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

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

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Ko Yo Chemical (Group) Limited
玫源化工(集團)有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00827)

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

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



A letter from the Board is set out on pages 5 to 29 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 30 to 31 of this circular.

A letter from TC Capital International Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 50 of this circular.

A notice convening the EGM to be held at 3:00 p.m. on Friday, 26 October 2018 at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong is set out on pages 61 to 63 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.

4 October 2018

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DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement dated 19 July 2018 of the Company in relation to, among other things, the issue of the Convertible Bonds
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	means a day (other than Saturdays, Sundays and on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business
“Closing”	completion of the subscription for the Convertible Bond in accordance with the terms of the Subscription Agreement
“Closing Conditions”	terms and conditions required for the completion of the Subscription for the Convertible Bond in accordance with the terms of the Subscription Agreement
“Closing Date”	the date of the Closing
“Company”	Ko Yo Chemical (Group) Limited (Stock Code: 827), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Conditions Precedent”	the conditions precedent required for the completion of the Subscription Agreement to take place as set out in the section headed “Conditions Precedent” in this circular
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Conversion Shares(s)”	the Share(s) which may fall to be issued and allotted upon exercise of the conversion rights attaching to the Convertible Bond
“Convertible Bond(s)”	convertible bonds issued pursuant to the Subscription Agreement
“Convertible Bonds Certificate”	a certificate issued to each Convertible Bonds holder in respect of its registered holding of Convertible Bonds

DEFINITIONS

“Directors”	the directors of the Company
“Distribution”	<p>(i) any distribution of assets in specie by the Company for any financial period whenever paid or made, on a per Share basis, and however described (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully-paid) by way of capitalization of reserves); and</p> <p>(ii) any cash dividend or distribution including, without limitation, the relevant cash amount of a Scrip Dividend of any kind by the Company for any financial period (whenever paid and however described) unless it comprises a purchase or redemption of Shares by or on behalf of the Company (or a purchase of Shares by or on behalf of a subsidiary of the Company) where the average purchase or redemption price (before expenses) on any one day in respect of such purchases or redemptions does not exceed 105% of the then current market price of the Shares on that day.</p> <p>In making any such calculation, such adjustments (if any) shall be made as an Expert may determine to be appropriate to reflect (a) any consolidation or subdivision of the Shares; (b) issues of Shares by way of capitalization of profits or reserves, or any like or similar event; or (c) the modification of any rights to dividends of Shares</p>
“EGM”	the extraordinary general meeting of the Company to be held at 3:00 p.m. on Friday, 26 October 2018 to approve, among others, the Subscription Agreement and the transactions contemplated thereunder
“Existing Bonds”	the outstanding convertible bonds issued on 13 November 2014 with a conversion price of HK\$0.32 amounted to HK\$320,856,000 which can convert into 1,002,675,000 Shares and the outstanding convertible bonds issued on 15 January 2016 with a conversion price of HK\$0.40 amounted to HK\$16,000,000 which can convert into 40,000,000 Shares
“Existing Shares”	existing ordinary shares of HK\$0.10 each in the share capital of the Company
“Group”	the Company and its subsidiaries

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors formed for the purpose of advising the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated under the Subscription Agreement
“Independent Financial Adviser”	TC Capital International Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement (together with the transactions contemplated therein, including the issue and allotment of the Conversion Shares under the specific mandate)
“Independent Shareholders”	Shareholders other than the Subscriber and his respective associates and/or concert parties who are involved or interested in the Subscription
“Issue Date”	the date on which completion of the Subscription Agreement takes place and the Convertible Bonds are issued in accordance with the Subscription Agreement
“Latest Practicable Date”	28 September 2018, 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
“Maturity Date”	means the date falling on the fifth (5th) anniversary of the Issue Date
“PRC”	the People’s Republic of China
“Rate of Interest”	4% per annum
“Relevant Period”	the period beginning 19 July 2018 to the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Share Options”	the total of 18,200,000 outstanding share options granted by the Company pursuant to the Share Option Scheme adopted by the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 18 September 2008
“Shunfeng”	Shunfeng International Clean Energy Limited (stock code: 1165), an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Specific Mandate”	the specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to allot and issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Tang Guoqiang
“Subscription”	the subscription for Convertible Bonds by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement dated 19 July 2018 entered into between the Company and the Subscriber
“substantial shareholder(s)”	having the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Trading Day”	means a day when the Stock Exchange is open for dealing business, provided that if no closing price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days
“2016 Annual Report”	the annual report of the Company for the year ended 31 December 2016
“2017 Annual Report”	the annual report of the Company for the year ended 31 December 2017
“2018 Interim Report”	the interim report of the Company for the six months ended 30 June 2018
“%”	per cent.

LETTER FROM THE BOARD



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)

Executive Directors:

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

Non-executive Director:

Mr. ZHANG Fubo

Independent non-executive Directors:

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

Registered Office:

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

*Principal place of business
in Hong Kong:*

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

4 October 2018

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
RELATING TO ISSUE OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the Announcement in relation to the Subscription Agreement (together with the transactions contemplated therein, including the issue and allotment of the Conversion Shares under the Specific Mandate).

LETTER FROM THE BOARD

On 19 July 2018 (after market close), the Subscriber and the Company entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds which may be converted into the Conversion Shares pursuant to the terms and conditions of the Convertible Bonds, in the principal amount of HK\$270 million.

The purpose of this circular is to provide you with, amongst other things, (i) further details of the Subscription Agreement (together with the transactions contemplated therein, including the issue and allotment of the Conversion Shares under the Specific Mandate); (ii) the relevant recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement (together with the transactions contemplated therein, including the issue and allotment of the Conversion Shares under the Specific Mandate); and (iv) a notice of the EGM.

2. THE SUBSCRIPTION AGREEMENT

A. Summary of the principal terms of the Subscription Agreement

On 19 July 2018 (after market close), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$270,000,000 (equivalent to RMB229,500,000) and the Company has conditionally agreed to issue the Convertible Bonds. A summary of the principal terms of the Subscription Agreement is set out as follows:

Date:	19 July 2018 (after market close)
Parties:	(i) the Company; and (ii) the Subscriber
Principal Amount:	HK\$270,000,000 (equivalent to RMB229,500,000)
Interest rate:	4% per annum, payable annually in arrears
Maturity:	on the fifth (5th) anniversary of the Issue Date
Conversion Price:	HK\$0.108

B. Conditions Precedent

Completion of the Subscription Agreement is conditional upon the fulfilment of the following:

- (a) the execution and delivery of the transaction documents by the Company and the Subscriber on or before the Closing Date;

LETTER FROM THE BOARD

- (b) on the date of the Subscription Agreement and the Closing Date, the representations, warranties, agreements and undertakings of the Company in the Subscription Agreement being true, accurate and correct in all material respects at, and as if made on, the Closing Date;
- (c) the Board duly passing the resolutions approving, the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the issue and allotment of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds;
- (d) the Shareholders duly passing the resolution approving, the Subscription Agreement and the transactions contemplated thereunder, including the granting of the Specific Mandate for the issue and allotment of the Conversion Shares at the EGM; and
- (e) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares.

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

If the conditions above are not fulfilled or waived (as the case may be) on or before 31 December 2018 (or such other date as may be agreed between the Company and the Subscriber), the Subscription Agreement will lapse and the parties thereto will be released from all obligations therein, save for liabilities for any antecedent breaches of the Subscription Agreement.

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

C. Closing of the Subscription

Closing of the issue of the Convertible Bonds 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) on the third (3rd) Business Day (or such other date as may be agreed by the parties) after, and excluding, the date upon which the Closing Conditions in the Subscription Agreement have been satisfied.

D. Conversion Price

The Conversion Price of HK\$0.108 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds represents:

- (a) a discount of approximately 21.2% to the closing price of HK\$0.137 per Share as quoted on the Stock Exchange on 19 July 2018, being the date of the Subscription Agreement;

LETTER FROM THE BOARD

- (b) a discount of approximately 15.6% to the average closing price of approximately HK\$0.128 per Share as quoted on the Stock Exchange for the last five (5) Trading Days immediately prior to the date of the Subscription Agreement;
- (c) a discount of approximately 9.4% to the average closing price of approximately HK\$0.119 per Share as quoted on the Stock Exchange for the last ten (10) Trading Days immediately prior to the date of the Subscription Agreement;
- (d) a discount of approximately 5.3% to the average closing price of approximately HK\$0.114 per Share as quoted on the Stock Exchange for the last thirty (30) Trading Days immediately prior to the date of the Subscription Agreement;
- (e) a discount of approximately 39.3% to the closing price of HK\$0.178 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (f) a discount of approximately 48.8% to the net asset value per Share of approximately HK\$0.211 as calculated from the unaudited equity attributable to the owners of the Company as at 30 June 2018 of approximately RMB771,496,000 (equivalent to approximately HK\$907,665,000) and 4,298,042,599 Shares in issue as at the Latest Practicable Date.

Based on the initial Conversion Price of HK\$0.108 per Share, the Convertible Bonds is convertible into 2,500,000,000 Conversion Shares, which represent approximately 58.2% of the existing issued share capital of the Company of 4,298,042,599 Shares as at the date of the Announcement and approximately 36.8% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price of HK\$0.108 per Share and the completion of the Subscription.

The initial Conversion Price was determined after arm's length negotiations between the Company and the Subscriber, with reference to, among other things, (i) the historical price of Shares set out above; (ii) the prevailing market price of the Shares; and (iii) the improvement in financial position of the Company and other benefits to be derived by the Group from the Subscription as disclosed in the section headed "Reasons for the Issue of the Convertible Bonds and Use of Proceeds" of this circular. The Directors (including the independent non-executive Directors) consider the Conversion Price and the terms of the Subscription Agreement are fair and reasonable based on the current market condition and in the interests of the Company and the Shareholders as a whole.

E. Adjustments to the Conversion Price

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

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

LETTER FROM THE BOARD

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

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

Where:

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

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

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

(b) capitalization of profits or reserves

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

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

Where:

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

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

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

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- (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; 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:

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

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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.

- (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.

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- (e) rights issues of other securities

If and whenever the Company shall issue any securities or grant any rights, options, warrants or other rights to subscribe for or otherwise acquire any securities to all or substantially all Shareholders, 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 or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants.

- (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;

LETTER FROM THE BOARD

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.

- (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.

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- (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.

- (i) any other events where the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to above.

If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this section, the Company shall, at the Company's expense, consult an Expert to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination by the Expert such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the events or circumstances giving rise to any adjustment pursuant to this section have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment

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arise by virtue of events or circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this section as may be advised by the Expert to be in its opinion appropriate to give the intended result. Notwithstanding the foregoing, the per Share value of any such adjustment shall not exceed the per Share value of the dilution in the Shareholders' interest in the Company's equity caused by such events or circumstances.

F. Ranking of Conversion Shares

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

G. Conversion Period

The Conversion Period shall be the period beginning on, and including, the date of issue of the Convertible Bonds and ending on, and including, 5:00 p.m. on the day which is five (5) Trading Days before the Maturity Date, provided that no conversion rights attaching to the Convertible Bonds shall be exercised if (i) the Subscriber and all other persons acting in concert (as defined in the Takeovers Code) with it jointly controlling or being interested in, directly or indirectly, 30% or more of the voting rights of the Company (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) as would trigger a mandatory general offer as may be specified from time to time under the Takeovers Code; or (ii) the conversion would result in the Company breaching the minimum public float requirement under Rule 8.08 of the Listing Rules.

H. Conversion Rights

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

I. 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.

LETTER FROM THE BOARD

J. Application for listing

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

K. Voting

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

3. MANDATE TO ISSUE THE CONVERSION SHARES

The Subscription Agreement and the transactions contemplated thereunder, including the issue and allotment of the Conversion Shares under the Specific Mandate, are subject to the approval of the Independent Shareholders at the EGM.

4. EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not conduct any equity fund raising activities for the 12 months immediately before the date of the Announcement.

5. INFORMATION ABOUT THE PARTIES, BACKGROUND OF THE SUBSCRIPTION AND CHANGES TO THE BOARD

A. Information about the Group

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

B. Information about the Subscriber

The Subscriber, Mr. Tang Guoqiang (“**Mr. Tang**”) aged 61, has been appointed as an executive Director on 20 July 2018. Mr. Tang has over 28 years of management experience. Mr. Tang obtained a high school diploma from Jiangsu Province Liyang Middle School (江蘇省溧陽中學) in 1977. Mr. Tang was previously the general manager of Liyang Economic Development Corporation (溧陽經濟發展總公司) from May 1990 to August 1996. From November 2003 to April 2007, he was an executive director of Zhenjiang Runfeng Real Estate Development Co., Ltd. (鎮江潤豐房地產開發有限公司). He was a director and 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. Since March 2015, the Subscriber has been the chairman of Liyang Huakan Jianda Health Co., Ltd. (溧陽華康健達養生有限公司), a company incorporated under the laws of the PRC with limited liability.

LETTER FROM THE BOARD

The Subscriber became acquainted with Mr. Wu Tianran (“**Mr. Wu**”), the former chairman of the Company in a social event in 2016. Saving as being a shareholder of the Company, the Subscriber has no relationship and/or arrangement (either business or otherwise) with the Company and its connected person prior to entering into the Subscription Agreement.

Prior to entering into the Subscription Agreement, the Subscriber is interested or deemed to be interested in 100,000,000 shares of the Company. Save as aforesaid, the Subscriber does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

C. Background of the Subscription

The Subscriber first met Mr. Wu, the former chairman of the Company in 2016 in a social event where Mr. Wu briefly introduced the Group to the Subscriber. During the event, the Subscriber expressed an interest in learning more about the Group. Further to the meeting, Mr. Wu invited the Subscriber for an on-site visit of the Group’s chemical manufacturing site in the PRC on or around 21 June 2018. During the site visit, the Subscriber gained further understanding of the business and management of the Group, and noted the Group’s needs of funds. Following the conclusion of the on-site visit, the Subscriber expressed his interest in investing in the Group. Following the on-site visit, the Subscriber and Mr. Wu initiated discussions on the manner and timing of investment, including subscription of convertible bonds.

Subsequent to the on-site visit, numerous phone calls and meetings took place between the Subscriber and Mr. Wu in relation to the Subscription. On 19 July 2018, the Board held a meeting to discuss, among others, the proposed issue of the Convertible Bonds and the terms of the Subscription Agreement. During the meeting, the terms of the Convertible Bonds and the Subscription Agreement were considered and approved by the Board.

D. Changes to the Board

a. *Appointments of Mr. Zhang Weihua, Mr. Shi Jianmin and the Subscriber as Directors*

During the negotiation of the terms of the Subscription at the end of June 2018, the Subscriber indicated that he would like to have representations at the Board together to, among others, monitor the subscription monies from the Convertible Bonds would be applied in accordance with the intended use (please refer to the section headed “Reasons for the Issue of the Convertible Bonds and Use of Proceeds” of this circular for details).

Around mid-July 2018, the Subscriber proposed Mr. Zhang Weihua (“**Mr. Zhang**”), Mr. Shi Jianmin (“**Mr. Shi**”) and himself be nominated to serve as executive Directors after the entering of the Subscription Agreement (the “**Proposed Appointments**”). The proposal was considered by the then Board (comprising Messrs. Wu, Li Weiruo, Yuan Bai (“**Mr. Yuan**”), Wan Congxin (“**Mr. Wan**”), Zhang Fubo, Hu Xiaoping, Shi Lei and Xu Congcai).

On or around 18 July 2018, the Subscriber provided the background, experience and credentials of Mr. Zhang, Mr. Shi and himself to Mr. Wu who then forwarded the information to the nomination committee of the Board (then comprising Messrs. Zhang Fubo, Shi Lei, Hu Xiaoping and Xu Congcai) for consideration.

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At the meeting of the nomination committee of the Board (then comprising Messrs. Zhang Fubo, Shi Lei, Hu Xiaoping and Xu Congcai) which was held on 19 July 2018, the committee reviewed and considered the background, experience and credentials of each of Mr. Zhang, Mr. Shi and the Subscriber, and it was resolved that each of Mr. Zhang, Mr. Shi and the Subscriber be nominated and recommended to the remuneration committee of the Board (then comprising Messrs. Zhang Fubo, Shi Lei, Hu Xiaoping and Xu Congcai) and the Board (then comprising Messrs. Wu, Li Weiruo, Yuan, Wan, Zhang Fubo, Hu Xiaoping, Shi Lei and Xu Congcai) for further consideration. Reference is made to the Announcement that the Subscriber had been nominated by the nomination committee of the Board to serve as an executive Director.

At the Board meeting held on 19 July 2018, the Board considered, among others, the Proposed Appointments. Members of the Board (comprising Messrs. Wu, Li Weiruo, Yuan, Wan, Zhang Fubo, Hu Xiaoping, Shi Lei and Xu Congcai) considered the background, experience and credentials of each of Mr. Zhang, Mr. Shi and the Subscriber. The Board approved the Proposed Appointments and their appointments took effect on 20 July 2018.

b. Information about Mr. Zhang Weihua, Mr. Shi Jianmin and the Subscriber

In considering the Proposed Appointments, the Board was of the view that each of the Subscriber, Mr. Zhang and Mr. Shi possesses the following relevant background and experience which are relevant to the business of the Company (including, the manufacturing and sale of chemical products and chemical fertilisers in the PRC), their managerial experience and experience in other areas, such as biochemistry and scientific products which are easily transferrable and would allow the Group to continue to grow and expand. Set out below are further information on Mr. Zhang, Mr. Shi and the Subscriber.

Mr. Zhang

Mr. Zhang served as the deputy chairman and general manager of Changzhou Kangmei Chemical Industry Co., Ltd. since 1995 and the chairman of Jiangsu Kangtai Biomedical Science Technology Co., Ltd. since 2009. Both Changzhou Kangmei Chemical Industry Co., Ltd. and Jiangsu Kangtai Biomedical Science Technology Co., Ltd. engage in development, manufacturing and sale of biomedical and chemical businesses. The Board is of the view that the chemicals manufactured and sold by Kangmei Chemical Industry Co., Ltd. are similar to those of the Group, and furthermore, the technology and products required for the manufacturing and products distributions are also similar to those of the Group. As such, the experience and exposure accumulated by Mr. Zhang at those positions would allow him to further contribute to the sale and development of the Group's products.

Mr. Shi

Mr. Shi was the deputy chairman and an executive director of Shunfeng, a company primarily engaged in the manufacturing and sale of solar cells, solar modules and LED products, from September 2011 to June 2017. The Board is of the view that albeit Mr. Shi's rather limited experience in the manufacturing and sale of chemical products and chemical fertilisers in the PRC, Mr. Shi's

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managerial experience and internal controls/compliance knowledge accumulated whilst serving as the deputy chairman and an executive director of Shunfeng, would allow him to further enhance the internal controls of the Group, ensuring that the Group would continue to compliance with the relevant laws and regulations, including Listing Rules and the SFO.

The Subscriber

The Subscriber was the deputy general manager of Liyang City Qingfeng Fine Chemicals Co., Ltd., a company incorporated in the PRC which principally engaged in the manufacturing and sale of pharmaceutical chemicals from September 1996 to November 2003. In addition, since March 2015, the Subscriber served as the chairman of Liyang Huakan Jianda Health Co., Ltd. which engages in the manufacturing, sale and distribution of health care products, whereby the experience, technique and networks obtained from those positions, would allow the Subscriber to further enhance the manufacturing, sale and distributions of the Group's products.

c. Resignation of Mr. Wu Tianran, Mr. Wan Congxin and Mr. Yuan Bai as Directors

Since mid-July 2018, Messrs. Wu, Wan and Yuan (former Directors) have been indicating that they would like to spend more time to their respective business commitments. Having considered the development and needs of their respective businesses at the material time, each of Messrs. Wu, Wan and Yuan considered that it would be an opportune moment to tender their resignation to devote more time to further their respective business commitments, whilst allowing the Subscriber and other members of the Board to lead the Group into a new era.

On 19 July 2018, Messrs. Wu, Wan and Yuan tendered their resignation with effect from 20 July 2018. At the Board meeting held on 19 July 2018, each of Messrs. Wu, Wan and Yuan explained the reasons for their resignation, and their resignation was considered by the Board (comprising Messrs. Li Weiruo, Zhang Fubo, Hu Xiaoping, Shi Lei and Xu Congcai). Each of Messrs. Wu, Wan and Yuan confirmed that he has no disagreement with the Board and is not aware of any matters relating to his resignation that need to be brought to the attention of the Shareholders or the Stock Exchange.

To the best of the Board's knowledge, there is no agreement, arrangement, understanding or undertaking with connected persons of the Company under the Listing Rules with respect to the Subscription, the change in Board composition and the affairs of the Company.

E. Information about the Company's substantial shareholder

As disclosed in the 2018 Interim Report and as at the Latest Practicable Date, 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\$320,400,000 and 800,000,000 Shares.

Mr. Cheng Kin Ming, is a businessman and a Hong Kong permanent resident. As at the Latest Practicable Date, Mr. Cheng Kin Ming is a substantial shareholder of the Company and Shunfeng. Following the completion of the subscription of new shares and the convertible bonds on 13 November 2014, Mr. Cheng Kin Ming was issued and allotted with (a) the 800,000,000 new Shares at an issue

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price of HK\$0.32 per Share; and (b) the convertible bonds in the principal amount of HK\$832,000,000 (which can be convertible into 2,600,000,000 Shares). Following the completion of the above, Mr. Cheng Kin Ming (through Asia Pacific Resources Development Investment Limited) became the largest Shareholder of the Company.

Apart from Mr. Cheng Kin Ming's interests in the Company through Asia Pacific Resources Development Investment Limited, Mr. Cheng Kin Ming has no personal and professional relationship with the Directors. As at the Latest Practicable Date, Mr. Cheng Kin Ming has no board representations at the Company level or subsidiary level and he has not entered, or proposes to enter, into any agreement, arrangement, understanding, undertaking (whether formal or informal and whether express or implied) with any connected persons of the Company, in particular, the Subscriber, with respect to the Subscription, the change in Board composition and any other affairs of the Company. None of the Directors is accustomed to take instructions from Mr. Cheng Kin Ming and Asia Pacific Resources Development Investment Limited in relation to the affairs of the Company.

F. Relationship between (i) members of the Board and Shunfeng; and (ii) the substantial shareholder of the Company and Shunfeng

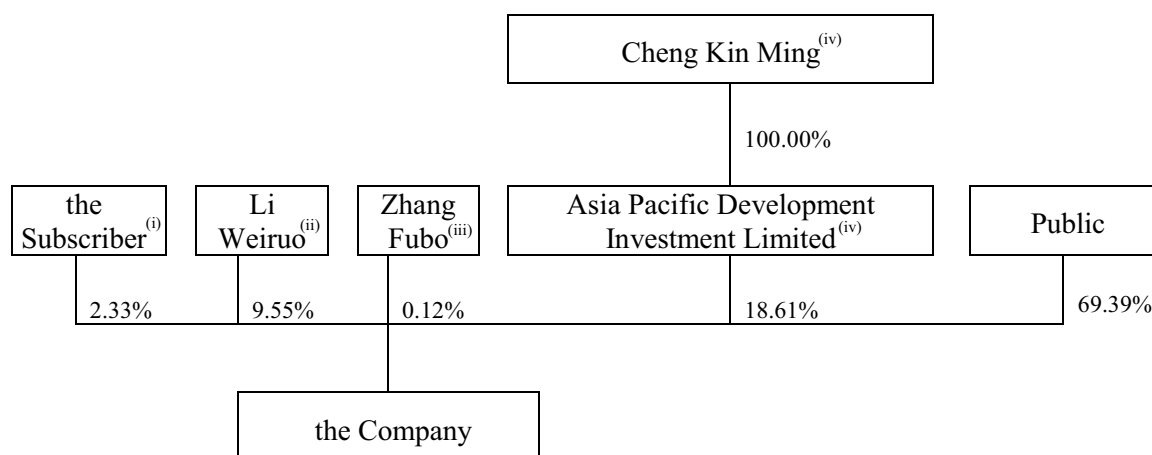
(a) Relationship between members of the Board and Shunfeng

Save as discussed below, none of the current members of the Board, and members of the Board at the time of entering into the Subscription Agreement, is connected with Shunfeng. Shunfeng is a company whose shares are listed on the Stock Exchange (1165.HK), and principally engaged in the provision of clean energy and low-carbon energy-saving integrated solutions.

- a. The Subscriber is a shareholder of Shunfeng and served as a director and the chairman of Shunfeng between July 2011 and July 2013;
- b. Mr. Shi (an executive Director) is a shareholder of Shunfeng and served as the deputy chairman and executive director of Shunfeng from September 2011 to June 2017; and
- c. Mr. Zhang Fubo (a non-executive Director) has acted as the chairman of Shunfeng since 9 September 2017.

(b) Relationship between the substantial shareholder of the Company and Shunfeng

Set out below is a simplified shareholding structure of the Company as at the Latest Practicable Date:

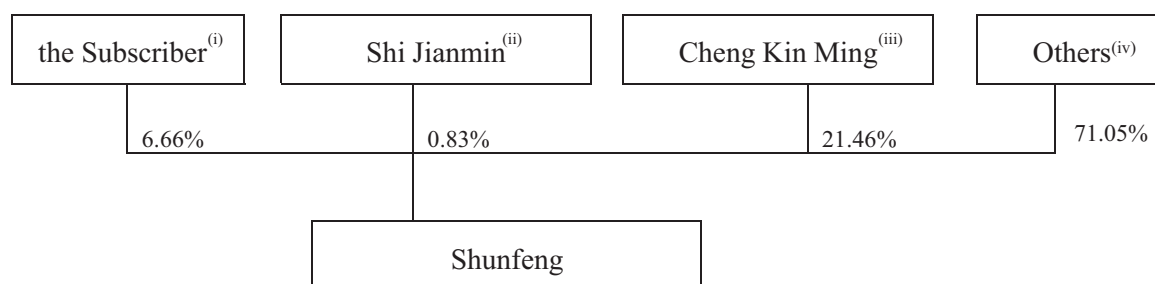


LETTER FROM THE BOARD

Notes:

- (i) save for being a shareholder of the Company and Shunfeng (in which Mr. Cheng Kin Ming is a substantial shareholder of Shunfeng) (please refer to the shareholding chart below), the Subscriber (executive Director with effect from 20 July 2018) has no personal or professional relationship with each of Mr. Li Weiruo, Mr. Zhang Fubo and Mr. Cheng Kin Ming.
- (ii) Mr. Li Weiruo, an executive Director and the vice chairman of the Company, has no personal or professional relationship with each of the Subscriber, Mr. Li Weiruo, Mr. Zhang Fubo, Asia Pacific Development Investment Limited and Mr. Cheng Kin Ming.
- (iii) save for being an executive director and the chairman of Shunfeng (in which Mr. Cheng Kin Ming is a substantial shareholder) (please refer to the shareholding chart below), Mr. Zhang Fubo, a non-executive Director, has no personal and professional relationship with each of the Subscriber, Mr. Li Weiruo, Asia Pacific Development Investment Limited and Mr. Cheng Kin Ming.
- (iv) Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming.

Set out below is a simplified shareholding structure of the Shunfeng based on its 2017 annual report:



Notes:

- (i) save for being a shareholder of Shunfeng and the Company (please refer to the shareholding chart above), the Subscriber (executive Director with effect from 20 July 2018) has no personal or professional relationship with each of Mr. Shi Jianmin and Mr. Cheng Kin Ming.
- (ii) save for being a shareholder of Shunfeng and a Director, Mr. Shi Jianmin (executive Director with effect from 20 July 2018), has no personal or professional relationship with each of the Subscriber and Mr. Cheng Kin Ming.
- (iii) Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming.
- (iv) “Others” refers to the percentage of securities held by the public and the securities held by Mr. Wang Yu, an executive Director of Shunfeng (who was interested in 18,691,588 shares of Shunfeng, representing approximately 0.43% of the issued share capital of Shunfeng according to the 2017 annual report of Shunfeng).

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

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

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The gross proceeds from the issue of the Convertible Bonds pursuant to the Subscription Agreement will be approximately HK\$270,000,000 (equivalent to RMB229,500,000). The net proceeds from the issue of the Convertible Bonds pursuant to the Subscription Agreement, after deduction of all relevant costs and expenses, is estimated to be approximately HK\$269,000,000. The Company intends to apply the net proceeds arising from the issue of the Convertible Bonds in the following manner:

- (a) approximately HK\$170 million to repay high interest rate (ranged from 8.00% to 14.95% per annum) short-term borrowings. The Company borrowed from (i) China Bond Insurance Corporation (中債信用增進投資股份有限公司) since 2016 for the repayment of other loans owed by the Company (including the loan in the principal amount of RMB146 million borrowed by Dazhou Ko Yo Chemical Industrial Co., Ltd. (a subsidiary of the Company) from Hengfeng Bank Co., Limited); and (ii) Guang An Jin Cai Investment and Financing (Group) Limited (廣安金財投融資(集團)有限責任公司) since 2016 to finance the re-activation of the operations of Guangan plant, a production plant of the Company located in Guangan city, the PRC (*Notes*);
- (b) the Group offers a discount for the sales of its products to its customers who can make pre-payment arrangement with the Group (the “**Pre-payment Arrangement**”). The amount received from the Pre-payment Arrangement is applied for the working capital of the Group. The Company intends to ear-mark approximately HK\$70 million from the proceeds for the working capital of the Group, whereby the Company could offer a lesser pre-payment discount or none at all subject to the then prevailing market conditions and the situation of the Group; and
- (c) the remaining balance, approximately HK\$29 million as general working capital of the Group.

Notes:

The Company borrowed a loan in the principal amount of RMB146 million from China Bond Insurance Corporation (中債信用增進投資股份有限公司) since 2016, which will be due on 18 April 2019. The loan was used for the repayment of other loans owed by the Company including the loan in the principal amount of RMB146 million borrowed by Dazhou Ko Yo Chemical Industrial Co., Ltd. (a subsidiary of the Company) from Hengfeng Bank Co., Limited. During the period between 19 April 2013 and 18 April 2016, a loan of RMB180 million was borrowed from Hengfeng Bank Co., Limited to finance the second phase of the Dazhou plan being a production site of the Company.

The Company borrowed a loan of RMB65 million from Guang An Jin Cai Investment and Financing (Group) Limited (廣安金財投融資(集團)有限責任公司) since 2016, which will be due on 31 August 2019. The loan was used to finance the re-activation of the operations of Guangan plant, a production plant of the Company located in Guangan city, the PRC, which has the capacity to produce 500,000 tons of methanol and 300,000 tons of ammonia per annum. Reference is made to the annual report of the Company for the year ended 31 December 2016. Due to the unfavorable factors including the price spread between the market prices and production costs of the Company’s major products such as methanol, urea and liquid ammonia became seriously large, the Guangan plant was suspended from August 2015 to April 2016. The said loan was used to finance the resumption of production of the Guangan plant in May 2016 including staffing costs: factory workers, sales, accounting staffs and managerial personnel, and related recruitment expenses; repairing and maintenance costs: repairing and maintenance works carried out to the machineries and the production plant to ensure that they would be safe for production; connection costs: re-connect the production plant with utilities; raw material costs: costs incurred in acquiring and shipment of raw materials.

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

With respect to bank borrowings, the Directors consider that the ability for the Group to obtain bank borrowings largely depends on the Group's profitability, financial position and the then prevailing market condition. As disclosed in the Company's results announcement dated 29 March 2018, the Group recorded a net loss of approximately RMB471,170,000 for the year ended 31 December 2017. Given the unsatisfactory financial performance of the Group and that negotiations and due diligence process with various banks are expected to be a lengthy process, the Directors consider that it is unlikely that the Company could secure a meaningful size of borrowings from banks with favourable terms in a short period of time.

In respect of equity financing, the Group has considered several means including placing and subscription of new shares, rights issue or open offer. As for placing of new shares, rights issue and open offer, the Group has approached a corporate finance firm but did not receive any concrete feedback with favorable terms in light of the financial position of the Group. The Directors also considered that the rights issue or open offer would incur costly underwriting commission and the process would be relatively time-consuming.

The Directors consider raising funds by issuing the Convertible Bonds is justifiable considering the recent market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position of the Group. Having considered the advantages and disadvantages of different forms of debt financing and equity financing, the Directors consider that the issue of the Convertible Bonds is an appropriate mean of raising additional capital for the Company since (i) the issue of the Convertible Bonds incurs lower interest burden and financial costs of the Group compared to bank borrowings; (ii) it will not have an immediate dilution effect on the shareholding of the existing Shareholders; (iii) the time horizon for the issue of the Convertible Bonds is relatively shorter compared to alternative equity fund raising methods; (iv) there will not be any liability and obligations on the Company for payment or repayment (whether in cash or otherwise) in respect of the Convertible Bond; and (v) the capital base of the Company will be enlarged by the issue of the Conversion Shares upon conversion of the Convertible Bonds.

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

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

LETTER FROM THE BOARD

7. EFFECTS ON SHAREHOLDING STRUCTURE

Based on the Conversion Price of HK\$0.108 per Share, subject to adjustments, a maximum number of 2,500,000,000 Conversion Shares will be issued and allotted upon exercise of the conversion rights attached to the Convertible Bonds in full, which represent: (i) approximately 58.2% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 36.8% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds in full.

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

Shareholders	As at the Latest Practicable Date		Immediately after the issue and allotment of the Conversion Shares upon full conversion of the Convertible Bonds		Immediately after conversion of certain Convertible Bonds and Existing Bonds	
	Number	%	Number	%	Number	%
	<i>of Shares (approx.)</i>	<i>(approx.)</i>	<i>of Shares (approx.)</i>	<i>(approx.)</i>	<i>of Shares (approx.)</i>	<i>(approx.)</i>
Asia Pacific Resources Development Investment Limited (<i>Note 1</i>)	800,000,000	18.61	800,000,000	13.34	1,374,499,372	19.99 (<i>Note 1</i>)
Directors						
Subscriber	100,000,000	2.33	1,798,304,493	29.99 (<i>Note 2</i>)	2,062,092,853	29.99 (<i>Note 2</i>)
Li Weiruo	410,392,000	9.55	410,392,000	6.85	410,392,000	5.97
Shi Jianmin	—	—	—	—	30,000,000	0.44
Zhang Fubo	5,000,000	0.11	5,000,000	0.08	5,000,000	0.07
Public Shareholders	<u>2,982,650,599</u>	<u>69.40</u>	<u>2,982,650,599</u>	<u>49.74</u>	<u>2,993,950,599</u>	<u>43.54</u>
Total	<u>4,298,042,599</u>	<u>100.00</u>	<u>5,996,347,092</u>	<u>100.00</u>	<u>6,875,934,824</u>	<u>100.00</u>

Note 1: Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming, who is a substantial shareholder of the Company. No conversion rights attaching to the Convertible Bonds and the Existing Bonds shall be exercised if Asia Pacific Resources Development Investment Limited and all other persons acting in concert with it jointly controlling or being interested in, directly or indirectly, 30% or more of the voting rights of the Company (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time).

LETTER FROM THE BOARD

Note 2: Pursuant to the Subscription Agreement, the Subscriber shall subscribe for the Convertible Bonds which is convertible into 2,500,000,000 Conversion Shares based on the initial Conversion Price of HK\$0.108 per Share. No conversion rights attaching to the Convertible Bonds shall be exercised if (i) the Subscriber and all other persons acting in concert with it jointly controlling or being interested in, directly or indirectly, 30% or more of the voting rights of the Company (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) as would trigger a mandatory general offer as may be specified from time to time under the Takeovers Code; or (ii) the conversion would result in the Company breaching the minimum public float requirement under Rule 8.08 of the Listing Rules.

8. IMPLICATIONS UNDER THE LISTING RULES

The Subscriber was appointed as an executive Director on 20 July 2018. Accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules. As a result, the proposed issue of the Convertible Bonds to the Subscriber would constitute a non-exempted connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Subscriber shall abstain from voting at the EGM to be convened to consider and, if thought fit, to approve the issue of the Convertible Bonds and the transactions contemplated under the Subscription Agreement (including the obtaining of the Specific Mandate).

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

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

LETTER FROM THE BOARD

9. FINANCIAL SUMMARY OF THE GROUP

A. Financial statements of the Company

The audited consolidated financial statements of the Group for each of the two years ended 31 December 2016 and 2017 and the unaudited financial statements of the Group for the six months ended 30 June 2017 and 30 June 2018 are respectively disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk):

- (a) the annual report of the Company for the year ended 31 December 2016;
- (b) the annual report of the Company for the year ended 31 December 2017; and
- (c) the interim report of the Company for the six months ended 30 June 2018.

B. Financial overview of the Group

Set out below is the audited consolidated financial information of the Group for the two years ended 31 December 2017 and the unaudited financial statements of the Group for the six months ended 30 June 2017 and 30 June 2018 as extracted from the 2017 Annual Report and the 2018 Interim Report:

	For the year ended 31 December		For the six months ended 30 June	
	2017	2016	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3,678,169	1,947,027	1,992,651	1,784,701
Cost of sales	(3,643,775)	(1,988,713)	(1,876,359)	(1,736,990)
Gross profit/(loss)	34,394	(41,686)	116,292	47,711
Loss before tax	(471,170)	(417,039)	(175,131)	(78,942)
Income tax credit	16,737	9,054	14,067	7,221
Loss attributable to equity holders of the Company	(454,339)	(407,154)	(161,014)	(71,695)

Profit and loss

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

LETTER FROM THE BOARD

The Group recorded total revenue of approximately RMB1,992,651,000 for the six months ended 30 June 2018 as compared to that of approximately RMB1,784,701,000 for the six months ended 30 June 2017. The loss attributable to equity holders of the Company has increased by approximately 124.6% from approximately RMB71,695,000 for the six months ended 30 June 2017 to approximately RMB161,014,000 for the six months ended 30 June 2018. As disclosed in the 2018 Interim Report, the significant increase in the loss of the Group was mainly due to (i) the significant increase in administrative expenses including the operation costs of Dazhou Plant and Guangan Plant charged to the administrative expense during the suspension of gas in January 2018; and (ii) the loss resulting from the expiry of put option agreement entered between the Company and Asia Pacific Resources Development Investment Limited on 18 January 2015.

C. Working Capital

Taking into account the Subscription, 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 date of publication of this circular, in the absence of unforeseeable circumstances.

D. Statement of Indebtedness

Borrowings

As at the close of business on 28 September 2018, being the Latest Practicable Date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Circular, the total borrowings and notes payable balances of the Group amounted to approximately RMB2,135,804,000, in which approximately RMB1,205,153,000 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 the Latest Practicable Date, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages, charges, guarantees or other contingent liabilities.

E. Financial prospects of the Group

The Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, methanol, polyphenylene sulfide, urea and ammonia for the year ended 31 December 2017. The Group recorded turnover of approximately RMB3,678 million, an increase of 88.9% during the year ended 31 December 2017 as compared to the same period in 2016. The loss attributable to shareholders of the Company amounted to approximately RMB454 million, representing an increase a loss of approximately RMB47 million during the year ended 31 December 2017 as compared to the same period in 2016.

LETTER FROM THE BOARD

The Group recorded total revenue of approximately RMB1,992,651,000 for the six months ended 30 June 2018 as compared to that of approximately RMB1,784,701,000 for the six months ended 30 June 2017. The loss attributable to equity holders of the Company has increased by approximately 124.6% from approximately RMB71,695,000 for the six months ended 30 June 2017 to approximately RMB161,014,000 for the six months ended 30 June 2018. As disclosed in the 2018 Interim Report, the significant increase in the loss of the Group was mainly due to (i) the significant increase in administrative expenses including the operation costs of Dazhou Plant and Guangan Plant charged to the administrative expense during the suspension of gas in January 2018; and (ii) the loss resulting from the expiry of put option agreement entered between the Company and Asia Pacific Resources Development Investment Limited on 18 January 2015.

In 2018, the Company will step up efforts on exploring the application of polyphenylene sulphide on modification, broadening the sales area of polyphenylene sulphide products and enhancing our profitability.

10. EGM

Set forth on pages 61 to 63 of this circular is a notice convening the EGM to be held at 3:00 p.m., on Friday, 26 October 2018 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 issue of the Convertible Bonds and the transactions contemplated thereunder (including but not limited to the obtaining of the Specific Mandate). Pursuant to the Listing Rules, the Subscriber and its associates, interested in 2.33% 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 intend 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 in person at the EGM or any adjourned meeting if you so desire.

11. 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 Tuesday, 23 October 2018 to Friday, 26 October 2018 (both days inclusive) during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on Friday, 26 October 2018 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify for attending and voting at the EGM, Shareholders whose Shares are not registered in their names should complete and lodge their respective instruments of transfer with the relevant share certificates with the Company's share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, and in any case no later than 4:00 p.m. on Monday, 22 October 2018.

LETTER FROM THE BOARD

12. RECOMMENDATION

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

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 30 to 31 of this circular which contains its views in relation to the issue of the Convertible Bonds to the Subscriber who is a connected person, under the Subscription Agreement. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 32 to 50 of this circular, considers that the terms of the issue of the Convertible Bonds to the Subscriber who is a connected person, under the Subscription Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned as a whole. Accordingly, the Independent Board Committee recommends that the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the issue and allotment of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds.

13. 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.

14. ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



Ko Yo Chemical (Group) Limited
玖源化工(集團)有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00827)

4 October 2018

To the Independent Shareholders

Dear Sir or Madam,

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

INTRODUCTION

We refer to the circular dated 4 October 2018 of the Company (the “**Circular**”), of which this letter forms part. Capitalised terms used herein have the same meanings as those defined in the Circular unless otherwise specified.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 32 to 50 of the Circular, which contains its advices and recommendations as to whether or not the Subscription Agreement (together with the transactions contemplated therein, including the issue and allotment of the Conversion Shares under the specific mandate) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, as well as the principal factors and reasons taken into consideration for its advices and recommendations.

We also wish to draw your attention to the letter from the Board set out on pages 5 to 29 of the Circular and the additional information set out in the appendices to the Circular.

RECOMMENDATION

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

Yours faithfully,

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

Mr. Hu Xiaoping

Mr. Shi Lei
Independent non-executive Directors

Mr. Xu Congcai

IFA LETTER

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



4 October 2018

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

Dear Sir/Madam,

CONNECTED TRANSACTION RELATING TO ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of Ko Yo Chemical (Group) Limited (the “**Company**”) dated 4 October 2018 issued to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless otherwise specified.

On 19 July 2018 (after market close), the Subscriber and the Company entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds which may be converted into the Conversion Shares pursuant to the terms and conditions of the Convertible Bonds, in the principal amount of HK\$270,000,000.

As at the Latest Practicable Date, the Subscriber was an executive Director. Accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules. As a result, the proposed issue of the Convertible Bonds to the Subscriber would constitute a non-exempted connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Subscription Agreement and the transactions contemplated thereunder, including the issue and allotment of the Conversion Shares under the Specific Mandate, are subject to the approval of the Independent Shareholders at the EGM.

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

OUR INDEPENDENCE

We have not provided any other services to the Company in the last two years. As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant in determining or assessing our independence.

BASIS OF OUR OPINION

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

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

IFA LETTER

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

I. Background information of the Group

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

The Group operated a total of three production plants for each of the two years ended 31 December 2016. However, due to the numerous unfavourable factors in the chemical fertiliser and chemicals industry in 2015 and 2016, the Company mitigated the market risk by temporary suspension of production of the Dazhou Plant in 2015, a full-year production suspension of the Dazhou Plant in 2016 and temporary suspension of production of the Guangan Plant from August 2015 to April 2016 and in May 2016. As advised by the management of the Company, since majority of production of the Group has come from the Dazhou Plant and the Guangan Plant, the Company had incurred losses for the two years ended 31 December 2016 due to the suspension of the two plants.

As the macro-economic conditions showed signs of improvement in 2017, the chemical fertiliser and chemicals industry had been recovering gradually. The Group resumed full production of the Dazhou Plant on 1 January 2017. Afterward, due to limited gas supply and annual maintenance, the production of the Dazhou Plant was temporarily suspended from 30 November 2017 to 19 February 2018 and the Guangan Plant was temporarily suspended from 1 September 2017 to 10 October 2017 and from 10 December 2017 to 29 January 2018, the Group remained in a loss position in 2017. As stated in the 2018 Interim Report, for the six months ended 30 June 2018, restrained by the supply of natural gases, the facilities at the Dazhou Plant and the Guangan Plant failed to achieve the expected modes of operation and capacities. However, the Group managed to seize sales opportunities to maintain a high operation level. Efforts were made to strengthen the management and control of the Group, resulting in gradual improvements on its operation. As advised by the management of the Company, since the production of the Guangan Plant had been suspended from 10 December 2017 to 29 January 2018 and the Dazhou Plant had been suspended from 30 November 2017 to 18 February 2018, the overall operation of the Group fell short of expectations of full production for the first half of 2018 due to limited gas supply. As certain project financing arrangements have not yet been finalised, the construction works of new projects of the Group remained on hold. As at the Latest Practicable Date, as advised by the management of the Company, the Guangan Plant and the Dazhou Plant were in normal operation.

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Set out below is certain financial information of the Group for the two years ended 31 December 2017 (“FY2016” and “FY2017”, respectively) and the six months ended 30 June 2017 and 2018 (“1H2017” and “1H2018”, respectively) as extracted from the 2017 Annual Report and the 2018 Interim Report:

	For the year ended		For the six months	
	31 December		ended 30 June	
	2017	2016	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	3,678,169	1,947,027	1,992,651	1,784,701
Cost of sales	(3,643,775)	(1,988,713)	(1,876,359)	(1,736,990)
Gross profit/(loss)	34,394	(41,686)	116,292	47,711
Loss before tax	(471,170)	(417,039)	(175,131)	(78,942)
Income tax credit	16,737	9,054	14,067	7,221
Loss attributable to equity holders of the Company	(454,339)	(407,154)	(161,014)	(71,695)

According to the 2017 Annual Report, all the Group’s revenue in FY2016 and FY2017 were generated from manufacturing and sale of chemical products and chemical fertilisers. The revenue of the Group for FY2017 increased by approximately 88.9% from approximately RMB1,947,027,000 for FY2016 to approximately RMB3,678,169,000 for FY2017. According to the 2017 Annual Report, such increase was mainly due to the increase in the Group’s sales volume (excluding trading). The loss attributable to equity holders of the Company increased by approximately 11.6% from approximately RMB407,154,000 for FY2016 to RMB454,339,000 for FY2017 mainly as a result of the combined effect of the decrease in other income due to the loss on fair value changes on derivative financial assets, which was partially offset by the decrease in the administrative expenses.

The revenue of the Group for 1H2018 increased by approximately 11.7% from approximately RMB1,784,701,000 for 1H2017 to approximately RMB1,992,651,000 for 1H2018. As advised by the management of the Company, such increase was mainly due to the increase in selling price of products. The loss attributable to equity holders of the Company increased by approximately 124.6% from approximately RMB71,695,000 for 1H2017 to RMB161,014,000 for 1H2018. As stated in the 2018 Interim Report, such significant increase in the loss of the Group was mainly due to (i) the significant increase in administrative expenses resulting from the operation cost of Dazhou Plant and Guangan Plant charged to the administrative expenses during the suspension of gas in January 2018; and (ii) the record of other loss due to the loss from the expiry of put option agreement entered between the Company and Asia Pacific Resources Development Investment Limited on 18 January 2015.

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

	As at 30 June	As at 31 December	
	2018	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Cash and cash equivalents	9,025	16,312	24,477
Current assets	346,970	357,071	665,301
Current liabilities	2,197,553	2,386,330	2,352,115
Net current liabilities	1,850,583	2,029,259	1,686,814
Total liabilities	3,085,442	3,021,374	3,107,238
Equity attributable to owners of the Company	771,496	931,615	1,384,915

As at 31 December 2017, the current assets and current liabilities of the Group amounted to approximately RMB357,071,000 and RMB2,386,330,000, respectively. The Group recorded a net current liabilities of approximately RMB2,029,259,000 as at 31 December 2017, representing an increase of approximately 20.3% compared to the net current liabilities of approximately RMB1,686,814,000 as at 31 December 2016. The management of the Company advised that such deterioration was mainly due to the increase in current portion of long-term borrowing, the loss in 2017 and the loss in fair value of put option to subscribe the convertible bonds of the Company. Given the Company incurred a net loss for FY2017 as mentioned in the above paragraph, equity attributable to owners of the Company as at 31 December 2017 decreased from approximately RMB1,384,915,000 to approximately RMB931,615,000.

As at 30 June 2018, the current assets and current liabilities of the Group amount to approximately RMB346,970,000 and RMB2,197,553,000, respectively. The Group recorded a net current liabilities of approximately RMB1,850,583,000 as at 30 June 2018, representing a decrease of approximately 8.8% from the net current liabilities of approximately RMB2,029,259,000 as at 31 December 2017. The management of the Company advised that such improvement in net current liabilities was mainly due to the decrease in current portion of long-term borrowings. Given the Company incurred a net loss for 1H2018 as mentioned in the above paragraph, equity attributable to owners of the Company as at 30 June 2018 decreased from approximately RMB931,615,000 to approximately RMB771,496,000.

As at 31 December 2016, total liabilities of the Group amounted to approximately RMB3,107,238,000 mainly consisted of short-term borrowings of approximately RMB1,316,013,000, long-term borrowings of approximately RMB788,922,000 and trade and other payables of approximately RMB814,310,000. As at 31 December 2017, total liabilities of the Group amounted to approximately RMB3,021,374,000 mainly consisted of short-term borrowings of approximately RMB1,302,854,000, long-term borrowings of approximately RMB783,921,000 and trade and other

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payables of approximately RMB736,364,000. As at 30 June 2018, total liabilities of the Group amounted to approximately RMB3,085,442,000 mainly consisted of short-term borrowings of approximately RMB1,254,734,000, long-term borrowings of approximately RMB791,971,000 and trade and other payables of approximately RMB814,761,000. The Group's gearing ratios were approximately 61%, 70% and 74% as at 31 December 2016, 31 December 2017 and 30 June 2018, respectively. The gearing ratios were calculated as net debt divided by total capital. The increase in the gearing ratio resulted mainly due to the loss during the above period.

As the Group had a net operating cash outflows for FY2016 and incurred a loss for FY2017 and the Group's current liabilities exceeded its current assets as at 31 December 2016 and 31 December 2017, the auditors mentioned in the independent auditor's report as contained in the 2016 Annual Report and the 2017 Annual Report that the conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

II. Information on the Subscriber

As stated in the Letter from the Board, the Subscriber, aged 61, has been appointed as an executive Director on 20 July 2018. Mr. Tang has over 28 years of management experience. Mr. Tang obtained a high school diploma from 江蘇省溧陽中學 (Jiangsu Province Liyang Middle School*) in 1977. Mr. Tang was previously the general manager of 溧陽經濟發展總公司 (Liyang Economic Development Corporation*) from May 1990 to August 1996. From November 2003 to April 2007, he was an executive director of 鎮江潤豐房地產開發有限公司 (Zhenjiang Runfeng Real Estate Development Co., Ltd.*). He was a director and 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. Since March 2015, the Subscriber has been the chairman of 溧陽華康健達養生有限公司 (Liyang Huakan Jianda Health Co., Ltd.*), a company incorporated under the laws of the PRC with limited liability.

Prior to entering into the Subscription Agreement, the Subscriber is interested or deemed to be interested in 100,000,000 shares of the Company. The Subscriber was appointed as an executive Director on 20 July 2018, after the date of the Subscription Agreement. During the negotiation of the terms of the Subscription at the end of June 2018, the Subscriber indicated that he would like to have representations at the Board together to, among others, monitor the subscription monies from the Convertible Bonds would be applied in accordance with the intended use of proceeds of the Convertible Bonds as stipulated in the Circular. For details of the background of the Subscription and the changes in Board composition, please refer to the section headed "Information about the parties, background of the Subscription and changes to the Board" in the Letter from the Board.

III. Reasons for and benefits of the issue of the Convertible Bonds

As mentioned in the paragraph headed "I. Background information of the Group" above, the Group recorded losses attributable to equity holders and net current liabilities for the two years ended 31 December 2017 and for the six months ended 30 June 2018. As stated in the Letter from the Board, the Directors consider raising funds by issuing the Convertible Bonds is justifiable considering the recent market conditions which represent an opportunity for the Company to enhance its working

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capital and strengthen its capital base and financial position of the Group. The Directors consider that the issue of the Convertible Bonds is an appropriate mean of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders.

As stated in the Letter from the Board, the Company intends to apply the net proceeds arising from the issue of the Convertible Bonds in the following manner: (i) approximately HK\$170,000,000 to repay high interest rate (ranged from 8.00% to 14.95% per annum) short-term borrowings (the Company borrowed loans from (a) 中債信用增進投資股份有限公司 (China Bond Insurance Corporation*) (“**China Bond**”) since 2016 for the repayment of other loans owed by the Company (including the loan in the principal amount of RMB146,000,000 borrowed by Dazhou Ko Yo Chemical Industrial Co., Ltd. (a subsidiary of the Company) from Hengfeng Bank Co., Limited); and (b) 廣安金財投融資(集團)有限責任公司 (Guang An Jin Cai Investment and Financing (Group) Limited*) (“**Guang An Jin Cai**”) since 2016 to finance the re-activation of the operations of the Guangan plant, a production plant of the Company located in Guangan city, the PRC, which has the capacity to produce 500,000 tons of methanol and 300,000 tons of ammonia per annum). As stated in the 2016 Annual Report, due to the unfavorable factors including the price spread between the market prices and production costs of the Company’s major products such as methanol, urea and liquid ammonia became seriously large, the Guangan plant was suspended from August 2015 to April 2016. The said loan was used to finance the resumption of production of the Guangan plant in May 2016 including staffing costs (factory workers, sales, accounting staffs and managerial personnel) and related recruitment expenses; repairing and maintenance costs (repairing and maintenance works carried out to the machineries and the production plant to ensure that they would be safe for production); connection costs (re-connect the production plant with utilities); raw material costs (costs incurred in acquiring and shipment of raw materials); (ii) the Group offers a discount for the sales of its products to its customers who can make pre-payment arrangement with the Group (the “**Pre-payment Arrangement**”). The amount received from the Pre-payment Arrangement is applied for the working capital of the Group. The Company intends to ear-mark approximately HK\$70,000,000 from the proceeds for the working capital, whereby the Company could offer a lesser pre-payment discount or none at all as subject to the then prevailing market conditions and the situation of the Group; and (iii) the remaining balance, approximately HK\$29,000,000 as general working capital of the Group.

As stated in the 2018 Interim Report, as at 30 June 2018, the total borrowings balances of the Group (including long-term borrowings, short-term borrowings and convertible bonds) amounted to approximately RMB2,170,896,000, in which approximately RMB1,254,734,000 were short-term borrowings. Those short term borrowings were issued at interest rates which range from 4.35% to 15.00% per annum. As discussed with the management of the Company, in order to reduce the financial pressure due to the interest expense from borrowings, the Company intends to repay those short-term borrowings with high interest, in particular, two loans borrowed from Guang An Jin Cai which one of them with outstanding balance of approximately RMB35,000,000 with an annual interest rate of approximately 14.95% and another one with outstanding balance of approximately RMB15,000,000 with an annual interest rate of 13.05%, and a part of a loan borrowed from China Bond with outstanding balances of approximately RMB137,450,000 with an annual interest rate of 8.0%, as at 30 June 2018. We noted the above three loans bear higher interest rates than that of the Convertible Bonds of 4% per annum, we concur with the Directors that the Group is in need of raising fund with substantial amount to lower the liabilities level and relieve the repayment pressure, and in turn, improve the Group’s financial position.

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As discussed with the management of the Company, in order to facilitate the operating cash flow of the Group, the Group accepts pre-payment from its customers, which in turn, the Group will provide discount for the sales of its products. We have obtained and reviewed an internal notification in relation to sales price adjustment provided by the Group and noted that the discount of approximately 6.9% were provided to the customers with pre-payment arrangement. As such, we concur with the Directors that reducing the amount received in advances from customers and then conducting transactions with customers without provision of discount could be beneficial to the Group's financial performance.

We have obtained and reviewed the list of borrowings of the Group as at 30 June 2018, approximately HK\$170,000,000 of the net proceeds allocated for repayment of short-term borrowings represents over 70% of the total short term borrowings of the Group with interest rate over 6.9%. Furthermore, as advised by the management of the Company, it is easier for the Company to have immediate cash from customers' advanced payment than obtaining bank loans when the Company needs more cash for operation. Taking into consideration that majority of short-term borrowings with higher interest rate compared with the discount for pre-payment arrangement to be settled and it is more convenient to receive advanced payment than obtaining bank loans when immediate cash is needed for operation, we consider the allocation of the use of proceeds is reasonable.

Since the Group intends to apply approximately HK\$29,000,000 as general working capital of the Group, we consider the allocation of approximately 10.8% of net proceeds from the issue of Convertible Bonds for working capital is reasonable in light of the cash and cash equivalents of approximately RMB9,025,000, which only accounted for 0.2% of total assets of the Group, as at 30 June 2018.

As discussed with the management of the Company, the Directors have been considering various financial alternatives available to the Group other than the Subscription. In respect of debt financing from banks, based on the meeting minutes between various banks and the Group in March 2017 and December 2017, since the Group has remained in a loss position for several years, various banks have already been persuaded to maintain credit limit, re-loan in time and not to demand on repayment of borrowings in order to support the operation of the Group, the Company considered that further borrowings from banks will not be possible. Moreover, based on the Company's previous experience, the Company considered that the debt financing or bank loan applications may be subject to lengthy due diligence and negotiations process with banks if the Company can arrange loan financing. We have obtained and reviewed two emails from two commercial banks in August 2018 to the Company in relation to the time frame and arrangement of loan application, we noted that short-term loan application took around three to four months. Furthermore, given the continual loss-making financial performance of the Group and material uncertainty related to going concern as stated in the paragraph headed "I. Background information on the Group" above and the fact that the interest rate on the outstanding loans of the Group as at the Latest Practicable Date ranged from 4.35% to 14.95%, we concur with the Directors' view that it would be difficult to seek positive response and negotiate favorable terms that are beneficial to the Group from banks for a substantial principal amount at an interest rate lower than or equal to the interest rate of the Convertible Bonds of 4% per annum. Therefore, the Directors considered that the issue of Convertible Bonds is more appropriate and can match the Group's schedule to improve the liquidity of the Group in the year of 2018.

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

As to other equity fund-raising exercise, the Group has considered placing of new Shares, rights issue or open offer of Shares. However, the Company has approached a corporate finance firm but was not able to receive any concrete feedback with favourable terms probably due to the substantial amount to be raised and the loss making position of the Group. Therefore, we concur with the Directors' view that it is difficult for the Company to conduct other equity fund-raising exercise.

Having considered the above, including (i) the Group has remained in a loss position for several years; (ii) the Group is in need of raising fund with substantial amount to lower the liabilities level and relieve the repayment pressure, and in turn, improve the Group's financial position; and (iii) it is difficult for the Company to conduct other alternative means of financing as discussed above, we concur with the Directors that issue of the Convertible Bonds is fair and reasonable, as far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole.

IV. Principal terms of the Subscription Agreement

On 19 July 2018 (after market close), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$270,000,000 (equivalent to RMB229,500,000) and the Company has conditionally agreed to issue the Convertible Bonds, subject to and on the terms of the Subscription Agreement. The initial Conversion Price is HK\$0.108 per Conversion Share, and the Convertible Bonds will carry an interest of 4% per annum and will mature on the fifth (5th) anniversary of the Issue Date. For further details of the principal terms of the Convertible Bonds, please refer to the section headed "The Subscription Agreement" in the Letter from the Board.

(i) Conversion Price

The initial Conversion Price of HK\$0.108 (which is subject to adjustments upon occurrence of the Adjustment Events) represents:

- (a) a discount of approximately 21.2% to the closing price of HK\$0.137 per Share as quoted on the Stock Exchange on 19 July 2018, being the date of the Subscription Agreement;
- (b) a discount of approximately 15.6% to the average closing price of approximately HK\$0.128 per Share as quoted on the Stock Exchange for the last five (5) Trading Days immediately prior to the date of the Subscription Agreement;
- (c) a discount of approximately 9.4% to the average closing price of approximately HK\$0.119 per Share as quoted on the Stock Exchange for the last ten (10) Trading Days immediately prior to the date of the Subscription Agreement;

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- (d) a discount of approximately 5.3% to the average closing price of approximately HK\$0.114 per Share as quoted on the Stock Exchange for the last thirty (30) Trading Days immediately prior to the date of the Subscription Agreement;
- (e) a discount of approximately 48.8% to the net asset value per Share of approximately HK\$0.211 as calculated from the unaudited equity attributable to the owners of the Company as at 30 June 2018 of approximately RMB771,496,000 (equivalent to approximately HK\$907,665,000) and the total number of 4,298,042,599 Shares in issue as at 30 June 2018; and
- (f) a discount of approximately 39.3% to the closing price of HK\$0.178 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

In order to assess the fairness and reasonableness of the initial Conversion Price of HK\$0.108, we have taken into account (i) the historical price performance of the Shares; (ii) trading liquidity of the Shares; and (iii) the market comparables in respect of recent issue and subscription of convertible notes/bonds.

Historical price performance of the Shares

Set out below is a chart showing the movement of the daily closing price of the Shares as quoted on the Stock Exchange from 20 July 2017 (being one year prior to the date of Subscription Agreement) up to and including the date of Subscription Agreement (both dates inclusive) (the “**Review Period**”). We consider the sampling period of one year is adequate as it represents a reasonable period to provide a general overview of the recent price performance of the Shares when conducting an analysis among the historical closing prices of the Shares and the Conversion Price.



Source: Website of the Stock Exchange

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As shown on the above chart, after the price of the Shares reached their peak of HK\$0.181 on 18 October 2017 and formed a general decreasing trend. The price of the Shares plummeted and reached their bottom of HK\$0.105 on 9 July 2018. As advised by the management of the Company, they were not aware of any reasons for the aforesaid movements. We noted that the daily closing price of the Shares ranged from HK\$0.105 per Share to HK\$0.181 per Share, with the average daily closing price of HK\$0.131 per Share during the Review Period. We noted that, although the Conversion Price is below the average daily closing price during the Review Period, the Conversion Price is within the range of daily closing price of the Shares during the Review Period.

Trading liquidity of the Shares

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

Month	Total monthly trading volume <i>(Number of Shares)</i>	Average daily trading volume <i>(Number of Shares)</i> <i>(Note 1)</i>	Percentage of average daily trading volume to total number of issued Shares <i>(%)</i> <i>(Note 2)</i>
2017			
July (From 20 July 2017)	4,856,000	607,000.00	0.014%
August	42,068,000	1,912,181.82	0.044%
September	36,093,000	1,718,714.29	0.040%
October	126,645,000	6,332,250.00	0.147%
November	66,688,000	3,031,272.73	0.071%
December	52,466,000	2,761,368.42	0.064%
2018			
January	57,016,000	2,591,636.36	0.060%
February	35,148,000	1,952,666.67	0.045%
March	36,760,500	1,750,500.00	0.041%
April	14,003,000	737,000.00	0.017%
May	17,827,500	848,928.57	0.020%
June	15,668,000	783,400.00	0.018%
July (Up to 19 July 2018)	65,892,000	5,068,615.38	0.118%

Source: Website of the Stock Exchange

Notes:

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

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The average daily trading volume of the Shares on the Stock Exchange during the Review Period ranged between 607,000 Shares and 6,332,250 Shares, representing approximately from 0.014% to 0.147% of the total issued Shares, respectively. We noted that the Shares have a thin trading volume during the Review Period. The relatively low liquidity of the Shares may imply lack of interest from potential investors to invest in the Shares. If the Company is to pursue sizeable equity financing alternative in the stock market, it will take a substantial period of time and exert a downward pressure on the price of the Shares.

Market comparable analysis

We have reviewed the announcements for the issue of convertible bonds/notes by companies listed on the Stock Exchange during the last two months prior to and including 19 July 2018, being the date of the Subscription Agreement (the “**Comparable Transactions**”). To the best of our knowledge and as far as we are aware of, we have identified 14 Comparable Transactions, and we consider that such transactions can provide a reference on the recent issue of convertible bonds/notes given the sufficient number of transactions in such period.

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

Date of announcement	Name of company (Stock code)	Principal amount <i>(approx. HK\$ million)</i>	Maturity period <i>(years)</i>	Premium/ (discount) of conversion price over/to closing price on the last trading day (the “Premium/ (discount) — Last Trading Day”) — <i>(approx. %)</i>	Premium/ (discount) of conversion price over/to average closing price of five trading days up to and including the last trading day/ date of agreement (the “Premium/ (discount) — Five Days”) — <i>(approx. %)</i>	(Discount)/ premium of conversion price to/ over the net asset value per Share (the “(Discount)/ premium — NAV”) — <i>(approx. %)</i>	Interest rate per annum <i>(approx. %)</i>
18-Jul-18	China Finance Investment Holdings Limited (875)	39.5	1.0	3.41	0.00	(64.85)	5.00
27-Jun-18	Pa Shun International Holdings Limited (574)	134.5	2.0	4.17	4.17	(40.71)	Nil

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Date of announcement	Name of company (Stock code)	Principal amount <i>(approx. HK\$ million)</i>	Maturity period <i>(years)</i>	Premium/	Premium/	Premium/	Interest rate per annum <i>(approx.)</i>
				(discount) of conversion price over/to closing price on the last trading day (the “Premium/ (discount) — Last Trading Day”) <i>(%) (approx.)</i>	(discount) of conversion price over/to closing price to and including the last trading day/ date of agreement (the “Premium/ (discount) — Five Days”) <i>(%) (approx.)</i>	(discount) of conversion price over/to average closing price of five trading days up to and including the last trading day/ date of agreement (the “Premium/ (Discount)/ premium of conversion price to/ over the net asset value per Share (the “(Discount)/ premium — NAV”) <i>(%) (approx.)</i>	
26-Jun-18	New City Development Group Limited (456)	43.2	2.0	(13.51)	(19.19)	10.55	2.00
25-Jun-18	Sunshine Oilsands Ltd. (2012)	11.0	0.25	(15.16)	(12.66)	(32.69)	5.00
21-Jun-18	China Kingstone Mining Holdings Limited (1380)	16.5	2.0	11.11	5.93	(42.14)	Nil
15-Jun-18	Energy International Investments Holdings Limited (353)	700.0	2.0	0.00	0.39	286.31	3.00
5-Jun-18	Renhe Commercial Holdings Company Limited (1387)	6,506.0	10.0	(2.98)	(0.79)	14.74	Nil
4-Jun-18	Huscoke Resources Holdings Limited (704)	80.0	3.0 <i>(Note 1)</i>	35.70	35.70	117.82	3.95
1-Jun-18	Green Leader Holdings Group Limited (61)	395.0	2.0	0.00	10.00	N/A <i>(Note 2)</i>	1.50
1-Jun-18	Junefield Department Store Group Limited (758)	100.0	2.0	(21.30)	(24.55)	203.58	5.00
31-May-18	Prosper One International Holdings Company Limited (1470)	80.0	1.0	(16.67) <i>(Note 3)</i>	(16.67) <i>(Note 3)</i>	478.42 <i>(Note 3)</i>	0.80
30-May-18	Gr Properties Limited (108)	1,180.1	Perpetual	2.56	(2.44)	100.90	1.00 <i>(Note 4)</i>
29-May-18	Hospital Corporation Of China Limited (3869)	756.0 <i>(Note 5)</i>	5.0	(0.50)	2.25	50.58	Nil

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Date of announcement	Name of company (Stock code)	Principal amount <i>(approx. HK\$ million)</i>	Maturity period <i>(years)</i>	Premium/	Premium/	Premium/	Interest rate per annum <i>(approx.)</i>
				(discount) of conversion price over/to closing price on the last trading day (the “Premium/ (discount) — Last Trading Day”) <i>(%) (approx.)</i>	(discount) of conversion price over/to average closing price of five trading days up to and including the last trading day/ date of agreement (the “Premium/ (discount) — Five Days”) <i>(%) (approx.)</i>	(discount) of conversion price to/ over the net asset value per Share (the “(Discount)/ premium — NAV”) <i>(%) (approx.)</i>	
20-May-18	Comtec Solar Systems Group Limited (712)	78.0 <i>(Note 5)</i>	3.0	0.00	(0.57)	132.50	10.00
		Maximum	Perpetual	35.70	35.70	478.42	10.00
		Minimum	0.250	(21.30)	(24.55)	(64.85)	Nil
		Average	2.71 <i>(Note 6)</i>	(0.94)	(1.32)	93.46	2.66
	The Company	270.0	5.00	(21.20)	(15.60)	(17.61)	4.00

Sources: Bloomberg and website of the Stock Exchange

Notes:

1. According to the announcement of Huscoke Resources Holding Limited (704.HK) dated 4 June 2018, the maturity date is defined as the third (3rd) anniversary of the date of first issue of the Convertible Bonds (which may be extended for one (1) additional year subject to agreement between the Company and the holder of the Convertible Bonds in writing). For our analysis purpose, we use 3 years to be the maturity period.
2. Conversion price to net asset value is not available because it recorded deficit attributable to owners of the company in its latest period.
3. According to the announcement of Prosper One International Holdings Company Limited (1470.HK) dated 31 May 2018, the conversion price at which new shares will be issued upon exercise of a conversion right will be 90% of the volume weighted average price of the Shares as traded on the Stock Exchange (or alternative stock exchange) on the trading day immediately preceding the conversion date. The floor price will be initially HK\$0.80 per Share, subject to the adjustments. For our analysis purpose, we use HK\$0.8 (the floor price) in our calculation.
4. According to the announcement of GR properties Limited (108.HK) dated 30 May 2018, the interest rate is defined as the coupon rate of 1% per annum and will cease to bear any coupon after the fifth (5th) anniversary of the date of issue. For our analysis purpose, we use 1% to be the interest rate.

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5. For the purpose of illustration, the amounts denominated in Canada dollars (CAD) have been converted into HK\$ at an exchange rate of CAD1.0=HK\$6.0; and the amounts denominated in Renminbi (RMB) have been converted into HK\$ at an exchange rate of RMB1.0=HK\$1.1765.
6. For our analysis purpose, we exclude perpetual in the calculation.

From the above table, for the Premium/(discount) — Last Trading Day of the Comparable Transactions, we noted a range from a discount of approximately 21.30% to a premium of approximately 35.70%, with an average discount of approximately 0.94%. The Conversion Price, which represented a discount of approximately 21.20% to the closing price of HK\$0.137 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement, falls below the average and within the range of the Premium/(discount) — Last Trading Day of the Comparable Transactions.

For the Premium/(discount) — Five Days, we noted a range from a discount of approximately 24.55% to a premium of approximately 35.70%, with an average discount of approximately 1.32%. The Conversion Price, which represented a discount of approximately 15.60% to the average closing price of approximately HK\$0.128 per Share as quoted on the Stock Exchange for the last five (5) Trading Days immediately prior to the date of the Subscription Agreement, falls below the average and within the range of the Premium/(discount) — Five Days of the Comparable Transactions.

For the Premium/(discount) — NAV, we noted a range from a discount of approximately 64.85% to a premium of approximately 478.42%, with an average premium of approximately 93.46%. The Conversion Price, which represented a discount of approximately 17.61% to the net asset value per Share, falls below the average and within the range of the Premium/(discount) — NAV of the Comparable Transactions.

Although the Conversion Price is below the averages of Premium/(discount) — Last Trading Day, Premium/(discount) — Five Days and Premium/(discount) — NAV, we noted that (i) the Conversion Price is within the ranges of Premium/(discount) — Last Trading Day, Premium/(discount) — Five Days and Premium/(discount) — NAV; and (ii) issue of the Convertible Bonds is fair and reasonable, as far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole as mentioned in the above paragraph headed “III. Reasons for and benefits of the issue of the Convertible Bonds” above, we consider that the Conversion Price is in line with recent market practice.

Having considered that (i) the Conversion Price is below average but still within range of daily closing prices of the Shares during the Review Period; (ii) the trading liquidity of the Shares was thin during the Review Period; and (iii) the Conversion Price is in line with recent market practice based on the analysis of the Comparable Transactions, we consider the Conversion Price is fair, reasonable and in the interest of the Company and the Shareholders as a whole.

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(ii) Interest rate

Based the above table of the Comparable Transactions, the interest rates of the Comparable Transactions ranged from nil to 10.0% per annum with an average of approximately 2.66% per annum. The interest rate of the Convertible Bonds of 4.0% per annum falls with the range of the interest rates of the Comparable Transactions. As such, we consider that the interest rate of the Convertible Bonds is fair and reasonable.

(iii) Maturity

Based the above table of the Comparable Transactions, the terms of maturity of the Comparable Transactions ranged from 3 months to perpetual with an average of approximately 2.71 years. The terms of maturity of the Convertible Bonds of 5 years falls with the range of duration of the Comparable Transactions. As such, we consider that the terms of maturity of the Convertible Bonds is fair and reasonable.

(iv) Adjustments to the Conversion Price

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

According to the announcements or circulars of the Comparable Transactions, we noted that except China Kingstone Mining Holdings Limited (the issue of convertible note was further terminated on 21 August 2018), the announcements or circulars of the rest of all Comparable Transactions stated that there were adjustment mechanisms to the Conversion Price, we consider that the adoption of the Adjustments is in line with market practice.

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V. Dilution effects on the shareholding interests of the existing Shareholders

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

	As at Latest Practicable Date		Immediately after the issue and allotment of the Conversion Shares upon full conversion of the Convertible Bonds		Immediately after conversion of certain Convertible Bonds and Existing Bonds	
	Number of Shares (approx.)	%	Number of Shares	% (approx.)	Number of Shares	% (approx.)
Shareholders						
Asia Pacific Resources Dev. Inv. Ltd. (Note 1)	800,000,000	18.61	800,000,000	13.34	1,374,499,372	19.99 (Note 1)
Directors						
Subscriber	100,000,000	2.33	1,798,304,493	29.99 (Note 2)	2,062,092,853	29.99 (Note 2)
Li Weiruo	410,392,000	9.55	410,392,000	6.85	410,392,000	5.97
Shi Jianmin	—	—	—	—	30,000,000	0.44
Zhang Fubo	5,000,000	0.11	5,000,000	0.08	5,000,000	0.07
Public Shareholders	<u>2,982,650,599</u>	<u>69.40</u>	<u>2,982,650,599</u>	<u>49.74</u>	<u>2,993,950,599</u>	<u>43.54</u>
Total	<u>4,298,042,599</u>	<u>100.00</u>	<u>5,996,347,092</u>	<u>100.00</u>	<u>6,875,934,824</u>	<u>100.00</u>

Notes:

- Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming, who is a substantial shareholder of the Company. No conversion rights attaching to the Convertible Bonds and the Existing Bonds shall be exercised if Asia Pacific Resources Development Investment Limited and all other persons acting in concert with it jointly controlling or being interested in, directly or indirectly, 30% or more of the voting rights of the Company (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time).
- Pursuant to the Subscription Agreement, the Subscriber shall subscribe for the Convertible Bonds which is convertible into 2,500,000,000 Conversion Shares based on the initial Conversion Price of HK\$0.108 per Share. No conversion rights attaching to the Convertible Bonds shall be exercised if (i) the Subscriber and all other persons acting in concert (as defined in the Takeovers Code) with it jointly controlling or being interested in, directly or indirectly, 30% or more of the voting rights of the Company (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) as would trigger a mandatory general offer as may be specified from time to time under the Takeovers Code; or (ii) the conversion would result in the Company breaching the minimum public float requirement under Rule 8.08 of the Listing Rules.

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As shown in the above table, the shareholding interests of the existing public Shareholders would be diluted from approximately 69.40% as at the Latest Practicable Date to approximately 49.74% immediately after the full conversion of the new Convertible Bonds (assuming there is no other change in the issued share capital of and the shareholding of the Company).

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

VI. Financial Effect of the Subscription to the Group

(i) Net Assets Value

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

As stated in the 2018 Interim Report, the net assets value of the Group attributable to the shareholders as at 30 June 2018 was approximately RMB771,496,000. The net asset value per Share was approximately HK\$0.211 as calculated from the unaudited equity attributable to the owners of the Company as at 30 June 2018 of approximately RMB771,496,000 (equivalent to approximately HK\$907,665,000) and the total number of 4,298,042,599 Shares in issue as at 30 June 2018. The chief financial officer of the Company advised that the net assets value of the Company is expected to increase upon conversion of the Convertible Bonds by the Subscriber into the Conversion Shares as a result of the decrease in liabilities.

(ii) Gearing

As mentioned in the paragraph headed “I. Background information of the Group” above, the Group’s gearing ratio was approximately 74% as at 30 June 2018. The gearing ratio is calculated by net debt over total capital. Net debt is calculated as total borrowings less cash and cash equivalents and pledged bank deposits, while total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.

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

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

(iii) Liquidity and working capital

As stated in the 2018 Interim Report, the current assets of the Group amounted to approximately RMB346,970,000 and the current liabilities of the Group amounted to approximately RMB2,197,553,000 as at 30 June 2018. The Group had cash and cash equivalents of approximately RMB9,025,000 as at 30 June 2018.

As mentioned above, the net proceeds from the issue of the Convertible Bonds is intended to be used for repayment of debt and liabilities and as general working capital. The chief financial officer of the Company advised that the Subscription would improve the liquidity and working capital of the Group.

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

RECOMMENDATION

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

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

Notes:

1. *Mr. Edward Wu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the SFO since 2005. Mr. Wu have participated in and completed various advisory transactions in respect of connected transactions and transactions of listed companies in Hong Kong.*
2. *The English translation of the Chinese name(s) in this letter, where indicated with * is included for information purpose only and should not be regarded as the official English name(s) of such Chinese names.*
3. *For the purpose of this letter, translation of RMB into HK\$ or vice versa have been calculated by using an exchange rate of RMB1.00 equal to HK\$1.1765. Such exchange rates have been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.*

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 and upon completion of the Subscription <u>8,000,000,000</u> Shares	<u>800,000,000</u>
<i>Issued:</i>	
As at the Latest Practicable Date <u>4,298,042,599</u> Shares	<u>429,804,259.90</u>
Conversion Shares to be issued upon completion of the Subscription <u>2,500,000,000</u> Shares	<u>250,000,000</u>
<i>Total:</i>	
<u>6,798,042,599</u> Shares	<u>679,804,259.90</u>

The Conversion Shares, when issued and allotted, 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 share options (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Subscriber	100,000,000	—	100,000,000	2.33%
Li Weiruo	410,392,000	—	410,392,000	9.55%
Shi Jianmin	—	30,000,000	30,000,000	0.70%
Zhang Fubuo	5,000,000	—	5,000,000	0.12%
Hu Xiaoping	—	1,200,000	1,200,000	0.03%

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

Directors	Name of Company	Number of non-voting deferred shares	Capacity	Type of Interest	Approximate interest in holding
Li Weiruo	Ko Yo Development Co., Ltd (“Ko Yo HK”) (<i>Note</i>)	2,100,000	Beneficial Owner	Personal	70%

Note: a wholly-owned subsidiary of the Company

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

Directors	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%

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.

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 Directors or chief executive of the Company and save as disclosed above, the following 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 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Name	Capacity	Number of shares	Approximate shareholding percentage
Mr. Cheng Kin Ming	Interest of corporation controlled	800,000,000	18.61%

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.

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
Yuan Bai	Ko Yo HK	420,000	Beneficial Owner	Personal	14%
Tang Shiguo	Ko Yo HK	300,000	Beneficial Owner	Personal	10%

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

Name	Capacity	Number of shares	Name of Company	Approximate Shareholding percentage
Yuan Bai	Beneficial Owner	420,000	Ko Yo HK	14%
Tang Shiguo	Beneficial Owner	300,000	Ko Yo HK	10%

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, convertible securities (the “Convertible Securities 1”) that issued on 13 November 2014 can convert into 1,002,675,000 Shares and the outstanding convertible securities (the “Convertible Securities 2”) that issued on 15 January 2016 can convert into 40,000,000 Shares, set out below is the number of shares from conversion of outstanding convertibles securities converted into Shares:

As at the Latest Practicable Date	Expiry date	No. of shares from conversion of outstanding convertible securities
Asia Pacific Resources Development Investment Limited (<i>Note</i>)	12 November 2024 (<i>Note 1</i>)	1,001,375,000
Shi Jianmin	14 January 2019 (<i>Note 2</i>)	30,000,000
Public	14 January 2019 (<i>Note 2</i>)	10,000,000
	12 November 2024 (<i>Note 2</i>)	<u>1,300,000</u>
Total		<u><u>1,042,675,000</u></u>

Note 1: Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming, who is a substantial shareholder of the Company. Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming, who is a substantial shareholder of the Company. No conversion rights attaching to the outstanding convertible bonds shall be exercised if the full conversion of the outstanding convertible securities would trigger obligation on the Subscriber and persons acting in concert with it under the Takeovers Code to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by them.

Note 2: No conversion restriction in respect to the outstanding convertible securities issued to the public.

(e) Share options

As at the Latest Practicable Date, no capital of member of the Group was under options or agreed conditionally or unconditionally to be put under option, other than the 18,200,000 Share Options under the Share Option Scheme, which are outstanding and entitling the holders of the Share Options to convert into 18,200,000 Shares as at the Latest Practicable Date:

Holders of the Share Options	Date of grant of Share Options	Exercise price per Share	Exercisable period	Number of Share Options held
Hu Xiaoping	23 November 2010	HK\$1.100	23 November 2010 to 22 November 2020	800,000
	28 March 2013	HK\$0.595	28 March 2013 to 27 March 2023	400,000
Employees	14 January 2010	HK\$1.150	14 January 2010 to 13 January 2020	800,000
	28 March 2013	HK\$0.595	28 March 2013 to 27 March 2023	2,200,000
	22 June 2016	HK\$0.151	22 June 2016 to 21 June 2026	14,000,000
Total				<u>18,200,000</u>

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

- a. no alternation to the authorised share capital of the Company since the end of its last financial year, being 31 December 2017. All of the Shares currently in issue rank pari passu in all respects with each other including, in particular, as to dividends, voting rights and capital;
- b. there was no arrangement under which future dividends were waived or agreed to be waived;
- c. no share or loan capital of the Company or any of its subsidiaries had been put under option or agreed conditionally or unconditionally to be put under option; and
- d. the Company did not have any other derivatives, options, warrants and other convertible securities or rights convertible into Shares.

4. DIRECTORS' SERVICE CONTRACTS

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

5. DIRECTORS' COMPETING INTERESTS

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

6. NO MATERIAL LITIGATION

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

7. QUALIFICATION AND CONSENT OF EXPERT

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

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

As at the Latest Practicable Date, the expert named above was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

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

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up.

9. MATERIAL CONTRACT

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

- (i) the Subscription Agreement.

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 four executive Directors, being Mr. Tang Guoqiang, Mr. Shi Jianmin, Mr. Li Weiruo, and Mr. Zhang Weihua, one non-executive Director being Mr. Zhang Fubo 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 2017, 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 Subscription Agreement, the transactions contemplated thereunder, and the 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 contract referred to in the section headed “Material Contract” in this appendix;
- (iii) the annual reports of the Company for the two financial years ended 31 December 2017;
- (iv) the interim report of the Company for the six months ended 30 June 2018;
- (v) the written consent from TC Capital International Limited referred to in the above section headed “Qualification and Consent of Expert” in this appendix;

- (vi) the letter from the Board, the text of which is set out on pages 5 to 29 of this circular;
- (vii) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 30 to 31 of this circular;
- (viii) the letter of advice from TC Capital International Limited, the text of which is set out on pages 32 to 50 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 Friday, 26 October 2018 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:**

- (i) the subscription agreement dated 19 July 2018 (the “**Subscription Agreement**”) between the Company and Mr. Tang Guoqiang (the “**Subscriber**”) (a copy of which having been produced to the EGM marked “A” and initialed by the chairman of the EGM for identification purposes) and the transaction contemplated thereby be and hereby approved, confirmed and ratified;
- (ii) the issue by the Company of the convertible bonds in the principal amount of HK\$270,000,000 at an initial conversion price of HK\$0.108 per share (subject to adjustments) (the “**Convertible Bonds**”) pursuant to the Subscription Agreement together with the issuance of the bond instrument and the bond certificate to the Subscriber be and are hereby approved;
- (iii) 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 issued and allotted upon the conversion of the Convertible Bonds, the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate to issue and allot up to 2,500,000,000 ordinary shares of HK\$0.108 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

NOTICE OF EGM

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

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

Hong Kong, 4 October 2018

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

Registered office:

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

Principal place of business in Hong Kong:

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

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 branch 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.

NOTICE OF EGM

4. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.
5. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
6. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the ordinary resolution as set out above will be conducted by way of poll.
7. In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the Company's register of members will be closed from Tuesday, 23 October 2018 to Friday, 26 October 2018 (both days inclusive) during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on Friday, 26 October 2018 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify for attending and voting at the EGM, Shareholders whose Shares are not registered in their names should complete and lodge their respective instruments of transfer with the relevant share certificates with the Company's share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Monday, 22 October 2018.
8. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 12:00 noon on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at www.koyochem.com and on the HKExnews website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and venue of the rescheduled meeting.