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Ko Yo Chemical (Group) Limited

玖源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

UPDATE ON CONVERTIBLE BONDS

This announcement is made by Ko Yo Chemical (Group) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) on a voluntary basis.

Reference is made to the announcements dated 10 July 2019, 8 November 2019, 29 April 2020, 28 September 2020, 23 December 2020 and 25 June 2021, and the circular dated 4 December 2020 (the “**Circular**”) of Company in relation to the issue of the Convertible Bonds under Specific Mandate. Capitalised terms used in this announcement have the same meanings as those defined in the Circular, unless otherwise stated herein.

The Board wishes to provide further information to the Shareholders and potential investors of the Company on the (i) status of construction of the production lines where some of the proceeds from the Convertible Bonds were applied; and (ii) expected timetable of issuance of the outstanding principal amount of the Convertible Bonds under the Third Supplemental Deed.

STATUS OF CONSTRUCTION OF THE PRODUCTION LINES

As disclosed in the Circular, some of the proceeds from the Convertible Bonds would be applied for the construction of (i) PBAT production line in the Guangan New Material Plant; (ii) Dazhou New Production Line; and (iii) nylon 66 production line in the Guangan Chemical Plant. As at the date of this announcement:

- (i) PBAT production line in the Guangan New Material Plant – the current phase construction of the production line as disclosed in the Circular has been completed. The PBAT production line is currently in the trial production equipment tuning stage;
- (ii) Dazhou New Production Line – project proposal has been submitted to the local government for its approval. The Company has engaged contractors to carry out site preparation work (including discussion with construction contractors and equipment supplier on the project program, and negotiating terms of the construction agreements); and
- (iii) Nylon 66 production line in the Guangan Chemical Plant – the Company has engaged contractors to carry out site preparation work, including discussion with construction contractors and equipment suppliers on the project program.

EXPECTED TIMETABLE FOR ISSUANCE OF THE OUTSTANDING PRINCIPAL AMOUNT OF THE CONVERTIBLE BONDS

Following the closing of the first tranche of Subscription on 28 September 2020, the aggregate outstanding principal amount of the Convertible Bonds is HK\$918,000,000. As at the date of this announcement, it is expected that (i) the outstanding principal amount of the Convertible Bonds would be issued in no more than two tranches on or before 30 November 2021 in accordance with the terms of the Third Supplemental Deed; and (ii) the Company would issue the remaining two tranches (each with the principal amount of not less than HK\$50,000,000) of the Convertible Bonds at the end of October 2021 and November 2021, respectively. The expected timing and amount for each of the remaining tranches of the Convertible Bonds would be determined by the Board with reference to the progress of construction of the production lines.

The Board (other than the Subscriber) considered that issuing the remaining outstanding principals of the Convertible Bonds in two tranches would be in the best interests of the Company and the Shareholders as a whole having considered, among others, the following:

(i) Progress of construction of the production lines

As disclosed in the Circular and approved by the Independent Shareholders, the proceeds of the Convertible Bonds would be used mainly for the construction of the production lines. In view of the status of the construction of the production lines, in particular, the completion of the current phase of construction of PBAT production line in the Guangan New Material Plant, the Company would issue the remaining outstanding principal of the Convertible Bonds in two tranches to match the status of construction and the expected timeline for the construction of the Dazhou New Production Line and nylon 66 production line in the Guangan Chemical Plant.

(ii) Payment schedule for the purchase and installation of equipment and machinery for the construction of the production lines

As disclosed in the Circular, approximately HK\$830 million of the proceeds from the Convertible Bonds (representing approximately 84%) would be used for the purchase and installation of machinery and equipment for the production lines, and the Company would negotiate with such suppliers and installers for better payment schedule. Following the discussions between the Company and the relevant machinery and equipment suppliers and installers, the Company was able to negotiate more favourable payment terms and longer payment schedule, which would provide more flexibility to the Group to allocate its financial resources.

(iii) Positive cashflow generated from the Group's business operations

As disclosed in the interim results announcement dated 27 August 2021 of the Company, the Group's unaudited turnover for the 6 months ended 30 June 2021 was approximately RMB1,347 million, represented an increase of approximately 35.4% as compared to the same period last year. In addition, the net cash inflow from the Group's operating activities amounted to approximately RMB138.5 million, represented an increase of approximately 378.1% as compared to the same period last year. The improved financial position would allow the Company to apply some of the cashflow generated from its business operations to finance the construction of the production lines, which would help alleviate the financial pressure on the Group as it would minimise the amount of interests payable by the Company.

The expected timetable is subject to change. Shareholders and potential investors should be aware that the above expected timetable (including the transactions contemplated under the Third Supplemental Deed) is subject to, among others, the progress of construction of the production lines, market conditions, availability of machinery, equipment and labour, and development of COVID-19. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

Further announcement(s) in respect of the issue of the Convertible Bonds will be made by the Company as and when appropriate in accordance with the Listing Rules.

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

Hong Kong, 24 September 2021

As at the date of this announcement, 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. Xu Congcai and Mr. Le Yiren.