon the subscription of the Convertible Bonds under the Second Supplemental Deed, the Company will have the total net proceeds of approximately RMB986 million, of which approximately RMB830 million will be applied for establishing of new production lines in its production plants and approximately HK\$156 million as general working capital of the Group, and accordingly will have a positive impact on the Group's liquidity.

(iii) Gearing

According to 2020 Interim Report, the gearing ratio of the Group, which is calculated as net debt divided by total capital, was approximately 94% as at 30 June 2020. As advised by the Directors, the liability and equity components of the Convertible Bonds upon subscribed would increase the Group's non-current liabilities and equity respectively, while the net proceeds from the issue of the Convertible Bonds will increase the Group's current assets. Accordingly, its net debt will be decreased by the difference of the net proceeds from the Convertible Bonds and the liability component of the Convertible Bonds, and the gearing ratio of the Group will improve.

It should be noted that the abovementioned analyses are for illustrative purpose only and does not purport to represent how the financial positions of the Group will be upon the Proposed Amendments becomes effective, or the issue or the conversion of the Convertible Bonds.

LETTER FROM JUN HUI INTERNATIONAL

OPINION AND RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that the terms of the Second Supplemental Deed is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Second Supplemental Deed and the transactions contemplated thereunder (including the Proposed Amendments and the issue and allotment of the Conversion Shares under the New Specific Mandate) are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the entering into of the Second Supplemental Deed and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

JUN HUI INTERNATIONAL FINANCE LIMITED

Tina Tian

Managing Director

Karol Hui

Director

Note: Ms. Tina Tian and Ms. Karol Hui are licensed persons registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and have over 12 years and nine years of experience in corporate finance industry respectively.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

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

<i>Authorised:</i>	Nominal Value (HK\$)
As at the Latest Practicable Date	
<u>20,000,000,000</u> Shares	<u>2,000,000,000.00</u>
As at the Latest Practicable Date	
<u>5,488,042,599</u> Shares	<u>548,804,259.90</u>
Conversion Shares to be issued upon completion of the Subscription	
<u>9,000,000,000</u> Shares	<u>900,000,000.00</u>
<i>Total:</i>	
<u>14,488,042,599</u> Shares	<u>1,448,804,259.90</u>

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

3. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

(a) Interest in the Company

i. Directors' interest in the Company

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

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

Directors	Personal long position in shares (beneficial owner)	Personal long position in convertibles (beneficial owner)	Personal long position in share options and bonds (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Subscriber	100,000,000	9,080,000,000		9,180,000,000	167.27%
Shi Jianmin	200,300,000	300,000,000		500,300,000	9.12%
Zhang Weihua	500,000,000	1,020,000,000		1,520,000,000	27.70%
Hu Xiaoping	–		800,000	800,000	0.01%

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

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

Name	Capacity	Number of shares	Approximate shareholding percentage
Mr. Cheng Kin Ming	Interest of corporation controlled	800,000,000	14.58%

Note: As at the Latest Practicable Date, Asia Pacific Resources Development Investment Limited which is wholly owned by Mr. Cheng Kin Ming also held a total amount of HK\$320,400,000 convertible bonds of the Company which can be converted into 1,001,375,000 shares of the Company.

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

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

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

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

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

Note: Mr. Li Weiruo, Mr. Yuan Bai and Mr. Tang Shiguo ceased to be directors of the Company with effect from 17 May 2019, 20 July 2018 and 29th April 2004 respectively.

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

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

Note: Mr. Tang Shiguo owns equal number of long positions and short positions in the non-voting deferred shares of Ko Yo Hong Kong, thus the net number of non-voting deferred shares of Ko Yo Hong Kong held by him is zero.

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

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

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

(b) **Dealings in securities**

i. *Directors*

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

ii. Others

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

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

(c) Interests and dealings in the Subscriber

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

(d) Outstanding convertible securities

As at the Latest Practicable Date, the outstanding convertible securities that issued on 13 November 2014 can convert into 1,002,675,000 Shares, the outstanding convertible securities that issued on 31 January 2019 can convert into 360,000,000 Shares, the outstanding convertible securities issued on 15 March 2019 can convert into 950,000,000 Shares, and outstanding convertible securities that issued on 28 September 2020 can convert into 500,000,000 Shares, set out below is the number of shares from conversion of outstanding convertibles securities converted into Shares:

As at the Latest Practicable Date	No. of shares from conversion of outstanding convertible securities
Asia Pacific Resources Development Investment Limited (<i>Note</i>)	1,001,375,000
The Subscriber	580,000,000
Mr. Zhang Weihua	1,020,000,000
Public	<u>211,300,000</u>
Total	<u><u>2,812,675,000</u></u>

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

(e) Share options

As at the Latest Practicable Date, there remained 5,700,000 and 300,000,000 share options granted under the 2008 Share Option Scheme and the 2020 Share Option Scheme respectively. Details of the share options granted by the Company pursuant to the 2008 Share Option Scheme and the 2020 Share Option Scheme and share options outstanding as at the Latest Practicable Date are set out as follows:

**Number of share options under the 2008 Share Option Scheme and the
2020 Share Option Scheme**

	Share Options A	Share Options B	Share Options C	Total number of Share Options held as at the Latest Practicable Date
Directors				
Shi Jianmin	–	–	300,000,000	300,000,000
Hu Xiaoping	400,000	–	–	400,000
Employees	<u>3,800,000</u>	<u>1,500,000</u>	<u>–</u>	<u>5,300,000</u>
Total	<u><u>4,200,000</u></u>	<u><u>1,500,000</u></u>	<u><u>300,000,000</u></u>	<u><u>305,700,000</u></u>

Notes:

- Share Options A: granted on 28 March 2013, exercisable until 27 March 2023 with exercise price at HK\$0.595 under the 2008 Share Option Scheme.
- Share Options B: granted on 22 June 2016, exercisable until 21 June 2026 with exercise price at HK\$0.151 under the 2008 Share Option Scheme.
- Share Options C: granted on 23 October 2020, exercisable until 22 October 2030 with exercise price at HK\$0.141 under the 2020 Share Option Scheme.

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

- no alternation to the authorised share capital of the Company since the end of its last financial year, being 31 December 2019. All of the Shares currently in issue rank *pari passu* in all respects with each other including, in particular, as to dividends, voting rights and capital;
- there was no arrangement under which future dividends were waived or agreed to be waived;
- no share or loan capital of the Company or any of its subsidiaries had been put under option or agreed conditionally or unconditionally to be put under option; and
- the Company did not have any other derivatives, options, warrants and other convertible securities or rights convertible into Shares.

4. DIRECTORS' SERVICE CONTRACTS

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

5. DIRECTORS' COMPETING INTERESTS

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

6. NO MATERIAL LITIGATION

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

7. QUALIFICATION AND CONSENT OF EXPERT

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

Name	Qualification
Jun Hui International Finance Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the expert named above was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

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

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

9. MATERIAL CONTRACTS

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

- (i) the Subscription Agreement;
- (ii) the First Supplemental Agreement; and
- (iii) the Second Supplemental Deed.

10. MISCELLANEOUS

- (i) The qualified accountant and the secretary of the Company is Mr. Chung Tin Ming, HKICPA, FCCA.
- (ii) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (iii) The head office and principal place of business of the Company in Hong Kong is Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.
- (iv) The share registrar of the Company in Hong Kong is Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (v) As at the Last Practicable Date, the Board comprises three executive Directors, being Mr. Tang Guoqiang, Mr. Shi Jianmin, and Mr. Zhang Weihua, and three independent non-executive Directors, being Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai.
- (vi) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed themselves to vote for or against the Subscription.

- (vii) Save as disclosed in this circular, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Subscriber or any person acting in concert with it and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the outcome of the subscription of the Convertible Bonds.
- (viii) There are no benefits to be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription.
- (ix) Save as disclosed in this circular, there is no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the subscription of the Convertible Bonds or otherwise connected therewith.
- (x) The Subscriber, the Directors and any parties acting in concert with it have not borrowed or lent any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Company.
- (xi) There is no material contract entered into by the Subscriber in which any Director has a material personal interest.
- (xii) None of the Directors has any interest, direct or indirect, in any assets which had been, since 31 December 2019, being the date of the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (xiii) The Subscriber will abstain from voting on the resolution in relation to the Second Supplemental Deed and the transactions contemplated thereunder including not limited to the grant of the New Specific Mandate.
- (xiv) There is no agreement, arrangement or understanding to transfer, charge or pledge any voting rights over the Conversion Shares.
- (xv) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (i) the memorandum and articles of association of the Company;
- (ii) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (iii) the annual reports of the Company for the three financial years ended 31 December 2019;
- (iv) the interim report of the Company for the six months ended 30 June 2020;
- (v) the written consent from Jun Hui International Finance Limited referred to in the above section headed “Qualification and Consent of Expert” in this appendix;
- (vi) the letter from the Board, the text of which is set out on pages 7 to 44 of this circular;
- (vii) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 45 to 46 of this circular;
- (viii) the letter of advice from Jun Hui International Finance Limited, the text of which is set out on pages 47 to 72 of this circular; and
- (ix) this circular.

NOTICE OF EGM



Ko Yo Chemical (Group) Limited

玫源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Ko Yo Chemical (Group) Limited (the “**Company**”) will be held at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong on Wednesday, 23 December 2020 at 3:00 p.m. for considering and, if thought fit, passing, with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT,**
 - (a) the second supplemental deed dated 28 September 2020 (the “**Second Supplemental Deed**”) entered into between the Company and Mr. Tang Guoqiang (the “**Subscriber**”) in relation to the further amendments of certain terms and conditions (the “**Proposed Amendments**”) of the convertible bonds issued by the Company in the principal amount of HK\$988,500,000 (of which the principal amount of HK\$70,500,000 has been issued on 28 September 2020) (the “**Convertible Bonds**”) (a copy of which has been produced to the EGM marked “A” and initialed by the chairman of the EGM for identification purposes) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
 - (b) the issue by the Company of the Convertible Bonds at an adjusted initial conversion price of HK\$0.108 per share (subject to adjustments) pursuant to the Second Supplemental Deed as supplemented together with the issuance of the bond instrument and the bond certificate to the Subscriber be and are hereby approved;

NOTICE OF EGM

- (c) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in, the Conversion Shares (as defined below) to be allotted and issued upon the conversion of the Convertible Bonds, the directors of the Company (the “**Directors**”) be and are hereby granted a new specific mandate (the “**New Specific Mandate**”) to allot and issue up to 8,500,000,000 ordinary shares of HK\$0.10 each of the Company to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds at an initial conversion price of HK\$0.108 per share (subject to adjustments) (the “**Conversion Shares**”); and
- (d) any one or more of the Directors (except Mr. Tang Guoqiang) be and is/are hereby authorised to do all such acts and things and sign and execute all such documents and to take such steps as he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Second Supplemental Deed and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares.”

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

Hong Kong, 4 December 2020

Registered office:

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

Principal place of business in Hong Kong:

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

NOTICE OF EGM

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the share registrar of the Company, Union Registrars Limited, Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not less than 48 hours before the time appointed for holding the meeting (or any adjournment thereof).
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.
4. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.
5. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
6. For the purpose of determining the right to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 18 December 2020 to Wednesday, 23 December 2020 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 17 December 2020.
7. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the ordinary resolution as set out above will be conducted by way of poll.
8. The EGM is expected not to last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.

As at the date of this notice, the Board comprises three executive Directors, being Mr. Tang Guoqiang, Mr. Shi Jianmin, and Mr. Zhang Weihua, and three independent non-executive Directors, being Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai.