THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Yongsheng Advanced Materials Company Limited, you should at once hand this circular with the enclosed form of proxy 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 the transferee(s).

永盛新材料
YS Advanced Materials

Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

(I) MAJOR AND CONNECTED TRANSACTION DISPOSAL OF SUBSIDIARIES; AND (II) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

VEDA | CAPITAL
智 略 資 本

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

紅日資本有限公司
RED SUN CAPITAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A notice convening the EGM to be held at United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 18 October 2019 at 2:30 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for the EGM is enclosed herein. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM (i.e. not later than 2:30 p.m. on Wednesday, 16 October 2019 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

24 September 2019

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the meanings as set out below:

"Announcements"	collectively, the announcements of the Company dated 26 July 2019 and 16 August 2019 in relation to the Disposals
"associate(s)"	has the meaning as ascribed to it under the Listing Rules
"Board"	the board of Director(s)
"Business Day(s)"	any day (excluding a Saturday or Sunday or public holiday) in the PRC
"Company"	Yongsheng Advanced Materials Company Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 3608)
"Completions"	completions of all the Disposals
"Completion Date"	the date on which Completions will take place
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration of RMB173,916,400 (equivalent to approximately HK$197,726,000) for the Disposals, being the total sum of the considerations of the Hangzhou Disposal, the Nantong Disposal and the Jiangsu Disposal
"controlling Shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposals"	collectively, the Hangzhou Disposal, the Nantong Disposal and the Jiangsu Disposal
"EGM"	the extraordinary general meeting to be convened by the Company for the purpose of considering, and if thought fit, approving, among other things, the entering into each of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder
"Equity Transfer Agreements"	collectively, the Hangzhou SPA, the Nantong SPA and the Jiangsu SPA

"Group"	the Company and its subsidiaries
"Hangzhou Disposal"	the disposal of the Hangzhou Equity in accordance with the terms and conditions of the Hangzhou SPA (as supplemented by the Hangzhou Supplemental Agreement)
"Hangzhou Equity"	70% of the equity interests in Yongsheng Chemical Fiber
"Hangzhou SPA"	the equity transfer agreement dated 26 July 2019 and entered into between the Vendor and Mr. Li in relation to, among other matters, the Hangzhou Disposal
"Hangzhou Supplemental Agreement"	the supplemental agreement to the Hangzhou SPA dated 16 August 2019 and entered into between the Vendor, Mr. Li and the Purchaser
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HUVIS"	HUVIS Corporation*（株式會社HUVIS）, a chemical fiber manufacturing company based in South Korea with operating manufacturing factories in Jeonju, Ulsan and the PRC and a research and development centre in Daejeon, the shares of which are listed on the Korea Exchange. As at the Latest Practicable Date, it holds 30% of the equity interests in each of Yongsheng Chemical Fiber and Nantong Yongsheng, and is a connected person of the Company
"Independent Board Committee"	the independent board committee of the Company, comprising all the independent non-executive Directors, which has been formed for the purpose of advising the Independent Shareholders in respect of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder

"Independent Financial Adviser"	Red Sun Capital 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 Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder
"Independent Shareholder(s)"	Shareholder(s) other than those who have material interest in the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder
"Jiangsu Disposal"	the disposal of the Jiangsu Equity in accordance with the terms and conditions of the Jiangsu SPA (as supplemented by the Jiangsu Supplemental Agreement)
"Jiangsu Equity"	70% of the equity interests in Jiangsu Yongsheng
"Jiangsu SPA"	the equity transfer agreement dated 26 July 2019 and entered into between the Vendor and Mr. Li in relation to, among other matters, the Jiangsu Disposal
"Jiangsu Supplemental Agreement"	the supplemental agreement to the Jiangsu SPA dated 16 August 2019 and entered into between the Vendor, Mr. Li and the Purchaser
"Jiangsu Yongsheng"	Jiangsu Yongsheng High Polyester Advanced Materials Research Institute Company Limited*（江蘇永盛高分子新材料研究所有限公司）, a company established in the PRC with limited liability and a non-wholly owned subsidiary of the Company as at the Latest Practicable Date
"Latest Practicable Date"	19 September 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities of the Stock Exchange
"Long Stop Date"	30 November 2019 or such other dates the Vendor and the Purchaser may agreed

"Mr. Li"	Mr. Li Cheng, a controlling shareholder, an executive Director and the chairman of the Company and the ultimate controlling shareholder of the Purchaser
"Nantong Disposal"	the disposal of the Nantong Equity in accordance with the terms and conditions of the Nantong SPA (as supplemented by the Nantong Supplemental Agreement)
"Nantong Minority Shareholders"	being three independent third party individuals who hold, in aggregate, 3% of the equity interests in Nantong Yongsheng as at the Latest Practicable Date
"Nantong Equity"	67% of the equity interests in Nantong Yongsheng
"Nantong SPA"	the equity transfer agreement dated 26 July 2019 and entered into between the Vendor and Mr. Li in relation to, among other matters, the Nantong Disposal
"Nantong Supplemental Agreement"	the supplemental agreement to the Nantong SPA dated 16 August 2019 and entered into between the Vendor, Mr. Li and the Purchaser
"Nantong Yongsheng"	Nantong Yongsheng HUVIS Fiber Advanced Materials Co., Ltd.*（南通永盛滙維仕纖維新材料有限公司）, a company established in the PRC with limited liability and a non-wholly owned subsidiary of the Company as at the Latest Practicable Date
"PFY"	polyester filament yarns
"PRC" or "China"	the People's Republic of China, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	Hangzhou Yongsheng Lituo E-commerce Company Limited*（杭州永盛力拓電子商務有限公司）, a company established in the PRC with limited liability and principally engaged in e-commerce business in the PRC
"Remaining Group"	the Group other than the Target Group
"RMB"	Renminbi, the lawful currency of the PRC

"Sale Equity"	collectively, the Hangzhou Equity, the Nantong Equity and the Jiangsu Equity
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
"Share(s)"	ordinary share(s) in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreements"	collectively, the Hangzhou Supplemental Agreement, the Nantong Supplemental Agreement and the Jiangsu Supplemental Agreement
"Target Companies"	collectively, Yongsheng Chemical Fiber, Nantong Yongsheng and Jiangsu Yongsheng
"Target Group"	the Target Companies and their subsidiaries (if any)
"Valuer"	Ravia Global Appraisal Advisory Limited, an independent professional valuer engaged by the Company
"Vendor"	Hangzhou HUVIS Yongsheng Dyeing and Finishing Company Limited* (杭州滙維仕永盛染整有限公司), a company established in the PRC with limited liability and an indirectly wholly-owned subsidiary of the Company as at the Latest Practicable Date
"Yongsheng Chemical Fiber"	Hangzhou HUVIS Yongsheng Chemical Fiber Limited* (杭州滙維仕永盛化纖有限公司), a company established in the PRC with limited liability and a non-wholly owned subsidiary of the Company as at the Latest Practicable Date
"%"	per cent

* *for identification purpose only*

For the purpose of this circular and for illustration purposes only, unless the context otherwise requires, conversion of RMB into Hong Kong dollars is based on the approximate exchange rate of RMB1.00 to HK$1.1369.

Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

Executive Directors:
Mr. Li Cheng
Mr. Zhao Jidong
Mr. Li Conghua
Mr. Ma Qinghai

Independent non-executive Directors:
Ms. Wong Wai Ling
Mr. Shiping James Wang
Dr. Wang Huaping

Registered Office:
P.O. Box 10008,
Willow House, Cricket Square,
Grand Cayman, KY1-1001

Place of Business in Hong Kong:
Unit C2, 29th Floor
Tower 1, Admiralty Centre
No.18 Harcourt Road
Hong Kong

24 September 2019

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF SUBSIDIARIES

INTRODUCTION

References are made to the Announcements. As disclosed in the Announcements, on 26 July 2019 (after trading hours of the Stock Exchange), the Vendor, an indirect wholly-owned subsidiary of the Company, and Mr. Li entered into the Equity Transfer Agreements which were then supplemented by the Supplemental Agreements entered into among the Vendor, Mr. Li and the Purchaser on 16 August 2019. Pursuant to the Equity Transfer Agreements (as supplemented by the Supplemental Agreements), the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Equity (i.e. (i) the Hangzhou Equity, representing 70% of the equity interests in Yongsheng Chemical Fiber; (ii) the Nantong Equity, representing 67% of the equity interests in Nantong Yongsheng; and (iii) the Jiangsu Equity, representing 70% of the equity interests in Jiangsu Yongsheng) at a total Consideration of RMB173,916,400 (equivalent to approximately HK$197,726,000). The Disposals are inter-conditional upon each other.

The purpose of this circular is to provide you with, among other things, (i) further details of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to each of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder; (iv) the financial information of the Group; (v) the valuation report in respect of the Target Group; and (vi) other information as required under the Listing Rules, together with the notice of EGM.

THE EQUITY TRANSFER AGREEMENTS

Principal terms of each of the Equity Transfer Agreements are summarised below:

	The Hangzhou SPA	**The Nantong SPA**	**The Jiangsu SPA**
Dates:	26 July 2019 (after trading hours)	26 July 2019 (after trading hours)	26 July 2019 (after trading hours)
Parties:	(1) The Vendor; and (2) Mr. Li (as the original purchaser)	(1) The Vendor; and (2) Mr. Li (as the original purchaser)	(1) The Vendor; and (2) Mr. Li (as the original purchaser)
	As at the Latest Practicable Date, Mr. Li (as original purchaser), a controlling Shareholder, an executive Director and the chairman of the Company, together with his associates, are interested in 479,132,990 Shares in aggregate, representing approximately 63.96% of the issued share capital of the Company.		
Asset(s) to be disposed of:	The Hangzhou Equity, representing 70% of the equity interests in Yongsheng Chemical Fiber.	The Nantong Equity, representing 67% of the equity interests in Nantong Yongsheng.	The Jiangsu Equity, representing 70% of the equity interests in Jiangsu Yongsheng.

Consideration:	The consideration of the Hangzhou Disposal is RMB77,490,000 (equivalent to approximately HK$88,098,000). Subject to the terms and conditions set out in the Hangzhou SPA, the consideration shall be satisfied by the purchaser in the following manner:	The consideration of the Nantong Disposal is RMB87,046,400 (equivalent to approximately HK$98,963,000). Subject to the terms and conditions set out in the Nantong SPA, the consideration shall be satisfied by the purchaser in the following manner:	The consideration of the Jiangsu Disposal is RMB9,380,000 (equivalent to approximately HK$10,664,000). Subject to the terms and conditions set out in the Jiangsu SPA, the consideration shall be satisfied by the purchaser in the following manner:
	(i) 5% of the consideration, (i.e. RMB3,874,500 and equivalent to approximately HK$4,405,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the signing of the Hangzhou SPA as the first deposit;	(i) 5% of the consideration, (i.e. RMB4,352,320 and equivalent to approximately HK$4,948,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the signing of the Nantong SPA as the first deposit;	(i) 5% of the consideration, (i.e. RMB469,000 and equivalent to approximately HK$533,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the signing of the Jiangsu SPA as the first deposit;

(ii) 20% of the consideration, (i.e. RMB15,498,000 and equivalent to approximately HK$17,620,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor on or before 31 August 2019 as the second deposit; and	(ii) 20% of the consideration, (i.e. RMB17,409,280 and equivalent to approximately HK$19,793,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor on or before 31 August 2019 as the second deposit; and	(ii) 20% of the consideration, (i.e. RMB1,876,000 and equivalent to approximately HK$2,133,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor on or before 31 August 2019 as the second deposit; and
(iii) the remaining 75% of the consideration, (i.e. RMB58,117,500 and equivalent to approximately HK$66,074,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the date of completion of the Hangzhou SPA.	(iii) the remaining 75% of the consideration, (i.e. RMB65,284,800 and equivalent to approximately HK$74,222,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the date of completion of the Nantong SPA.	(iii) the remaining 75% of the consideration, (i.e. RMB7,035,000 and equivalent to approximately HK$7,998,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the date of completion of the Jiangsu SPA.

The first and second deposits ("**Deposits**") of each of the Equity Transfer Agreements set out in (i) and (ii) above are refundable to the purchaser (please refer to "Conditions precedent" below).

The Consideration was determined on an arm's length basis under normal commercial terms pursuant to the negotiation between the Vendor and the purchaser with reference to the preliminary valuation of the Target Group which gave the indicated values of (i) Yongsheng Chemical Fiber of approximately RMB110,700,000 (equivalent to approximately HK$125,855,000); (ii) Nantong Yongsheng of approximately RMB125,900,000 (equivalent to approximately HK$143,136,000); and (iii) Jiangsu Yongsheng of approximately RMB13,400,000 (equivalent to approximately HK$15,234,000), on a pro-rata basis, as at 30 June 2019 as prepared by the Valuer.

Conditions precedent: Completion of each of the Disposals is conditional upon satisfaction of the followings:

(a) all necessary consents and approvals required to be obtained from, among others, the Stock Exchange, the relevant government(s) and regulatory authority(ies) and third party(ies) in respect of each of the Equity Transfer Agreements and the respective transactions contemplated thereunder having been obtained;

(b) there being no event occurring or matter arising which may render breaches or in conflict with the representations, warranties, obligations and commitments in relation to the Vendor stipulated in each of the Equity Transfer Agreements;

(c) the passing of the necessary resolution(s) by the Independent Shareholders at the EGM approving, *inter alia*, each of the Equity Transfer Agreements and the respective transactions contemplated thereunder;

(d) the legal and financial due diligence results in respect of the Target Group and their respective assets, operations and businesses, and the content and form of which is reasonably satisfactory to the purchaser; and

(e) (i) (in case of Hangzhou SPA) each of Nantong SPA and Jiangsu SPA having become unconditional (other than the condition relating to Hangzhou SPA having become unconditional); (ii) (in case of Nantong SPA) each of Hangzhou SPA and Jiangsu SPA having become unconditional (other than the condition relating to Nantong SPA having become unconditional); and (iii) (in case of Jiangsu SPA) each of Hangzhou SPA and Nantong SPA having become unconditional (other than the condition relating to Jiangsu SPA having become unconditional) (where applicable).

The purchaser may waive the above conditions (except conditions (a) and (c) which cannot be waived) by written notice to the Vendor. If the above conditions are not fulfilled and/or waived (as the case may be) by the Long Stop Date, each of the Equity Transfer Agreements shall terminate without prejudice to any party's right to claim the other party save for any antecedent breach committed by such other party and accordingly, the Vendor shall return the Deposits to the purchaser without any interests thereon within five (5) Business Days after the Long Stop Date.

Completion: Completions for each of the Equity Transfer Agreements is inter-conditional upon each other (unless such condition is being waived by the purchaser) and shall take place at 5:00 p.m. of the fifth Business Day (or such later date as may be agreed by parties to the Equity Transfer Agreements in writing) upon the fulfillment or waiver (as the case may be) of all the conditions precedents set out under each of the Equity Transfer Agreements.

Upon Completions, each of the Target Companies will cease to be a subsidiary of the Company.

Post-completion undertakings: The purchaser shall procure that Yongsheng Chemical Fiber and Nantong Yongsheng will have settled in full an indebtedness (the "**Outstanding Amount**") of approximately RMB50,410,000 (equivalent to approximately HK$57,311,000) and RMB20,499,000 (equivalent to approximately HK$23,305,000), respectively (or such other amount as then owing to the Remaining Group, if appropriate, together with an agreed amount of interest, owing to the Remaining Group (whether or not then due for payment) within six (6) months after the signing of each of the Equity Transfer Agreements (the "**Repayment Period**"). In the event that Yongsheng Chemical Fiber and/or Nantong Yongsheng fail to settle the Outstanding Amount in full within the Repayment Period, the purchaser undertakes to repay the Outstanding Amount in full to the Remaining Group within five (5) Business Days after the date of expiry of the Repayment Period.

On 16 August 2019, the Vendor, Mr. Li and the Purchaser entered into the Supplemental Agreements, pursuant to which the Vendor, Mr. Li (as the original purchaser) and the Purchaser (as the new purchaser) have agreed to make certain amendments (the "**Amendments**") to each of the Equity Transfer Agreements, among other matters, the change in purchaser and the payment terms of the considerations for each of the Disposals.

Details of the Amendments are as follows:

1. The purchaser of the Equity Transfer Agreements, being Mr. Li will be replaced by the Purchaser; and

2. The amount of the considerations for each of the Equity Transfer Agreements will remain the same but the payment terms regarding the second deposit will be amended as follows:

The Hangzhou SPA (as supplemented by the Hangzhou Supplemental Agreement)	**The Nantong SPA (as supplemented by the Nantong Supplemental Agreement)**	**The Jiangsu SPA (as supplemented by the Jiangsu Supplemental Agreement)**
20% of the consideration (i.e. RMB15,498,000 and equivalent to approximately HK$17,620,000) shall be settled by a cashier's order drawn from a bank from the Purchaser (as new purchaser) to the Vendor on or before 16 September 2019 as the second deposit.	20% of the consideration, (i.e. RMB17,409,280 and equivalent to approximately HK$19,793,000) shall be settled by a cashier's order drawn from a bank from the Purchaser (as new purchaser) to the Vendor on or before 16 September 2019 as the second deposit.	20% of the consideration, (i.e. RMB1,876,000 and equivalent to approximately HK$2,133,000) shall be settled by a cashier's order drawn from a bank from the Purchaser (as new purchaser) to the Vendor on or before 16 September 2019 as the second deposit.

Save as the disclosed in the above, all other terms and conditions in each of the Equity Transfer Agreements shall remain unchanged in full force and effect. The proposed Amendments were made and the Supplemental Agreements were entered into by the Group after being notified by Mr. Li (being the original purchaser) in response to the change in his internal resources arrangement that is believed to better facilitate the processes of the Disposals. Accordingly, the Directors considered that the terms for each of the Supplemental Agreements are fair and reasonable and the entering into of each of the Supplemental Agreements are in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Purchaser is wholly owned by Hangzhou Yongsheng Holdings Limited*（杭州永盛控股有限公司）, which is in turn owned (i) as to 90% by Mr. Li; (ii) as to 5% by a daughter of Mr. Li; and (iii) as to 5% by a nephew of Mr. Li. Thus, the Purchaser is ultimately controlled by Mr. Li, being a controlling Shareholder, an executive Director and the chairman of the Company. Mr. Li, together with his associates, are interested in 479,132,990 Shares in aggregate, representing approximately 63.96% of the issued share capital of the Company.

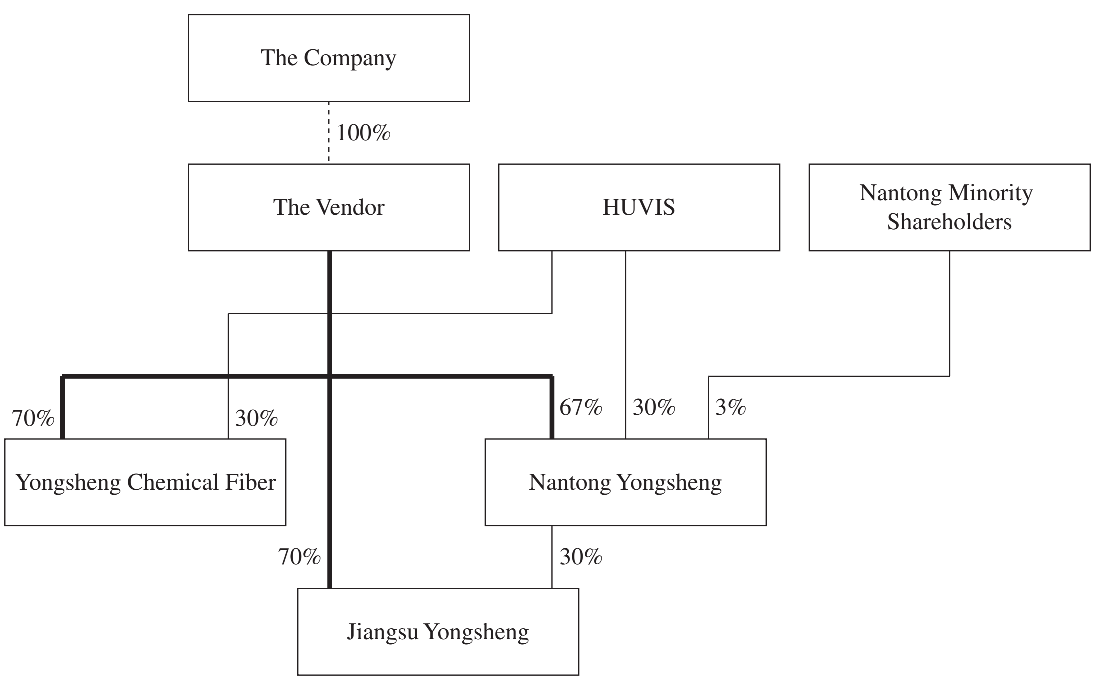
INFORMATION ON THE TARGET GROUP

Yongsheng Chemical Fiber is a company established in the PRC with limited liability on 28 April 2004 whose registered capital was owned (i) as to 70% by the Vendor; and (ii) as to 30% by HUVIS as at the Latest Practicable Date and immediately before completion of the Hangzhou Disposal. It is principally engaged in the sale and production of differentiated PFY.

Nantong Yongsheng is a company established in the PRC with limited liability on 28 June 2010 whose registered capital was owned (i) as to 67% by the Vendor; (ii) as to 30% by HUVIS; and (iii) as to 3% by the Nantong Minority Shareholders as at the Latest Practicable Date and immediately before completion of the Nantong Disposal. It is principally engaged in the sale and production of differentiated PFY.

Jiangsu Yongsheng is a company established in the PRC with limited liability on 26 May 2015 whose registered capital was owned (i) as to 70% by the Vendor; and (ii) as to 30% by Nantong Yongsheng as at the Latest Practicable Date and immediately before completion of the Jiangsu Disposal. It is principally engaged in the research and development of high polyester with advanced materials.

Set out below is the shareholding structure of the Target Group immediately prior to Completions



Financial Information of the Target Group

Set out below are certain unaudited financial information for each of the Target Companies for the two years ended 31 December 2017 and 2018 and for six months ended 30 June 2019:

	For the six months ended 30 June 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
	(approximately)	(approximately)	(approximately)
Yongsheng Chemical Fiber			
Profit before tax	5,139	16,605	17,311
Profit after tax	4,368	13,939	15,103
Nantong Yongsheng			
Profit before tax	29,863	11,768	26,099
Profit after tax	25,370	10,003	22,184
Jiangsu Yongsheng			
(Loss) before tax	(56)	(214)	(55)
(Loss) after tax	(42)	(160)	(41)

As at 30 June 2019, (i) Yongsheng Chemical Fiber recorded an unaudited net asset value of approximately RMB76,447,000; (ii) Nantong Yongsheng recorded an unaudited net asset value of approximately RMB89,503,000; and (iii) Jiangsu Yongsheng recorded an unaudited net asset value of approximately RMB9,237,000.

As at 30 June 2019, the Consideration represents an excess of approximately RMB53,971,000 to the consolidated net asset value of the Target Group attributable to the Group.

REASONS FOR AND BENEFITS OF THE DISPOSALS

The Group is principally engaged in (i) developing and manufacturing of PFY; (ii) provisions of dyeing services of differentiated polyester filament fabric; (iii) trading of PFY products; (iv) property services, enterprise project planning and business management and consulting; and (v) provision of renovation, maintenance, alteration and additional works ("**RMAA**") and fitting-out works.

The Vendor is a company established in the PRC with limited liability on 8 August 2003 and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date. It is principally engaged in dyeing and processing of differentiated polyester filament fabrics and investment holdings.

The Target Group is principally engaged in the sale and production of differentiated PFY. Differentiated PFY is a type of synthetic fiber. Its differentiation is achieved by diversifying chemical composition of the PFY or changing shape or linear density of the yarn and is generally tailor made for customers with special features such as dry, elastic and wrinkle-free. Differentiated PFY is widely used in the production of end-products including high-end garments, sportswear and household products.

References are made to the announcements of the Company dated 28 December 2017 and 25 June 2018, in relation to, among other matters, the Group's proposed spin-off proposal of its PFY manufacturing business (the "**Spin-off Proposal**"). In 2018, the Stock Exchange agreed that the Group may proceed with the Spin-off Proposal. However, in view of (i) the intensified competitions in the differentiated PFY products market in the PRC; (ii) the increase in the costs of raw materials; (iii) the increase in the management fees and related recurrent expenditures as a result of the expansion of production lines; and (iv) the slowdown in the growth of the world's major economies caused by, *inter alia*, the Sino-American trade war that caused violent fluctuations in commodity prices and added resistances to the development of the Group's differentiated PFY business. The unit price of the differentiated PFY products and also the profitability of the differentiated PFY segment of the Group were significantly reduced which caused the Group's gross profit margins of differentiated PFY decreased from approximately 19.9% in 2017 to approximately 13.4% in 2018. The declining operation environment together with the expected continuous declining profitability of the PFY manufacturing business of the Group postponed the Spin-off Proposal and the Directors are of the view that (i) it might not be suitable to continue to proceed with the Spin-off Proposal; and (ii) it should explore new businesses and/or identify development areas of higher growth potentials in order to continue to yield high returns to the Group and the Shareholders.

The Group's dyeing services of differentiated polyester filament fabric segment illustrated gross profit margins of approximately 45.5% and approximately 43.6% for the two years ended 31 December 2017 and 2018 respectively, which are relatively noticeably higher than the gross profit margins of the production and trading of PFY segments. During the six months ended 30 June 2019, apart from the production and trading of PFY and dyeing and processing of differentiated polyester filmiest fabric, the Group was also engaged in provision of RMAA services and property investment. As there has been uncertain movement of Sino-American trade war and pervasion of the pessimistic atmosphere in the market, the overall textile industry has been affected. Facing the rough external business environment, the Group is considering to adopt strategies that are beneficial to its long-term development.

Upon Completion, the Group will cease the production and trading of PFY segments and focus more resources on the development of the remaining segments of the Group. The Directors believe that the dyeing and processing segment of the Group together with the other segments of the Group (such as the provision of RMAA services and property investment) will eventually replace the revenue contributed from the production and trading of PFY segments of the Group. Given that the operating market condition of the production and trading of PFY segments has become more difficult, the Directors are of the view that more resources will be required and/or revenue generated from these segments will decline whereas, with more resources allocated to the other segments of the Group that has higher gross profit margins will yield better return to the Group in the long run.

Despite of the factors mentioned above, the Group has been able to maintain its competitiveness and remain a forerunner in the high value-added chemical fiber textile market in the PRC. The Group is able to meet the market's demand for the PFY productions in terms of quality and quantity and the differentiated PFY segment of the Group continues to derive satisfying contributions to the Group. Accordingly, the Directors are of the view that, although the production of PFY segment of the Group has contributed a significant portion of the revenue to the Group (i.e. approximately 65.8% and approximately 64.7% of the revenue of the Group for the six months ended 30 June 2019 and the year ended 31 December 2018 respectively), the Disposals represent a prosperous timing and opportunity for the Group to (i) realise its investments in the Target Companies; (ii) strengthen its liquidity for future investment opportunities and potential future expansion plans of its dyeing services segment that has a noticeably higher gross profit margin; and (iii) improve its overall financial performance by focusing on its dyeing services segment which is facing less operational challenges and risks due to the increasing competitiveness of the industry peers and unwarranted fluctuation of raw materials prices in the differentiated PFY market. In addition, the Directors consider that the repayment of the Outstanding Amount in cash after Completions will provide the Group with liquidity assets for operations.

Information on the businesses of the Remaining Group

Set out below are certain financial information of the principal operating segments (namely dyeing and processing) of the Remaining Group for the two years ended 31 December 2018 and the six months ended 30 June 2019.

	For the six months ended 30 June 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
	RMB'000 *(approximately)*	*RMB'000* *(approximately)*	*RMB'000* *(approximately)*
Dyeing and processing			
Revenue	89,353	206,420	204,132
Profit before tax	21,134	68,249	72,420

The Group is one of the few manufacturers which owns high standard chemical dyeing and finishing facilities within the industry in the PRC. This segment contributed approximately 51.6% and approximately 57.4% of the gross profit of the Group for the two years ended 31 December 2018 respectively. As at 30 June 2019, the segment asset value and net segment asset value of the dyeing and processing of the Group were approximately RMB325.1 million and approximately RMB257.8 million respectively.

During the six months ended 30 June 2019, apart from the provision of dyeing and processing services, the Remaining Group was also engaged in the provision of RMAA service and property investment. Set out below are certain financial information of the rest of the operating segments (namely (i) RMAA services; and (ii) property investment) of the Remaining Group for the six months ended 30 June 2019:

	For the six months ended 30 June 2019
	RMB'000 *(approximately)*
RMAA services	
Revenue	32,645
Profit before tax	6,303
Property investment	
Revenue	210
Profit before tax	173

The acquisition of the provision of RMAA services by the Group was completed in early 2019 and only contributed to the Group's financials for a few months during the six months ended 30 June 2019. The provision of RMAA services segment mainly provides two categories of work, which are (i) renovation and maintenance works; and (ii) alteration and additional works and fitting-out works. As at 30 June 2019, the Group had approximately 50 projects on hand with a total contract sum of over HK$200 million. As at 30 June 2019, the segment asset value and net segment asset value of RMAA services of the Group were approximately RMB194.3 million and approximately RMB188.0 million respectively.

The principal assets in the investment property segment include (i) Yongsheng Plaza, a building under construction located at Xiaoshan Economic and Technological Development Zone, Hangzhou City, Zhejiang Province, the PRC with an aggregate gross floor area of approximately 64,547.20 square meters that is expected to be constructed as service apartments and commercial office building for lease; and (ii) eight office units for commercial uses in a building located at Xiaoshan Economic and Technological Development Zone, Hangzhou City, Zhejiang Province, the PRC with an aggregate gross floor area of approximately 2,648.78 square meters for rental purposes. The construction of the Yongsheng Plaza is expected to be completed in or around the second quarter of 2021. As at 30 June 2019, the segment asset value and net segment asset value of property investment of the Group were approximately RMB841.1 million and approximately RMB825.5 million respectively.

FINANCIAL EFFECT OF THE DISPOSALS AND USE OF PROCEEDS

Upon Completions, each of the Target Companies will cease to be a subsidiary of the Company and the financial results of the Target Companies will no longer be consolidated to the Group's financial statements.

The total net proceeds of approximately RMB158,500,000 (after deducting the related expenses in relation to the Disposals) will be used for future investment opportunities and potential future expansion plans of its dyeing services segment. In view to expand its dyeing services segment, the Remaining Group is currently engaging in preliminary discussions with different companies that are also principally engaged in the provisions of dyeing and processing services to explore any possibility of acquisition. As at the Latest Practicable Date, save as the Disposals, the Remaining Group had not entered into any agreement, arrangements or understandings in relation to any possible acquisition or disposal of asset. Any investment, acquisition or disposal, once materialised, will be announced by the Company as and when necessary pursuant to the requirements of the Listing Rules.

Based on, *inter alia*, the total Consideration, the unaudited net assets of the Group as at 31 December 2018, and the related expenses for the Disposals, the Group is currently expected to record a gain on the Disposals of approximately RMB78,706,000 (equivalent to approximately HK$89,481,000) upon Completions which is subject to review by the auditors of the Group.

In light of the above, despite the entering into the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) was is not in the ordinary and usual course of the business of the Group, the Directors (included the independent non-executive Directors who having taken into account the advice of the Independent Financial Adviser) consider that the terms for each of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) are on normal commercial terms and are fair and reasonable and the entering of each of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) is in the interests of the Company and the Shareholders as a whole and they are not aware of any disadvantage of the Disposals.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, the Purchaser is wholly owned by Hangzhou Yongsheng Holdings Limited*（杭州永盛控股有限公司）, which is in turn owned (i) as to 90% by Mr. Li; (ii) as to 5% by a daughter of Mr. Li; and (iii) as to 5% by a nephew of Mr. Li. Thus, the Purchaser is ultimately controlled by Mr. Li, being a controlling Shareholder, an executive Director and the chairman of the Company. Mr. Li, together with his associates are interested in 479,132,990 Shares in aggregate, representing approximately 63.96% of the issued share capital of the Company. Accordingly, the Purchaser is a connected person of the Company. As the highest applicable percentage ratio in respect of the Disposals (in aggregate) is more than 25% but is less than 75%, the Disposals constitute major and connected transactions for the Company and are subject to announcement, reporting and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Save for Mr. Li, none of the other Directors has any material interests in any of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder. As Mr. Li is considered to have material interests in the Disposals by virtue of his directorship in the Company and that he is the ultimate controlling shareholder of the Purchaser, (i) he has therefore abstained from voting on the Board resolutions approving each of the Equity Transfer Agreements (as supplemented by Supplemental Agreements) and the respective transactions contemplated, thereunder; and (ii) he, together with his associates, will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the entering into of each of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Shiping James Wang and Dr. Wang Huaping, has been informed to advise the Independent Shareholders as to, among other things, whether the terms of each of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

The EGM will be held at United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 18 October 2019 at 2:30 p.m., Hong Kong for the purpose of approving, among other matters, the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder by way of poll.

At the EGM, any Shareholders with a material interest in the Disposals are required to abstain from voting in respect of the resolution(s) approving the Disposals. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, except for Mr. Li and his associates, no other Shareholders will be required to abstain from voting on the resolution(s) in respect of any of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not the Shareholders are able to attend the EGM, the Shareholders are requested to complete and return the accompanying form of proxy in accordance with the instructions printed on it to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time fixed for holding the EGM (i.e. not late than 2:30 p.m. on Wednesday, 16 October 2019 (Hong Kong time)) or any adjournment thereof. Completion and delivery of the form of proxy will not preclude the Shareholders from attending, and voting at, the EGM or any adjournment thereof if the Shareholders so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors who having taken into account the advice of the Independent Financial Adviser) consider that, despite the entering into of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) was not in the ordinary and usual course of the business of the Group, the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder were negotiated on arm's length basis, on normal commercial terms, the terms thereof are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors who having taken into account the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the EGM for approving each of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Yongsheng Advanced Materials Company Limited
Li Cheng
Chairman and Executive Director

永盛新材料
YS Advanced Materials

Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

24 September 2019

To the Independent Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF SUBSIDIARIES

We refer to the circular of the Company dated 24 September 2019 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider whether the terms of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board on pages 6 to 21 of the Circular, which sets out details of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder. We also wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 24 to 46 of the Circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder.

Having taken into account the terms of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the advice and recommendation of the Independent Financial Adviser, we consider that, despite the entering into of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) was not in the ordinary and usual course of the business of the Group, the terms of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the 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 ordinary resolutions approving the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee

Ms. Wong Wai Ling **Mr. Shiping James Wang** **Dr. Wang Huaping**

Independent non-executive Directors

The following is the letter of advice from Red Sun Capital Limited prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders.

紅日資本有限公司
RED SUN CAPITAL LIMITED

Unit 3303, 33/F, West Tower, Shun Tak Centre,
168-200 Connaught Road Central, Hong Kong
Tel: (852) 2857 9208
Fax: (852) 2857 9100

24 September 2019

To: The Independent Shareholders and the Independent Board Committee of Yongsheng Advanced Materials Company Limited

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF SUBSIDIARIES

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) 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 the Company to the Shareholders dated 24 September 2019 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

On 26 July 2019 (after trading hours), the Vendor, an indirect wholly-owned subsidiary of the Company, and Mr. Li entered into the Equity Transfer Agreements which were then supplemented by the Supplemental Agreements entered into among the Vendor, Mr. Li and the Purchaser on 16 August 2019 (i.e. the "**Disposals**"). Pursuant to the Equity Transfer Agreements (as supplemented by the Supplemental Agreements), the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Equity (i.e. (i) the Hangzhou Equity, representing 70% of the equity interests in Yongsheng Chemical Fiber; (ii) the Nantong Equity, representing 67% of the equity interests in Nantong Yongsheng; and (iii) the Jiangsu Equity, representing 70% of the equity interests in Jiangsu Yongsheng) at a total Consideration of RMB173,916,400 (equivalent to approximately HK$197,726,000). The Disposals are inter-conditional upon each other. Upon Completions, each of the Target Companies will cease to be a subsidiary of the Company.

Listing Rules implications

As at the Latest Practicable Date, the Purchaser is wholly owned by Hangzhou Yongsheng Holdings Limited*（杭州永盛控股有限公司）, which is in turn owned (i) as to 90% by Mr. Li; (ii) as to 5% by a daughter of Mr. Li; and (iii) as to 5% by a nephew of Mr. Li. Thus, the Purchaser is ultimately controlled by Mr. Li, being a controlling Shareholder, an executive Director and the chairman of the Company. Mr. Li, together with his associates, are interested in 479,132,990 Shares in aggregate, representing approximately 63.96% of the issued share capital of the Company. Accordingly, the Purchaser is a connected person of the Company.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Disposals are greater than 25% but less than 75%, the Disposals constitute major and connected transactions for the Company and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

Save for Mr. Li, none of the other Directors has any material interest in any of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder. As Mr. Li is considered to have material interests in the Disposals by virtue of his directorship in the Company and that he is the ultimate controlling shareholder of the Purchaser, (i) he has therefore abstained from voting on the Board resolutions approving each of the Equity Transfer Agreements (as supplemented by Supplemental Agreements) and the respective transactions contemplated, thereunder; and (ii) he, together with his associates, will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the entering into of each of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, except for Mr. Li and his associates, no other Shareholders will be required to abstain from voting on the resolution(s) in respect of any of the Equity Transfer Agreements (as supplemented by the Supplemental Agreements) and the respective transactions contemplated thereunder at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises four executive Directors, namely, Mr. Li Cheng, Mr. Zhao Jidong (Chief Executive Officer), Mr. Li Conghua and Mr. Ma Qinghai; and three independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Shiping James Wang and Dr. Wang Huaping.

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Shiping James Wang and Dr. Wang Huaping, has been established to make a recommendation to the Independent Shareholders in relation to the Disposals and whether its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Red Sun Capital Limited has been appointed by the Board with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with or interest in the Company or any other parties to the Disposals that could reasonably be regarded as relevant in assessing our independence. Save for our appointment as the Independent Financial Adviser, Red Sun Capital did not act as an independent financial adviser to the Company under the Listing Rules in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company or its respective substantial shareholders or any other parties that could reasonably be regarded as relevant in assessing our independence.

BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group, its senior management (the "**Management**") and/or the Directors. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Company. the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate as at the date of the Circular. We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company, the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group, the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group, the Target Group, the Purchaser, Mr. Li and their/his respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Disposals, we have considered the following principal factors and reasons:

1. Overview of the PRC economy and textile industry

According to the Thirteenth Five Year Plan*（十三五規劃）, the annual gross domestic product (“**GDP**”) growth of the PRC for the next five years from 2016 has been estimated to be approximately 6.5% and was subsequently adjusted to 6.0% by the PRC government in March 2019. Moreover, based on a Bloomberg article dated 16 July 2019, the PRC’s total debt-to-GDP ratio reached approximately 310% as of July 2019 compared to approximately 297% in first quarter of 2018, which may hinder the growth of the PRC economy in the foreseeable future. In addition, there are uncertainties around the ongoing trade negotiations between the PRC and the United States of America governments.

According to the announcement published on 27 July 2019 by the National Bureau of Statistics, during the period between January and June 2019, the profit of industrial enterprises above designated size (i.e. revenue from its principal activities being RMB20.0 million or above) decreased by approximately 2.4% to approximately RMB2,984.0 billion in which the profit of the enterprises above designated size in the textile industry and the textile, apparel and clothing industry decreased by approximately 0.1% and 0.8% to approximately RMB47.4 billion and approximately RMB38.3 billion, respectively.

2. Information on the Group

The Group is principally engaged in (i) developing and manufacturing of PFY; (ii) provision of dyeing services of differentiated polyester filament fabric; (iii) trading of PFY products; (iv) property services, enterprise project planning and business management and consulting; and (v) provision of renovation, maintenance, alteration and additional works ("**RMAA**") and fitting-out works sector.

Set out below is the summary of the Group's financial performance for the two years ended 31 December 2017 and 2018 and for the six months ended 30 June 2018 and 2019, which were extracted from the Company's annual report for the year ended 31 December 2018 (the "**2018 Annual Report**") and the Company's interim results announcement for the six months ended 30 June 2019 (the "**2019 Interim Results Announcement**"):

	For the six months ended 30 June		For the year ended 31 December	
	2019	2018	2018	2017
	(unaudited)	(unaudited)	(audited)	(audited)
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Revenue	489,512	346,792	680,180	647,811
Gross profit	117,670	86,058	156,777	180,159
Profit before tax	63,088	51,916	105,450	120,797
Income tax expense	(10,994)	(8,781)	(18,771)	(22,347)
Profit for the year/period	52,094	43,135	86,679	98,450

As disclosed in the 2018 Annual Report, for the year ended 31 December 2018, the Group recorded revenue of approximately RMB680.2 million, representing an increase of approximately 5.0% from approximately RMB647.8 million for the year ended 31 December 2017 and recorded gross profit of approximately RMB156.8 million for the year ended 31 December 2018, representing a decrease of approximately 13.0% as compared with approximately RMB180.2 million for the year ended 31 December 2017. This was primarily due to (i) the decrease in the overall growth rate of textile industry in 2018; (ii) the fall in product unit price due to the increasing competition in the industry; (iii) the increase in the costs of raw materials; (iv) the increase in management fees and related recurrent expenditures as a result of the expansion of production line; and (v) the pressure on the Group's earnings attributable to the increase in warehousing and transportation costs. The Group recorded profit for the year of approximately RMB86.7 million for the year ended 31 December 2018, representing a decrease of approximately 12.0% from approximately RMB98.5 million for the year ended 31 December 2017. The decrease in profit for the year was mainly due to the reasons as mentioned above.

As disclosed in the 2019 Interim Results Announcement, for the six months ended 30 June 2019, the Group recorded revenue of approximately RMB489.5 million, representing an increase of approximately 41.2% from approximately RMB346.8 million for the six months ended 30 June 2018 and recorded gross profit of approximately RMB117.7 million for the six months ended 30 June 2019, representing an increase of approximately 36.7% as compared with approximately RMB86.1 million for the six months ended 30 June 2018. This was primarily due to the revenue contribution from new products launched by the Group's PFY production segment and new revenue contribution from RMAA services since March 2019. The Group recorded profit of approximately RMB52.1 million for the six months ended 30 June 2019, representing an increase of approximately 20.9% from approximately RMB43.1 million for the six months ended 30 June 2018. The increase in profit for the six months ended 30 June 2019 was mainly due to the reasons as mentions above.

Set out below is the summary of the financial position of the Group as at 31 December 2017 and 2018 and 30 June 2019, which were extracted from the 2018 Annual Report and the 2019 Interim Results Announcement, respectively:

	As at 30 June	**As at 31 December**	
	2019	**2018**	**2017**
	(unaudited)	(audited)	(audited)
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Non-current assets	1,094,143	268,953	266,514
Current assets	550,803	532,173	534,436
Non-current liabilities	33,246	21,496	18,950
Current liabilities	189,024	179,716	217,143
Net assets	1,422,676	599,914	564,857

As disclosed in the 2018 Annual Report, the Group recorded net assets of approximately RMB599.9 million as at 31 December 2018, representing an increase of approximately 6.2% from approximately RMB564.9 million as at 31 December 2017. The net assets of the Group as at 31 December 2018 mainly consisted of, (i) total assets of approximately RMB801.1 million; and (ii) total liabilities of approximately RMB201.2 million.

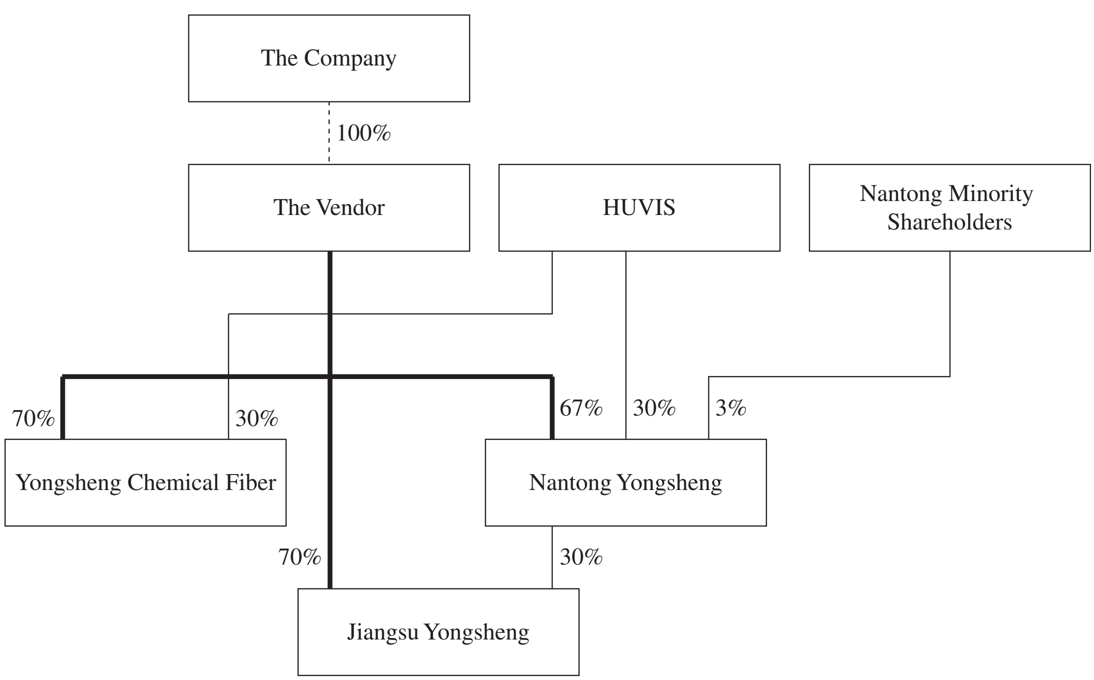
Total assets of the Group as at 31 December 2018 mainly comprised of (i) property, plant and equipment of approximately RMB234.1 million; (ii) trade and bills receivables of approximately RMB137.3 million; and (iii) cash and cash equivalents of approximately RMB144.6 million. Total liabilities of the Group as at 31 December 2018, on the other hand, mainly includes (i) trade and bills payables of approximately RMB78.6 million; (ii) other payables and accruals of approximately RMB50.0 million; and (iii) interest-bearing bank and other borrowings of approximately RMB37.7 million.

As disclosed in the 2019 Interim Results Announcement, the Group recorded net assets of approximately RMB1,422.7 million as at 30 June 2019, representing an increase of approximately 137.1% from approximately RMB599.9 million as at 31 December 2018. The net assets of the Group as at 30 June 2019 mainly consisted of, (i) total assets of approximately RMB1,644.9 million; and (ii) total liabilities of approximately RMB222.3 million.

Total assets of the Group as at 30 June 2019 mainly comprised of (i) investment properties of approximately RMB660.6 million; (ii) property, plant and equipment of approximately RMB227.5 million; (iii) properties under development of approximately RMB155.3 million; and (iv) cash and cash equivalents of approximately RMB135.1 million. Total liabilities of the Group as at 30 June 2019, on the other hand, mainly includes (i) interest-bearing bank and other borrowings of approximately RMB75.3 million; (ii) other payables and accruals of approximately RMB53.8 million; and (iii) trade and bills payables of approximately RMB45.5 million.

3. Information of the Target Group

The Target Group comprised of (i) Yongsheng Chemical Fiber; (ii) Nantong Yongsheng; and (iii) Jiangsu Yongsheng. The Sale Equity comprised of (i) the Hangzhou Equity; (ii) the Nantong Equity; and (iii) the Jiangsu Equity. Based on the Letter from the Board, set out below is the shareholding structure of the Target Group immediately prior to the Completions.



Yongsheng Chemical Fiber is a company established in the PRC with limited liability on 28 April 2004 whose registered capital was owned (i) as to 70% by the Vendor; and (ii) as to 30% by HUVIS as at the Latest Practicable Date and immediately before completion of the Hangzhou Disposal. It is principally engaged in the sale and production of differentiated PFY.

Nantong Yongsheng is a company established in the PRC with limited liability on 28 June 2010 whose registered capital was owned (i) as to 67% by the Vendor; (ii) as to 30% by HUVIS; and (iii) as to 3% by the Nantong Minority Shareholders as at the Latest Practicable Date and immediately before completion of the Nantong Disposal. It is principally engaged in the sale and production of differentiated PFY.

Jiangsu Yongsheng is a company established in the PRC with limited liability on 26 May 2015 whose registered capital was owned (i) as to 70% by the Vendor; and (ii) as to 30% by Nantong Yongsheng as at the Latest Practicable Date and immediately before completion of the Jiangsu Disposal. It is principally engaged in the research and development of high polyester with advanced materials.

Financial information on the Target Group

Set out below is a summary of unaudited financial information of the Target Companies for the financial years ended 31 December 2017 and 2018 and for six months ended 30 June 2019:

	For the six months ended 30 June 2019	**Year ended 31 December 2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)
	(approximately)	*(approximately)*	*(approximately)*
Yongsheng Chemical Fiber			
Net profit (before taxation)	5,139	16,605	17,311
Net profit (after taxation)	4,368	13,939	15,103
Nantong Yongsheng			
Net profit (before taxation)	29,863	11,768	26,099
Net profit (after taxation)	25,370	10,003	22,184
Jiangsu Yongsheng			
Net profit (before taxation)	(56)	(214)	(55)
Net profit (after taxation)	(42)	(160)	(41)

As at 30 June 2019, (i) Yongsheng Chemical Fiber recorded an unaudited net asset value of approximately RMB76,447,000; (ii) Nantong Yongsheng recorded an unaudited net asset value of approximately RMB89,503,000; and (iii) Jiangsu Yongsheng recorded an unaudited net asset value of approximately RMB9,237,000.

4. Reasons for, and the benefits of, the Disposals

As set out in the Letter from the Board, the Directors are of the view that (i) the intensified competitions in the differentiated PFY products market in the PRC; (ii) the increase in the costs of raw materials; (iii) the increase in the management fees and related recurrent expenditures as a result of the expansion of production lines; and (iv) the slowdown in the growth of the world's major economies caused by, *inter alia*, the Sino-American trade war that caused violent fluctuations in commodity prices and added resistances to the development of the Group's differentiated PFY business. Moreover, the unit price of the differentiated PFY products and also the profitability of the differentiated PFY segment of the Group were significantly reduced which caused the Group's gross profit margins of differentiated PFY decreased from approximately 19.9% in 2017 to approximately 13.4% in 2018.

The Group's dyeing services of differentiated polyester filament fabric segment illustrated gross profit margins of approximately 45.5% and 43.6% for the two years ended 31 December 2017 and 2018 respectively, which are relatively higher than the gross profit margins of the production of PFY segments. During the six months ended 30 June 2019, apart from the production and trading of PFY and dyeing and processing of differentiated polyester filament fabric, the Group was also engaged in provision of RMAA services and property investment. As there has been uncertain movement of Sino-American trade war and pervasion of the pessimistic atmosphere in the market, the overall textile industry has been affected. Facing the rough external business environment, the Group is considering to adopt strategies that are beneficial to its long-term development.

Upon Completions, the Group will cease the production and trading of PFY segments and focus more resources on the development of the remaining focus segment of the Group. The Directors believe that the dyeing and processing segment of the Group together with the other segments of the Group (such as the provision of RMAA services and property investment) will eventually replace the revenue contributed from the production and trading of PFY segments of the Group. Given that the operating market condition of the production and trading of PFY segments has become more difficult, the Directors are of the view that more resources will be required and/or revenue generated from these segments will decline whereas, with more resources allocated to the other segments of the Group that has higher gross profit margins will yield better return to the Group in the long run.

Despite the factors mentioned above, the Group has been able to maintain its competitiveness and remain a forerunner in the high value-added chemical fiber textile market in the PRC. The Group is able to meet the market's demand for the PFY productions in terms of quality and quantity and the differentiated PFY segment of the Group continues to derive satisfying contributions to the Group.

We further noted from the Letter from the Board that, although the production of PFY segment of the Group has contributed a significant portion of the revenue to the Group (i.e. approximately 65.8% and approximately 64.7% of the revenue of the Group for the six months ended 30 June 2019 and the year ended 31 December 2018 respectively), the Disposals would enable the Group to (i) realise its investments in the Target Companies; (ii) strengthen its liquidity for future investment opportunities and potential future expansion plans of its dyeing services segment that has a noticeably higher gross profit margin; and (iii) improve its overall financial performance by focusing on its dyeing services segment which is facing less operational challenges and risks due to the increasing competitiveness of the industry peers and unwarranted fluctuation of raw materials prices in the differentiated PFY market. In addition, the Directors consider that the repayment of the Outstanding Amount in cash after Completions will provide the Group with liquidity assets for operations.

Having taken into account the above reasons for, and benefits of, the Disposals, the Directors are of the view that the terms and conditions of the Disposals are fair and reasonable, and that the Disposals is conducted under normal commercial terms and is in the interests of the Company and the Shareholders as a whole. In addition to the factors as set out above, we have also conducted further analysis for the purpose of assessing the fair and reasonableness of the Disposals, details of which are set out in this letter below.

5. Intended use of proceeds from the Disposals

The Company estimates the net proceeds from the Disposals to be approximately RMB158,500,000 (after deducting the related expenses in relation to the Disposals), and intends to apply them for future investment opportunities and potential future expansion plans of its dyeing services segment.

6. The Equity Transfer Agreements

As disclosed in the Letter from the Board, the principal terms of each of the Equity Transfer Agreements are summarised below:

	The Hangzhou SPA	The Nantong SPA	The Jiangsu SPA
Date:	26 July 2019 (after trading hours)	26 July 2019 (after trading hours)	26 July 2019 (after trading hours)
Parties:	(1) The Vendor; and (2) Mr. Li (as the original purchaser)	(1) The Vendor; and (2) Mr. Li (as the original purchaser)	(1) The Vendor; and (2) Mr. Li (as the original purchaser)
	As at the Latest Practicable Date, Mr. Li (as original purchaser), a controlling Shareholder, an executive Director and the chairman of the Company, together with his associates, are interested 479,132,990 Shares in aggregate, representing approximately 63.96% of the issued share capital of the Company.		
Asset(s) to be disposed of:	The Hangzhou Equity, representing 70% of the equity interests in Yongsheng Chemical Fiber.	The Nantong Equity, representing 67% of the equity interests in Nantong Yongsheng.	The Jiangsu Equity, representing 70% of the equity interests in Jiangsu Yongsheng.
Consideration:	The consideration of the Hangzhou Disposal is RMB77,490,000 (equivalent to approximately HK$88,098,000). Subject to the terms and conditions set out in the Hangzhou SPA, the consideration shall be satisfied by the purchaser in the following manner:	The consideration of the Nantong Disposal is RMB87,046,400 (equivalent to approximately HK$98,963,000). Subject to the terms and conditions set out in the Nantong SPA, the consideration shall be satisfied by the purchaser in the following manner:	The consideration of the Jiangsu Disposal is RMB9,380,000 (equivalent to approximately HK$10,664,000). Subject to the terms and conditions set out in the Jiangsu SPA, the consideration shall be satisfied by the purchaser in the following manner:
	(i) 5% of the consideration, (i.e. RMB3,874,500 and equivalent to approximately HK$4,405,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the signing of the Hangzhou SPA as the first deposit;	(i) 5% of the consideration, (i.e. RMB4,352,320 and equivalent to approximately HK$4,948,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the signing of the Nantong SPA as the first deposit;	(i) 5% of the consideration, (i.e. RMB469,000 and equivalent to approximately HK$533,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the signing of the Jiangsu SPA as the first deposit;

(ii) 20% of the consideration, (i.e. RMB15,498,000 and equivalent to approximately HK$17,620,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor on or before 31 August 2019 as the second deposit; and	(ii) 20% of the consideration, (i.e. RMB17,409,280 and equivalent to approximately HK$19,793,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor on or before 31 August 2019 as the second deposit; and	(ii) 20% of the consideration, (i.e. RMB1,876,000 and equivalent to approximately HK$2,133,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor on or before 31 August 2019 as the second deposit; and
(iii) the remaining 75% of the consideration, (i.e. RMB58,117,500 and equivalent to approximately HK$66,074,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the date of completion of the Hangzhou SPA.	(iii) the remaining 75% of the consideration, (i.e. RMB65,284,800 and equivalent to approximately HK$74,222,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the date of completion of the Nantong SPA.	(iii) the remaining 75% of the consideration, (i.e. RMB7,035,000 and equivalent to approximately HK$7,998,000) shall be settled by a cashier's order drawn from a bank from the purchaser to the Vendor within five (5) Business Days after the date of completion of the Jiangsu SPA.

The first and second deposits ("**Deposits**") of each of the Equity Transfer Agreements set out in (i) and (ii) above are refundable to the purchaser (please refer to "Conditions precedent" below).

The Consideration was determined on an arm's length basis under normal commercial terms pursuant to the negotiation between the Vendor and the purchaser with reference to the preliminary valuation of the Target Group which gave the indicated values of (i) Yongsheng Chemical Fiber of approximately RMB110,700,000 (equivalent to approximately HK$125,855,000); (ii) Nantong Yongsheng of approximately RMB125,900,000 (equivalent to approximately HK$143,136,000); and (iii) Jiangsu Yongsheng of approximately RMB13,400,000 (equivalent to approximately HK$15,234,000), on a pro-rata basis, as at 30 June 2019 as prepared by the Valuer.

Conditions precedent: Completion of each of the Disposals is conditional upon satisfaction of the followings:

(a) all necessary consents and approvals required to be obtained from, among others, the Stock Exchange, the relevant government(s) and regulatory authority(ies) and third party(ies) in respect of each of the Equity Transfer Agreements and the respective transactions contemplated thereunder having been obtained;

(b) there being no event occurring or matter arising which may render breaches or in conflict with the representations, warranties, obligations and commitments in relation to the Vendor stipulated in each of the Equity Transfer Agreements;

(c) the passing of the necessary resolution(s) by the Independent Shareholders at the EGM approving, *inter alia*, each of the Equity Transfer Agreements and the respective transactions contemplated thereunder;

(d) the legal and financial due diligence results in respect of the Target Group and their respective assets, operations and businesses, and the content and form of which is reasonably satisfactory to the purchaser; and

(e) (i) (in case of Hangzhou SPA) each of Nantong SPA and Jiangsu SPA having become unconditional (other than the condition relating to Hangzhou SPA having become unconditional); (ii) (in case of Nantong SPA) each of Hangzhou SPA and Jiangsu SPA having become unconditional (other than the condition relating to Nantong SPA having become unconditional); and (iii) (in case of Jiangsu SPA) each of Hangzhou SPA and Nantong SPA having become unconditional (other than the condition relating to Jiangsu SPA having become unconditional) (where applicable).

The purchaser may waive the above conditions (except conditions (a) and (c) which cannot be waived) by written notice to the Vendor. If the above conditions are not fulfilled and/or waived (as the case may be) by the Long Stop Date, each of the Equity Transfer Agreements shall terminate without prejudice to any party's right to claim the other party save for any antecedent breach committed by such other party and accordingly, the Vendor shall return the Deposits to the purchaser without any interests thereon within five (5) Business Days after the Long Stop Date.

Completion: Completions for each of the Equity Transfer Agreements is inter-conditional upon each other (unless such condition is being waived by the purchaser) and shall take place at 5:00 p.m. of the fifth Business Day (or such later date as may be agreed by parties to the Equity Transfer Agreements in writing) upon the fulfillment or waiver (as the case may be) of all the conditions precedents set out under each of the Equity Transfer Agreements.

Upon Completions, each of the Target Companies will cease to be a subsidiary of the Company.

Post-completion undertakings: The purchaser shall procure that Yongsheng Chemical Fiber and Nantong Yongsheng, and Yongsheng Chemical Fiber and Nantong Yongsheng will have settled in full an indebtedness (the "**Outstanding Amount**") of approximately RMB50,410,000 (equivalent to approximately HK$57,311,000) and RMB20,499,000 (equivalent to approximately HK$23,305,000), respectively (or such other amount as then owing to the Remaining Group, if appropriate, together with an agreed amount of interest, owing to the Remaining Group (whether or not then due for payment) within six (6) months after the signing of each of the Equity Transfer Agreements (the "**Repayment Period**"). In the event that Yongsheng Chemical Fiber and/or Nantong Yongsheng fail to settle the Outstanding Amount in full within the Repayment Period, the purchaser undertakes to repay the Outstanding Amount in full to the Remaining Group within five (5) Business Days after the date of expiry of the Repayment Period.

On 16 August 2019, the Vendor, Mr. Li and the Purchaser entered into the Supplemental Agreements, pursuant to which the Vendor, Mr. Li (as the original purchaser) and the Purchaser (as the new purchaser) have agreed to make certain amendments (the "**Amendments**") to each of the Equity Transfer Agreements, among other matters, the change in purchaser and the payment terms of the considerations for each of the Disposals.

Details of the Amendments are as follows:

1. The purchaser of the Equity Transfer Agreements, being Mr. Li will be replaced by the Purchaser; and

2. The amount of the considerations for each of the Equity Transfer Agreements will remain the same but the payment terms regarding the second deposit will be amended as follows:

The Hangzhou SPA (as supplemented by the Hangzhou Supplemental Agreement)	**The Nantong SPA (as supplemented by the Nantong Supplemental Agreement)**	**The Jiangsu SPA (as supplemented by the Jiangsu Supplemental Agreement)**
20% of the consideration (i.e. RMB15,498,000 and equivalent to approximately HK$17,620,000) shall be settled by a cashier's order drawn from a bank from the Purchaser (as new purchaser) to the Vendor on or before 16 September 2019 as the second deposit.	20% of the consideration, (i.e. RMB17,409,280 and equivalent to approximately HK$19,793,000) shall be settled by a cashier's order drawn from a bank from the Purchaser (as new purchaser) to the Vendor on or before 16 September 2019 as the second deposit.	20% of the consideration, (i.e. RMB1,876,000 and equivalent to approximately HK$2,133,000) shall be settled by a cashier's order drawn from a bank from the Purchaser (as new purchaser) to the Vendor on or before 16 September 2019 as the second deposit.

Save as the disclosed in the above, all other terms and conditions in each of the Equity Transfer Agreements shall remain unchanged in full force and effect. The proposed Amendments were made and the Supplemental Agreements were entered into by the Group after being notified by Mr. Li (being the original purchaser) in response to the change in his internal resources arrangement that is believed to better facilitate the processes of the Disposals. Accordingly, the Directors considered that the terms for each of the Supplemental Agreements are fair and reasonable and the entering of each into of the Supplemental Agreements are in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Purchaser is wholly owned by Hangzhou Yongsheng Holdings Limited*(杭州永盛控股有限公司), which is in turn owned (i) as to 90% by Mr. Li; (ii) as to 5% by a daughter of Mr. Li; and (iii) as to 5% by a nephew of Mr. Li. Thus, the Purchaser is ultimately controlled by Mr. Li, being a controlling Shareholder, an executive Director and the chairman of the Company. Mr. Li, together with his associates, are interested in 479,132,990 Shares in aggregate, representing approximately 63.96% of the issued share capital of the Company.

7. Our analysis

As set out in the Letter from the Board, the Consideration is RMB173,916,400 (equivalent to approximately HK$197,726,000). The Consideration was determined on an arm's length basis under normal commercial terms pursuant to the negotiation between the Vendor and the Purchaser with reference to the preliminary valuation of the Target Group which indicated that value attributable to (i) Yongsheng Chemical Fiber amounted to approximately RMB110,700,000 (equivalent to approximately HK$125,855,000); (ii) Nantong Yongsheng amounted to approximately RMB125,900,000 (equivalent to approximately HK$143,136,000); and (iii) Jiangsu Yongsheng amounted to approximately RMB13,400,000 (equivalent to approximately HK$15,234,000), on a pro-rata basis, as at 30 June 2019 as prepared by the Valuer.

(a) Valuation by the Valuer

In assessing the Consideration, we have reviewed and discussed with Ravia Global Appraisal Advisory Limited, the independent valuer for the Group in respect of the valuation of the Target Group, the methodology of, and basis and assumptions adopted for, the valuation of the Target Group as set out in the independent valuation report in Appendix II to the Circular (the "**Valuation Report**").

We have discussed with the engagement team of the Valuer as to their expertise, property valuation experience (further details of which are set out in the Valuation Report) and their scope of work and valuation procedures conducted in relation to the Target Group. The Valuer has confirmed their independence and we noted that the Valuer has 11 years of experiences in business valuation, transaction advisory and corporate consultancy in, among others, the Asia Pacific Region including Hong Kong, the PRC and Australia. We also noted that the Valuer has conducted a site visit in August 2019 to inspect the Target Group, reviewed the relevant financial information, operational information and other relevant data concerning the Target Group, and reviewed the registrations, legal documents, permits and licenses relating to the Target Group. Based on the above, we are satisfied that the Valuer is qualified for giving their opinion as set out in the Valuation Report taken into account their relevant experiences and expertise, their independence, and their scope of work and valuation procedures conducted.

For further details of the information of the Target Group, please refer to the section headed "3. Information of the Target Group" in this letter.

Basis of the valuation

As set out in the Valuation Report, the valuation is prepared on a fair value basis which is defined by International Valuation Standards established by the International Valuation Standards Council as follows:

> "*the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.*"

On this basis, the valuation of the Target Group as set out in the Valuation Report would represent its fair value.

Methodology of the valuation

According to the Valuation Report and based on our discussion with the Valuer for the methodologies, basis and assumptions adopted by the Valuer, we understood that the Valuer has considered three generally accepted approaches, namely the market approach, income approach and cost approach in the valuation. We noted from the Valuer that the market approach was considered to be the most appropriate valuation approach in this valuation as it requires far fewer subjective assumptions than the income approach and compared to the cost approach it is more likely to reflect current market expectations over the corresponding industry since the price multiples of the comparable companies were arrived from market consensus and capture the future development potentials of the Target Group.

Under the market approach adopted, the fair value of the Target Group was determined with reference to the business nature and operational information of publicly listed companies that are considered to be comparable to the Target Group.

We have discussed with the Valuer regarding their comparable selection criteria, and understood that no company is exactly identical to the Target Group, nonetheless for valuation purposes, a set of similar comparable companies have to be identified. Therefore, the Valuer has considered comparable companies listed in Hong Kong or the PRC which are principally engaged in the production and sale of polyester fiber, of which the relevant information is sufficient and available to the public. The Valuer advised that they also considered the nine comparable companies, identified under their aforesaid selection criteria, to represent an exhaustive list of companies, and are relevant for the purpose of the valuation of the Target Group based on their best knowledge and information available. For further details, please refer to the Valuation Report set out in the Appendix II to this circular. Based on our discussion with the Valuer regarding their comparable selection criteria, we concur with the Valuer that the comparables selected by the Valuer are reasonable and representative for their valuation purpose.

In the valuation, the Valuer considered various commonly-used valuation multiples, including (i) price to earnings ("**P/E**") multiple; (ii) price to sales ("**P/S**") multiple; (iii) price-to-book value ("**P/B**") multiple; and (iv) enterprise value to earnings before interest, tax, depreciation and amortization ("**EV/EBITDA**") multiple.

The P/E multiple was not adopted as the volatile and transitory portion of Target Group's earnings makes the interpretation of P/E multiple difficult, and management discretion on accounting policy can distort reported earnings and thereby lessen the comparability of P/E multiples across firms. The P/S multiple does not capture the differences in cost structure across companies. The EV/EBITDA multiple does not consider the difference of capital intensity nor the capital expenditure needed to sustain the business.

Given that the Target Group's business is asset-intensive in nature which requires significant contribution from property, plant and equipment in business operation, the P/B multiple was considered as the most relevant valuation metric and therefore adopted in the valuation.

To derive the value of the Target Group, the Valuer have adopted P/B multiple, which expresses how much investors are willing to pay for a company's total net assets. P/B multiple is calculated using the following formula:

P/B multiple = Price per share/Book value per share

The Valuer advised due to the fact that the comparable companies are often of different sizes (which may be due to different clientele and business operation scale etc.) than that of the company being valued and larger companies generally have lower expected returns that translate into higher value. On the other hand, small companies are perceived as risker in relation to business operation and financial performance, and therefore the expected returns (or discount rate) are higher and resulting in lower valuation multiple. Therefore, the valuation multiple of the comparable companies was adjusted to reflect the difference in natures between the comparable companies and the Target Group.

After deriving the market capitalization of the Target Group from P/B multiple, the result represents 100% equity interest of the Target Group on a minority and marketable basis. Hence, it was further adjusted for the control premium and the discount for lack of marketability to derive the fair value of the equity interest of the Target Group as of the date of valuation (i.e. 30 June 2019) on a majority and non-marketable basis. For details, please refer to the Valuation Report.

Discount for lack of marketability

As explained in the Appendix II to the Circular, the value of a share in a privately held company is usually less than that in a publicly held company. The lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability. We have discussed with the Valuer and understand that the marketability discount was adopted with reference to an article titled "Marketability Discounts, Fair Value and the Forgotten Market Participant" set out in CPA Journal February 2018 Issue published by The New York State Society of CPAs (https://www.cpajournal.com/2018/02/28/marketability-discounts-fair-value-forgotten-market-participant/) which indicated that the discount for lack of marketability ranged from 20% to 40%. With reference to the aforesaid information set out in the journal, the Valuer considered that the discount for lack of marketability at 30% to be reasonable.

We have reviewed connected transaction circulars involving disposal and/or acquisition published during the three months from 1 April 2019 to 30 June 2019 by companies listed on the Stock Exchange. Out of the circulars reviewed, 6 circulars set out that the subject consideration has been determined after applying a discount for lack of marketability in the calculation of the value of the subject companies, in which the discount for lack of marketability ranged from approximately 15.8% to 35.0%, and the 30% adopted by the Valuer falls within the range. Based on the above, we concur with the Valuer and consider that application of the discount for lack of marketability of 30% for the valuation of the equity interest of the Target Group to be reasonable.

Control premium

As explained in the Appendix II to the Circular, the value of the controlling interest in a company is usually higher than a minority interest which is generally held at the great risk of being subject to the judgment, ethics and management skills of the controlling shareholders. In determining a reasonable control premium, the Valuer has made reference to the implied control premium derived from 333 transactions relating to the acquisitions or disposals of majority interest of subject, primarily in the consumer cyclical industry, which was considered to be in a similar industry as the Target Group, in the last 2 years sourced from Bloomberg. After considering the premium average, the rounded control premium of 20% was adopted in the valuation.

We have reviewed connected transaction circulars involving disposal and/or acquisition published during the three months from 1 April 2019 to 30 June 2019 by companies listed on the Stock Exchange. Out of the circulars reviewed, 6 circulars set out that the subject consideration has been determined after applying a control premium in the calculation of the value of the subject companies, in which the control premium applied ranged from approximately 15.0% to 25.5%, and the 20% adopted by the Valuer falls within the range. Based on the above, we concur with the Valuer and consider that application of the rounded control premium of 20% for the valuation of the Target Group is reasonable.

We noted that the Valuer adopted the rounded P/B ratio of 1.7 times, which is the median of P/B ratio of their selected comparable companies to avoid the outlier impact and represents a discount of approximately 35.7% to the average P/B ratio of approximately 2.61 times. If we take into consideration the control premium and the discount for lack of marketability as explained above, the implied P/B ratio of the Target Group is approximately 1.71 times, which falls within the range of P/B ratio and below the average P/B ratio of the Valuer's selected comparable companies of approximately 2.61 times. Having considered the above, we consider the valuation is an appropriate valuation reference for us to assess the fair and reasonableness of the Disposals.

Based on the above analysis, the Valuer are of the opinion that the fair value of 100% equity interest of the Target Group as of 30 June 2019 was RMB250.0 million.

(b) Market comparable analysis

In assessing the fairness and reasonableness of the Consideration, we have also conducted further analysis by comparing the implied price-to-earnings ratio (the "**P/E ratio**") and the implied price-to-book ratios (the "**P/B ratio**") under the Disposals, which are considered the most widely used and accepted financial valuation model, against that of the companies which are listed on the Stock Exchange and are engaged in similar businesses to those of the Target Group. Both of the P/E ratio and P/B ratio are considered to be commonly used valuation multiples for comparing valuation of companies operating in similar industries, in particular, for companies which have recorded profits historically and the assets of these companies are used to generate revenue and profit for their operations.

In respect of the P/E ratio of the Target Companies, such is calculated based on the aggregate net profit attributable to the owners of the Target Companies of approximately RMB23.8 million for the year ended 31 December 2018. On this basis, the implied P/E ratio under the Disposals, calculated based on (i) the value of 100% equity interest of the Target Companies based on the Consideration of approximately RMB250.0 million[1]; and divided by (ii) the aggregate net profit attributable to the owners of the Target Companies of approximately RMB23.8 million[2], would be approximately 10.51 times.

In respect of the P/B ratio of the Target Companies, such is calculated based on the net asset value of approximately RMB146.3 million[3], being the equity attributable to owners of the Target Companies (in aggregate) as at 31 December 2018. On this basis, the implied P/B ratio under the Disposals, calculated based on (i) the implied value of 100% equity interest of the Target Companies based on the Consideration at approximately RMB250.0 million; and divided by (ii) the net asset value of the Target Companies (in aggregate) of approximately RMB146.3 million, would be approximately 1.71 times.

For the purpose of our comparable analysis, we have identified comparable companies based on the following criteria: (i) the shares of which are listed on the Main Board of the Stock Exchange; (ii) engages in principal business similar to the Target Group's business and generated over 50% of its total revenue for the latest completed financial year from the operation of manufacturing and trading of textile raw materials (excluding retail sales of textile raw materials); and (iii) over 75% of revenue primarily generated from the PRC for the latest completed financial year (the "**Criteria**"). Based on the Criteria, we have identified, to the best of our knowledge, a list of five comparable companies (the "**Comparable Companies**").

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1 *The implied valuation for 100% equity interest in the Target Companies based on the Consideration comprised of (i) approximately RMB110.7 million for 100% Hangzhou Equity; (ii) approximately RMB129.9 million for 100% Nantong Yongsheng Equity, which consisted 30% of the Jiangsu Equity; and (iii) approximately RMB9.4 million for 70% Jiangsu Equity.*

2 *As advised by the Management, the aggregate net profit attributable to the owners of the Target Companies of approximately RMB23.8 million comprised of (i) a profit of approximately RMB13.9 million attributable to Yongsheng Chemical Fiber; (ii) a profit of approximately RMB10.0 million attributable to Nantong Yongsheng; and (iii) a loss of approximately RMB0.2 million attributable to Jiangsu Yongsheng.*

3 *As advised by the Management, the net asset value of approximately RMB146.3 million, being the equity attributable to owners of the Target Companies (in aggregate), comprised of (i) approximately RMB72.1 million attributable to Yongsheng Chemical Fiber; (ii) approximately RMB65.0 million attributable to Nantong Yongsheng; and (iii) approximately RMB9.3 million attributable to Jiangsu Yongsheng.*

The table below sets out the P/E ratio and P/B ratio of each of the Comparable Companies and the P/E ratio and P/B ratio of the Target Group.

Company name (stock code)	**Principal business**	**Market capitalisation as at 30 June 2019** *(approximately) HK$ million (Note 1, 2)*	**P/E ratio** *(approximately) (Note 3)*	**P/B ratio** *(approximately) (Note 4)*
Pacific Textiles Holdings Limited (1382)	Manufacturing and trading of textile products	8,938.9	10.37	2.73
Moody Technology Holdings Limited (1400) (“**Moody**”)	Manufacturing and sales of fabrics and yarns	46.5	N/A *(Note 5)*	N/A *(Note 5)*
Billion Industrial Holdings Limited (2299)	Manufacture and sale of polyester filament yarn products	9,702.9	11.03	1.37
Weiqiao Textile Company Limited (2698)	Manufacture and sale of cotton yarn, grey fabric and denim	1,025.8	1.40	0.05
China Weaving Materials Holdings Limited (3778)	Manufacture and sale of cotton, polyester and polyester-cotton blended yarns	576.1	6.31	0.78
		Maximum	11.03	2.73
		Minimum	1.40	0.05
		Average	7.28	1.23
The Target Group			10.51	1.71

Source: the website of the Stock Exchange and the respective interim/annual results announcement and report of the Comparable Companies

Notes:

(1) In respect of the Comparable Companies, market capitalisation is calculated based on the respective closing price as quoted on the Stock Exchange and the number of issued shares based on published information as at the date of the valuation, being 30 June 2019.

(2) For the illustrative purpose of this table, conversion of RMB into HK$ in relation to the respective financial figures of the Comparables and the Company denominated in RMB (if applicable and if any) is calculated at the approximate exchange rate of HK$1 to RMB0.8796. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

(3) Calculated by dividing the respective market capitalisation by the respective net profit attributable to the owners of the Comparable Companies, as extracted from the latest published financial statements/ interim results announcements.

(4) Calculated by dividing the respective market capitalisation by the respective consolidated equity attributable to the owners of the Comparable Companies, as extracted from the latest published financial statements.

(5) Moody recorded a net loss for the year ended 31 December 2018 and was in a net liability position as at 31 December 2018.

The P/E ratios of the Comparable Companies ranged from approximately 1.40 times to 11.03 times, with an average of approximately 7.28 times. The P/E ratio of the Target Group was approximately 10.51 times which is within range and above the average of the P/E ratio of the Comparable Companies.

The P/B ratios of the Comparable Companies ranged from approximately 0.05 times to 2.73 times, with an average of approximately 1.23 times. The P/B ratio of the Target Group was approximately 1.71 times which is within range and above the average of the P/B ratio of the Comparable Companies.

Having considered our analysis above together with our work performed on the Valuation Report as set out under sub-sections headed "(a) Valuation by the Valuer" in this section above, we are of the view that the Consideration is fair and reasonable.

8. Financial impact of the Disposals

Upon the Completions, each of the Target Companies will cease to be a subsidiary of the Company and the financial results of the Target Companies will no longer be consolidated to the Group's financial statements.

Based on, *inter alia*, the total Consideration, the unaudited net assets of the Group as at 31 December 2018, and the related expenses for the Disposals, the Group is currently expected to record a gain on the Disposals of approximately RMB78,706,000 (equivalent to approximately HK$89,481,000) upon Completions which is subject to review by the auditors of the Group, based on the Letter from the Board.

RECOMMENDATION

Having considered of the above principal factors and reasons, we consider that the entering into of the Disposals, though not in the ordinary and usual course of the business of the Company, are in the interests of the Company and the Shareholders as a whole, and the terms of the Disposals are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to approve the Disposals at the EGM.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited
Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in the corporate finance industry.

* *for identification purpose only*

1. FINANCIAL SUMMARY OF THE GROUP

Details of the audited consolidated financial statements of the Group for the years ended 31 December 2016, 2017 and 2018 and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.chinaysgroup.com/).

(i) Annual report of the Company for the year ended 31 December 2016:

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0419/LTN20170419530.pdf

(ii) Annual report of the Company for the year ended 31 December 2017:

http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0420/LTN201804201268.pdf

(iii) Annual report of the Company for the year ended 31 December 2018:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0418/ltn20190418506.pdf

(iv) Interim report of the Company for the six months ended 30 June 2019:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0912/ltn20190912317.pdf

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 July 2019, being the latest practicable date for the purpose this indebtedness statement, the indebtedness of the Group was as follows:

(i) secured borrowing from a bank of approximately RMB40,000,000 which is secured by the Group's land use rights with a net value of approximately RMB8,356,000 and the Group's buildings with a net value of approximately RMB27,269,000; and

(ii) secured borrowing from a bank of approximately RMB35,000,000 which is secured by the Group's land use rights with a net value of approximately RMB14,891,000 and the Group's buildings with a net value of approximately RMB30,253,000;

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities, the Group did not have any outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 July 2019, being the latest practicable date for the purpose of this indebtedness statement prior to printing of this circular.

Save as aforesaid, the Directors are not aware of any material changes in the indebtedness, contingent liabilities and commitments of the Group since 31 July 2019, the date to which the indebtedness statement is made and up to the Latest Practicable Date.

3. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, after taking into account the financial resources available to the Remaining Group, including the internally generated funds and available banking facilities, the Remaining Group has sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular, in the absence of unforeseen circumstances.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is principally engaged in (i) developing and manufacturing of PFY; (ii) provisions of dyeing services of differentiated polyester filament fabric; (iii) trading of PFY products; (iv) property services, enterprise project planning and business management and consulting; and (v) provision of RMAA and fitting-out works. The revenue of the Group for the year ended 31 December 2018 was approximately RMB680.2 million, representing an increase of approximately 5.0% as compared with the same for the year ended 31 December 2017. During the financial year ended 31 December 2018, with "Growth and Innovation" as its principle, the Group has continued in developing differentiated fibers and upgrading its technology in response to the market development as well as the demand of clients.

Looking ahead, challenges that the Group may be faced with includes but not limited to increased uncertainties under the economic environment, expansion of industry peers' production capacity, and intense market competition. The Group will highlight the business objective of "Reform and innovation, breaking through bottlenecks", pay close attention to the market demands, insist on the development of new differentiated products, and strives to grasp the various opportunities brought about by market consumption upgrades. The Group's key direction of development still focuses on the dyeing and processing of differentiated PFY, including: (i) continuous innovation, research and development in new products; (ii) establishment of high-end brand image; (iii) exploration to overseas markets; (iv) purse sound risk management and control and strengthen inventory and receivables management; (v) increase environmental protection investment to ensure environmental safety and compliance; and (vi) strengthen internal management and establish "practical, concentrated and creative" working style, with an aim to consolidate its leading position in high value-added differentiated synthetic fiber and textile market and be fully prepared for future challenges.

In addition, the Directors are optimistic about the long-term prospect of the real estate market in the PRC, in particular in Hangzhou, and are positive towards future prospects of the real estate properties acquired by the Group that was completed on 4 January 2019. It is expected that the real estate market in Hangzhou will be driven by the residential or commercial demand in the region as the urbanisation and development process in the PRC will continue to ascend in the future. Accordingly, the Group will continue in developing its real estate properties in Hangzhou. Such acquisition is considered to be an investment opportunity in the real estate market in Hangzhou to enlarge and diversify the Group's investment portfolio with high quality assets. The Directors are of the view that the continuing development of the real estate properties in Hangzhou will provide rental income and capital appreciation to the Group and diversify the income sources of the Group in the future and to create greater returns to the Shareholders.

In February 2019, the Group has also completed an acquisition of an established main contractor for the provision of RMAA and fitting-out works services in Hong Kong. The Directors believed that such acquisition helped enriching the Group's business segment, reducing its risk caused by concentrating its business in a specific geographical region and industry, and diversifying its revenue model. Given the expediting of land planning and redevelopment process, the Directors believe that the pace of renovation and refurbishment in residential and commercial property, infrastructure and amenities are expected to grow accordingly, which will in turn lead to an increase in demand for RMAA works.

The Group will continue in developing the RMAA and fitting-out works services alongside with the dyeing and processing of differentiated PFY business, and will further seek opportunities for business diversification, identify development areas with growth potential, and consider mergers or acquisitions or self-development of new business to create greater value returns to the Shareholders.

*The following is the text of a valuation report, prepared for the purpose of incorporation in this circular, received from Ravia Global Appraisal Advisory Limited, an independent valuer, in connection with their valuation as of 30 June 2019 of 100% equity interest of Hangzhou HUVIS Yongsheng Chemical Fiber Limited, Nantong Yongsheng HUVIS Fiber Advanced Materials Co., Ltd. and Jiangsu Yongsheng High Polyester Advanced Materials Research Institute Company Limited (the "**Target Group**").*

RAVIA GLOBAL
APPRAISAL
ADVISORY LIMITED

Unit B, 12/F, CKK Commercial Centre,
No. 289 Hennessy Road,
Wanchai,
Hong Kong

24 September 2019

The Board of Directors
Yongsheng Advanced Materials Company Limited
Unit C2, 29/F
Tower 1, Admiralty Centre
No. 18 Harcourt Road
Admiralty, Hong Kong

Dear Sirs/Madams,

Valuation of 100% equity interest of Hangzhou HUVIS Yongsheng Chemical Fiber Limited, Nantong Yongsheng HUVIS Fiber Advanced Materials Co., Ltd. and Jiangsu Yongsheng High Polyester Advanced Materials Research Institute Company Limited as of 30 June 2019

INSTRUCTIONS

This report has been prepared solely for Yongsheng Advanced Materials Company Limited (the "**Company**"), which has engaged Ravia Global Appraisal Advisory Limited ("**Ravia**" or "**we**") to perform a valuation of 100% equity interest of Hangzhou HUVIS Yongsheng Chemical Fiber Limited ("**Yongsheng Chemical Fiber**"), Nantong Yongsheng HUVIS Fiber Advanced Materials Co., Ltd. ("**Nantong Yongsheng**") and Jiangsu Yongsheng High Polyester Advanced Materials Research Institute Company Limited ("**Jiangsu Yongsheng**") (collectively the "**Target Group**") as of 30 June 2019 (the "**Date of Valuation**").

This report states the purpose of valuation, basis of valuation, scope of work, source of information, overview of the Target Group, overview of the industry, major assumptions, valuation methodology, sensitivity analysis, limiting conditions, remarks and opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. In addition, Ravia acknowledges that this report may be made available to the Company for public documentation purpose and used as reference on the Company's circular dated 24 September 2019 (the "**Circular**").

We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

2. BASIS OF VALUATION

Our valuation has been based on fair value, which is defined by International Valuation Standards established by the International Valuation Standards Council as "the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties".

3. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Company, the management of the Target Group and/or their representative(s) (collectively the "**Management**"). In the course of our valuation work, we have conducted the following processes to evaluate the reasonableness of the adopted basis and assumptions provided:

- Discussed with the Management in relation to the background, development, operations, financial performance and other relevant information of the Target Group;

- Reviewed relevant financial information, operational information and other relevant data concerning the Target Group;

- Reviewed and discussed with the Management on the business development concerning the Target Group provided to us by the Management;

- Performed market research in relation to the economic outlook in general and the specific economic environment and market elements affecting the business, industry and market and obtained relevant statistical figures from public sources;

- Examined relevant basis and assumptions of both the financial and operational information of the Target Group, which were provided by the Management;
- Prepared a valuation model to derive the fair value of the Target Group; and
- Presented all relevant information on the scope of work, source of information, overview of the Target Group, overview of the industry, major assumptions, valuation methodology, sensitivity analysis, limiting conditions, remarks and conclusion of value in this report.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

4. SOURCE OF INFORMATION

For the purpose of our valuation, we have been provided with the information in respect of the Target Group prepared by the Management. The valuation required the consideration of all relevant factors including, but not limited to, the following:

- Background information of the Target Group's business operation and relevant corporate information;
- Historical financial information of the Target Group;
- Registrations, legal documents, permits and licenses related to the Target Group;
- The economic outlook in general and the specific economic environment and market elements affecting the Target Group, industry and market; and
- Bloomberg database, and other reliable sources of market data.

We have also conducted research from public sources and carried out site inspection to assess the reasonableness and fairness of information provided. We have assumed the accuracy of information provided and relied to a considerable extent on such information in arriving at our opinion.

5. OVERVIEW OF THE TARGET GROUP

The Target Group is principally engaged in the sale and production of differentiated polyester filament yarns (the "**PFY**"). Differentiated PFY is a type of synthetic fiber. Its differentiation is achieved by diversifying chemical composition of the PFY or changing shape or linear density of the yarn and is generally tailor made for customers with special features such as dry, elastic and wrinkle-free. Differentiated PFY is widely used in the production of end-products including high-end garments, sportswear and household products.

Yongsheng Chemical Fiber is a company established in the People's Republic of China (the "**PRC**") with limited liability on 28 April 2004 whose registered capital was owned (i) as to 70% by the Company; and (ii) as to 30% by HUVIS Corporation as of the Date of Valuation. It is principally engaged in the sale and production of differentiated PFY.

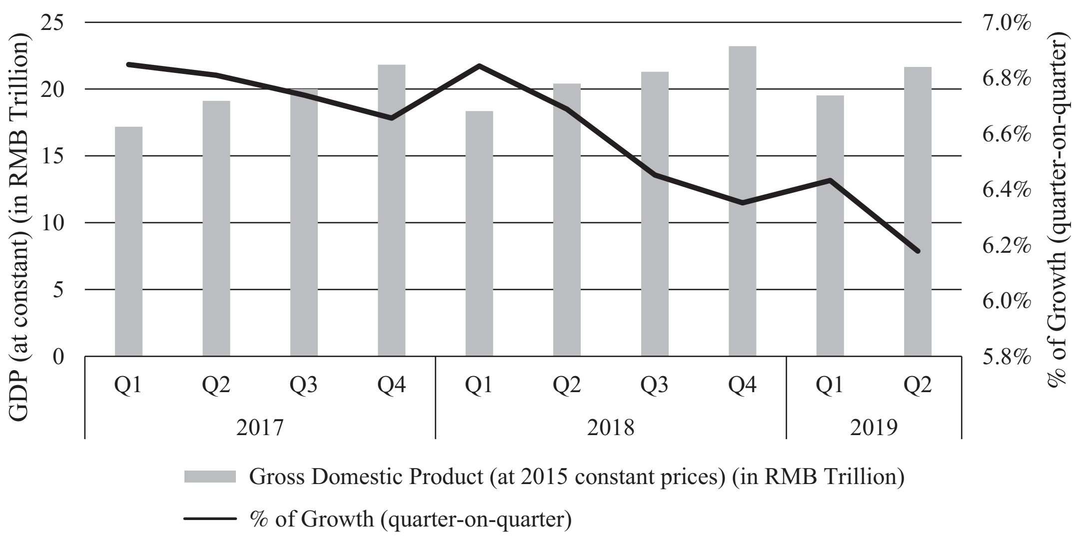
Nantong Yongsheng is a company established in the PRC with limited liability on 28 June 2010 whose registered capital was owned (i) as to 67% by the Company; (ii) as to 30% by HUVIS Corporation; and (iii) as to 3% by three independent third party individuals as of the Date of Valuation. It is principally engaged in the sale and production of differentiated PFY.

Jiangsu Yongsheng is a company established in the PRC with limited liability on 26 May 2015 whose registered capital was owned (i) as to 70% by the Company; and (ii) as to 30% by Nantong Yongsheng as of the Date of Valuation. It is principally engaged in the research and development of high polyester with advanced materials.

6. OVERVIEW OF THE INDUSTRY

According to the National Bureau of Statistics in the PRC, the gross domestic product in 2018 was RMB 88.4 trillion, among which approximately 39% was contributed by the household consumption expenditure. The capital formation rate remained stable at around 45%. In July 2019, the General Administration of Customs announced that the export of goods amounted to RMB 16.4 trillion in 2018, which was 7.1% growth compared to 2017; whereas the import of goods was RMB 14.1 trillion, growing at a rate of 12.9%. In the second quarter, the quarter-on-quarter growth rate of gross domestic product (the "**GDP**") declined to 6.2%, which was the lowest level in nearly three decades as reported by the CNN.

Figure 1: Gross Domestic Product at 2015 constant prices in the PRC (in RMB Trillion)



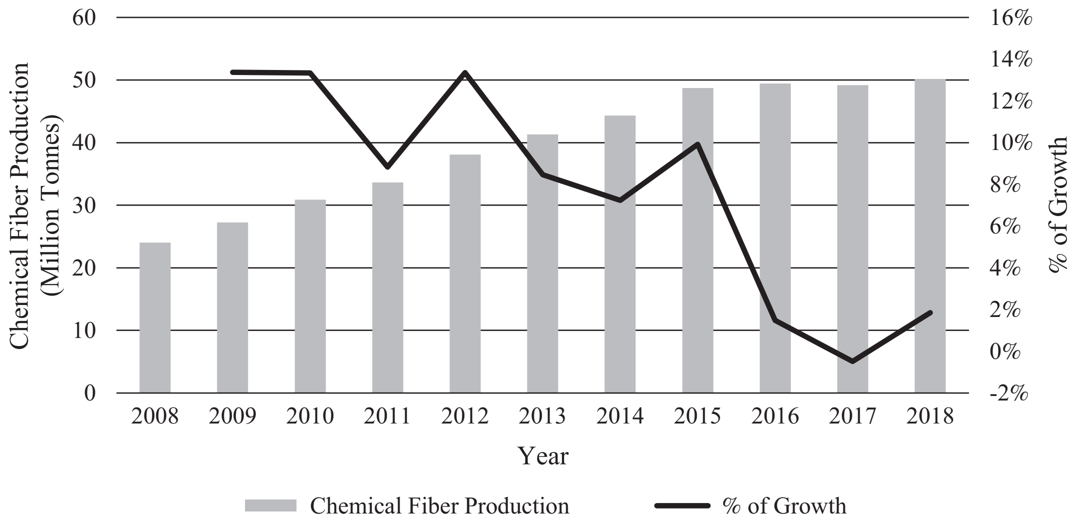
Source: National Bureau of Statistics of China

While the market has deep concern on the impact of the Sino-US trade war over Chinese economy, the National Bureau of Statistics said that the Chinese economy will continue to face downward pressure in a more complicated global economic environment.

Chemical fiber is one of the major kinds of textile in the apparel manufacturing industry. According to global data estimated by Industrievereinigung Chemiefaser, an association for chemical fiber located in German, the global production of chemical fiber was approximately 70 million tonnes in 2017. Among the countries producing chemical fiber, the PRC was solely contributed more than 65% of the global production output in 2017, followed by India, which contributed approximately 8%.

As reported by Qianzhan (前瞻產業研究院), the PRC produced 50.1 million tonnes of chemical fiber in 2018, which was a 1.9% growth compared to the previous year. The 5-year compound annual growth rate (the "**CAGR**") was 3.9%. As illustrated in Figure 2, the production in the PRC exhibited a slow-down in terms of the growth rate. The capacity utilization rate in the industry also recorded a decline, from 83.7% to 81.8%. Being the key player in the global chemical fiber industry, the PRC exported 4.3 million tonnes of chemical fiber in 2018; approximately 75% of the exported output was polyester filament. Due to the uncertainty brought by the Sino-US trade war and the slow-down of economic growth in the PRC, the downstream operation such as the processing and sales of apparel might suffer from weaker demand in the coming future.

Figure 2: Chemical Fiber Production in the PRC (in Million Tonnes)



Source: National Bureau of Statistics of China, Qianzhan

7. MAJOR ASSUMPTIONS

In conducting our valuation work, the following assumptions have been adopted in order to sufficiently support our conclusion of value including, but not limited to:

- The information provided and the representations made by the Management with regard to the Target Group's financial and business affairs are accurate and reliable;

- The Target Group will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business development;

- The Target Group has obtained all necessary permits, business certificates, licenses and legal approvals to operate the business and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Target Group operates or intends to operate would be officially obtained and renewable upon expiry with de minimis expenses;

- There will be sufficient supply of technical staff in the industry in which the Target Group operates or intends to operate, and the Target Group will retain competent management, key personnel and technical staff to support their ongoing operations and developments;

- There will be no major changes in the current taxation laws in the localities in which the Target Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major changes in the political, legal, economic or market conditions in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Group;

- There will be no material changes in the relevant interest rates and exchange rates that would impact the Target Group's business; and

- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Target Group as of the Date of Valuation.

In the event actual events do not accord with one or more of the above assumptions, the resulting value of the Target Group may vary substantially from the figure as set out in this report.

8. VALUATION METHODOLOGY

In conducting the valuation, we have considered three generally accepted approaches, including market approach, income approach and cost approach.

8.1. General Valuation Approaches

8.1.1. Market Approach

The market approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Sales and offering prices are adjusted for differences in location, time of sale, utility, and the terms and conditions of sale between the asset being appraised and the comparable properties.

8.1.2. Income Approach

The income approach measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions and proceeds from its disposition.

8.1.3. Cost Approach

The cost approach measures the value of an asset by the cost to reproduce or replace it with another of like utility. To the extent that the asset being valued provides less utility than a new asset, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional and economic obsolescence.

8.2. Adopted Approach for the Valuation of the Target Group

Among the abovementioned valuation approaches, the selection of the valuation approach in valuing the Target Group is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market transactions, uniqueness of the Target Group's business operations and nature of the industry the Target Group is participating, professional judgment and technical expertise.

The market approach was considered to be the most appropriate valuation approach in this valuation as it requires far fewer subjective assumptions than the income approach and compared to the cost approach it is more likely to reflect current market expectations over the corresponding industry since the price multiples of the comparable companies were arrived from market consensus and capture the future development potentials of the Target Group. Under the market approach, the guideline public company method is adopted.

8.2.1. Comparable Companies

The fair value of the Target Group was determined with reference to the business nature and operational information of publicly listed companies that are considered to be comparable to the Target Group (the "**Comparable Companies**").

Due to the fact that there is no company is exactly the same as the Target Group, a set of the Comparable Companies must be selected in valuing the Target Group. To determine the set of the Comparable Companies, we mainly focused on the following perspectives during the selection process from the public resources (e.g. Bloomberg), including:

(i) The companies are principally engaged in the production and sale of polyester fiber;

(ii) The companies are publicly listed in Hong Kong and/or the PRC; and

(iii) Sufficiency of information (such as listing and operating histories and availability of the financial information to the public).

Details of the Comparable Companies are listed as follows:

Company Name	**Bloomberg Ticker**	**Business Description**
Jiangsu Huaxicun Co Ltd	000936 CH	Jiangsu Huaxicun Co., Ltd. manufactures and markets textile materials. It produces knitted fabrics, polyester staple fibers, woolen yarns, and other products. Jiangsu Huaxicun also operates investment management, domestic trading, financial information consultation, and other businesses.
Zhejiang Unifull Industrial Fiber Co Ltd	002427 CH	Zhejiang Unifull Industrial Fiber Co., Ltd. develops, manufactures, and sells raw materials used in the textile industry. The products include industrial polyester filament and high-viscosity slices.
Billion Industrial Holdings Ltd	2299 HK	Billion Industrial Holdings Ltd. manufactures polyester filament yarn. It produces drawn textured yarn and fully drawn yarn, which are used in apparel, footwear and home furnishings.
China Weaving Materials Holdings Ltd	3778 HK	China Weaving Materials Holdings Ltd. manufactures polyester yarns, polyester-cotton blended yarns, and cotton yarns. It produces fine and medium-count yarns to its customers' specifications.
Tongkun Group Co Ltd	601233 CH	Tongkun Group Co., Ltd. manufactures textile materials. It produces polyester yarns, terylene filaments, synthetic filaments, and other products. Tongkun Group also produces chemicals, textile equipment, and other products.

Company Name	Bloomberg Ticker	Business Description
Xinfengming Group Co Ltd	603225 CH	Xinfengming Group Co., Ltd. manufactures and distributes textile materials. It produces polyester filament, slice spinning, and polyester yarns. Xinfengming Group operates worldwide.
Suzhou Longjie Special Fiber Co Ltd	603332 CH	Suzhou Longjie Special Fiber Co., Ltd. manufactures and distributes textile materials. It produces imitation suede fibers, faux fur fibers, differentiated polyester fibers, polyester fibers, fully drawn yarns, partially oriented yarns, and other products. Suzhou Longjie Special Fiber also operates import and export businesses.
Shen You Holdings Ltd	8377 HK	Shen You Holdings Limited manufactures and distributes textile products. It offers polyester sewing threads and weft yarn. Shen You Holdings serves customers worldwide.
Narnia HK Group Co Ltd	8607 HK	Narnia HK Group Co Ltd manufactures and sells fabric products, and provides printing and dyeing services.

Source: Bloomberg and Comparable Companies' data

8.2.2. Adopted Valuation Multiple

In our valuation, we have considered various commonly-used valuation multiples, including (i) price to earnings ("**P/E**") multiple; (ii) price to sales ("**P/S**") multiple; (iii) price-to-book value ("**P/B**") multiple; and (iv) enterprise value to earnings before interest, tax, depreciation and amortization ("**EV/EBITDA**") multiple.

The P/E multiple was not adopted as the volatile and transitory portion of Target Group's earnings makes the interpretation of P/E multiple difficult, and management discretion on accounting policy can distort reported earnings and thereby lessen the comparability of P/E multiples across firms. The P/S multiple does not capture the differences in cost structure across companies. The EV/EBITDA multiple does not consider the difference of capital intensity nor the capital expenditure needed to sustain the business.

Given that the Target Group's business is asset-intensive in nature which requires significant contribution from property, plant and equipment in business operation, the P/B multiple was considered as the most relevant valuation metric and therefore adopted in our valuation.

To derive the value of the Target Group, we have adopted P/B multiple, which expresses how much investors are willing to pay for a company's total net assets. P/B multiple is calculated using the following formula:

P/B multiple = Price per share/Book value per share

Where,

Price per share	=	Price per share of the company
Book value per share	=	Book value per share of the company in the latest available financial data as extracted from Bloomberg

Details of the valuation multiple of the Comparable Companies (the "**Base Valuation Multiple**") are shown below:

Company Name	Bloomberg Ticker	P/B Multiple As of 30 June 2019
Jiangsu Huaxicun Co Ltd	000936 CH	1.72
Zhejiang Unifull Industrial Fiber Co Ltd	002427 CH	7.52
Billion Industrial Holdings Ltd	2299 HK	1.44
China Weaving Materials Holdings Ltd	3778 HK	0.86
Tongkun Group Co Ltd	601233 CH	1.76
Xinfengming Group Co Ltd	603225 CH	1.81
Suzhou Longjie Special Fiber Co Ltd	603332 CH	4.26
Shen You Holdings Ltd	8377 HK	1.46
Narnia HK Group Co Ltd	8607 HK	3.82
Median (Rounded)		**1.80**

Source: Bloomberg and Comparable Companies' data

Due to the fact that the Comparable Companies are often of different sizes (which may be due to different clientele and business operation scale etc.) than that of the company being valued and larger companies generally have lower expected returns that translate into higher value. On the other hand, small companies are perceived as risker in relation to business operation and financial performance, and therefore the expected returns (or discount rate) are higher and resulting in lower valuation multiple. Therefore, the Base Valuation Multiple was adjusted to reflect the difference in natures between the Comparable Companies and the Target Group. The adjusted valuation multiple (the "**Adjusted Valuation Multiple**") was calculated using the following formula:

Adjusted Valuation Multiple = $1/(1/M + \theta)$

Where,

M	=	Base Valuation Multiple
θ	=	Required increase in the equity discount rate for size difference

The reciprocal of the Base Valuation Multiple in substance refers to the capitalization rate of the market capitalization of the company. Such capitalization rate has not considered difference of the size between the Comparable Companies and the Target Group.

With reference to 2017 Valuation Handbook – U.S. Guide to Cost of Capital, which is the study of historical capital markets data in the United States. Depending on the market capitalization of each of the Comparable Companies, size premium differentials of 0% – 3% were adopted as of the Date of Valuation to capture the size difference between the Comparable Companies and the Target Group. The Adjusted Valuation Multiple was then derived by the reciprocal of the capitalization rate with the adjustment aforementioned.

Details of the Adjusted Valuation Multiple of the Comparable Companies are shown below:

Company Name	Bloomberg Ticker	Adjusted P/B Multiple As of 30 June 2019
Jiangsu Huaxicun Co Ltd	000936 CH	1.67
Zhejiang Unifull Industrial Fiber Co Ltd	002427 CH	6.57
Billion Industrial Holdings Ltd	2299 HK	1.40
China Weaving Materials Holdings Ltd	3778 HK	0.86
Tongkun Group Co Ltd	601233 CH	1.68
Xinfengming Group Co Ltd	603225 CH	1.74
Suzhou Longjie Special Fiber Co Ltd	603332 CH	4.26
Shen You Holdings Ltd	8377 HK	1.46
Narnia HK Group Co Ltd	8607 HK	3.82
Median (Rounded)		1.70

Source: Bloomberg and Comparable Companies' data

The median of multiple of the Comparable Companies was adopted in the valuation to avoid the outliner impact. The Adjusted Valuation Multiple (i.e., rounded P/B multiple of 1.70 as of 30 June 2019) was adopted in the valuation, then multiplied by the Target Group's net book value as of 30 June 2019 of approximately RMB172.6 million to determine the market capitalization of 100% equity interest of the Target Group.

After deriving the market capitalization of the Target Group from P/B multiple (i.e., the Adjusted Valuation Multiple), the result represents 100% equity interest of the Target Group on a minority and marketable basis. Hence, it was further adjusted for the control premium and the discount for lack of marketability to derive the fair value of the equity interest of the Target Group as of the Date of Valuation on a majority and non-marketable basis.

8.2.3. Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. Compared to similar interest in public companies, ownership interest in privately held company is not readily marketable. Therefore, the value of a share in a privately held company is usually less than that in a publicly held company. The lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In determining a reasonable lack of marketability, we have made reference to the "Marketability Discounts, Fair Value and the Forgotten Market Participant" published by the CPA Journal in 2018 which indicated the discount for lack of marketability ranged from 20% to 40%. After considering the journal article, the discount for lack of marketability of 30% was adopted in the valuation. As there is no evidence that the discount for lack of marketability of the Target Group varies from the overall market, we considered that it is fair and appropriate to adopt such marketability discount in our valuation.

8.2.4. Control Premium

The controlling interest in a company can be a distinct advantage on the making decisions in terms of business operations, business development, etc. For instance, with the authority that accompanies control the controlling shareholder can control the company's net cash flow and any discretionary expense items that the company makes on behalf of shareholders. Hence, the value of the controlling interest in a company is usually higher than the minority interest, which is generally held at the great risk of being subject to the judgment, ethics and management skills of the controlling shareholders.

In determining a reasonable control premium, we have made reference to the implied control premium derived from 333 transactions relating to the acquisitions or disposals of majority interest of subject, primarily in the consumer cyclical industry, which was considered to be in a similar industry as the Target Group, in the last 2 years sourced from Bloomberg. After considering the premium average, the rounded control premium of 20% was adopted in the valuation. We considered that it is fair and appropriate to adopt such control premium in our valuation.

8.2.5. Calculation Details

For illustrative purpose, the calculation details of the fair value of the Target Group was shown below:

Net Book Value of the Target Group as of 30 June 2019* *(RMB million)*	172.6
Multiplied by: Median P/B Multiple*	1.70
Fair Value before Applying Marketability Discount and Control Premium* *(RMB million)*	293.5
Adjusted for Control Premium	(1+20%)
Adjusted for Marketability Discount	(1-30%)
Fair Value of 100% equity Interest of the Target Group* *(RMB million)*	250

* *Rounding figures*

9. SENSITIVITY ANALYSIS

By its very nature, valuation work cannot be regarded as an exact science and the conclusion arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation. Thus, the following sensitivity analysis has been applied to determine the impact of change in P/B multiple on the fair value of 100% equity interest of the Target Group.

Sensitivity Analysis for the Valuation as of 30 June 2019

Change in Adjusted Valuation Multiple (x)	**P/B Multiple** (x)	**Fair Value of 100% Equity Interest of the Target Group** *(RMB in Million)*	**Change in Fair Value of 100% Equity Interest of the Target Group** *(%)*
+10%	1.87	270	8.0%
+5%	1.79	260	4.0%
Base case	1.70	250	0.0%
-5%	1.62	230	-8.0%
-10%	1.53	220	-12.0%

10. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on information provided by the Management to a considerable extent in arriving at our opinion of value. We have not verified the accuracy of the information provided and have assumed that the aforesaid information is accurate. We have not conducted any further investigations concerning whether all data have been provided to us for our assessment and we have no reason to believe that any material data have been withheld from us.

We would particularly point out that our valuation was based on the information such as the projections made by the Target Group, company background, business nature of the Target Group provided to us.

Our conclusion of the value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation.

This report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated in **Section 1 – Purpose of Valuation**, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear. We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

The title of this report shall not pass to the Company until all professional fees have been paid in full.

11. REMARKS

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

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Group or the value reported herein.

12. OPINION OF VALUE

Based on the investigation and analysis stated above, our scope of work, the valuation method employed, information reviewed and the assumptions adopted, the fair value of 100% equity interest of the Target Group as of 30 June 2019 (i.e., the Date of Valuation), in our opinion, was reasonably stated as **RMB250,000,000 (RENMINBI TWO HUNDRED FIFTY MILLION ONLY)**.

Note: According to the adjusted book values of Yongsheng Chemical Fiber, Nantong Yongsheng and Jiangsu Yongsheng provided by the Management, which were approximately RMB76,400,000, RMB86,900,000, and RMB9,200,000 respectively, the indicated values derived on a pro-rata basis were approximately RMB110,700,000, RMB125,900,000 and RMB13,400,000 respectively.

Yours faithfully,
For and on behalf of
Ravia Global Appraisal Advisory Limited

Elvis C F Ng
CFA, FRM
Director

Note: Mr. Elvis C F Ng is a holder of Chartered Financial Analyst and a certified Financial Risk Manager. He has over eleven years' experience in business valuation, transaction advisory and corporate consultancy in the Asia Pacific Region including Hong Kong, the PRC and Australia, as well as in European, American, Middle-east and African countries.

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. DISCLOSURE OF INTERESTS

a) Directors and chief executive

As at the Latest Practicable Date, Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under SFO) or were recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules were as follows:

Interests in Shares and underlying Shares

Name	Capacity	Number of Shares held	Number of Shares subject to options granted	Approximate percentage of interest
Mr. Li Cheng ("**Mr. Li**") *(Note 1)*	Interest of controlled corporation	479,132,990 *(Note 1)*	–	63.93%
Mr. Ma Qinghai ("**Mr. Ma**") *(Note 2)*	Beneficial interest		4,400,000	0.59%
	Beneficial owner	2,675,677		0.36%
Mr. Zhao Jidong ("**Mr. Zhao**") *(Notes 2 and 3)*	Beneficial interest		5,700,000	0.76%
	Beneficial owner	1,300,000		0.17%
	Interest of spouse	2,553,927		0.34%

Notes:

1. As at the Latest Practicable Date, Mr. Li beneficially owns approximately 95.71% of the issued share capital of Ever Thrive Global Limited ("**Ever Thrive**") which in turn, beneficially holds 206,471,700 Shares. In addition, Mr. Li also beneficially owns approximately 90% of the issued share capital of Astute Horizon Limited ("**Astute**") which in turn, beneficially holds 272,661,290 Shares. Therefore, Mr. Li is deemed or taken to be interested in all the Shares held by Ever Thrive and Astute for the purpose of the SFO.

2. These options were granted by the Company under the share option scheme adopted by the Company on 7 November 2013.

3. Mr. Zhao is the spouse of Ms. Chen Xi who in turns beneficially holds 2,553,927 Shares. Therefore, Mr. Zhao is deemed to or taken to be interested in all the Shares held by Ms. Chen Xi for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, options, warrants, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code.

b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Long position in the Shares and underlying Shares

Name	Capacity	Number of Shares held	Approximate percentage of interest
Ever Thrive	Beneficial owner	206,471,700	27.55%
Astute	Beneficial owner	272,661,290	36.38%
Ms. Chen Fangqin *(Note)*	Interest of spouse	479,132,990	63.93%

Note:

Ms. Chen Fangqin is the spouse of Mr. Li. Therefore, Ms. Chen Fangqin was deemed, or taken to be interested in all the Shares in which Mr. Li had interest for the purposes of the SFO.

Save for disclosed above, as at the Latest Practicable Date, the Directors were not aware of any interest or short position owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or was directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group or who had options in respect of such capital.

3. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

Interests in assets

As at the Latest Practicable Date, save for the Equity Transfer Agreements (as supplemented by the Supplemental Agreements), none of the Directors had any direct or indirect interest in any asset which, since 31 December 2018 (the date to which the latest published audited financial statements of the Group were made up), had been or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

Interest in contracts

As at the Latest Practicable Date, save for the Equity Transfer Agreements (as supplemented by the Supplemental Agreements), none of the Directors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Group.

4. DIRECTORS' INTERESTS IN COMPETING INTERESTS

As at the Latest Practicable Date, save for the Equity Transfer Agreements (as supplemented by the Supplemental Agreements), none of the Directors or their respective associates had any interest in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

5. DIRECTORS' SERVICE CONTRACTS

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

6. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

7. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have given opinions, letters or advices included in this circular:

Name	Qualifications
Red Sun Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising in corporate finance) regulated activities under the SFO
Ravia Global Appraisal Advisory Limited	an independent valuer

Each of the above experts had given and had not withdrawn its written consent to the issue of this circular with copies of its letter and/or reports and the references to its name included in this circular in the forms and contexts in which they are respectively included. Each of the above experts confirmed that as at the Latest Practicable Date:

(i) it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(ii) it was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

(i) an asset management agreement dated 31 October 2017 entered into between the Vendor (as asset entrustor), Shenzhen Sidaoke Investment Limited*(深圳市思道科投資有限公司)(the "**Shenzhen Sidaoke Investment**") (as asset manager) and Ping An Bank Co, Limited, Shenzhen Branch*(平安銀行股份有限公司深圳分行)(the "**Ping An Bank, Shenzhen**") (as asset custodian), pursuant to which the Vendor agreed to participate in the asset management plan operated by Shenzhen Sidaoke Investment and to deposit an investment amount of RMB45,000,000 into the designated custodian account with Ping An Bank, Shenzhen;

(ii) an asset management agreement dated 9 January 2018 entered into between the Vendor (as asset entrustor), Shenzhen Sidaoke Investment (as asset manager) and Ping An Bank, Shenzhen (as asset custodian), pursuant to which the Vendor agreed to participate in the asset management plan operated by Shenzhen Sidaoke Investment and to deposit an investment amount of RMB60,000,000 into the designated custodian account with Ping An Bank, Shenzhen;

(iii) an entrusted loan agreement dated 11 January 2018 and entered into between the Vendor (as the entrusted party) and China Merchants Bank Hangzhou Xiaoshan Branch*(招商銀行杭州蕭山支行)(the "**China Merchants Xiaoshan**") (as the entrusted party and the lender) in relation to the granting of the entrusted loan in the amount of RMB50,000,000 to Saintyear Holding Co., Ltd. (being an independent third party), for a period of 6 months;

(iv) an asset management agreement dated 15 March 2018 entered into among the Vendor (as asset entrustor), China Foreign Economy and Trade Trust Co., Ltd. (the "**FOTIC**") (as asset manager) and The Beijing Chaowai Street Sub-Branch of China Merchant Bank Co., Ltd (the "**CMB BJ CW Sub-branch**") (as asset custodian), pursuant to which the Vendor agreed to participate in the asset management plan operated by FOTIC and to deposit an investment amount of RMB40,000,000 into the designated account with CMB BJ CW Sub-branch;

(v) an entrusted loan agreement dated 12 July 2018 entered into between the Vendor (as the entrusted party) and China Merchants Xiaoshan (as the entrusted party and the lender) in relation to the granting of the entrusted loan in the amount of RMB50,000,000 to Saintyear Holding Co., Ltd (being an independent third party), for a period of 6 months;

(vi) an asset management agreement dated 17 July 2018 entered into among the Vendor (as asset entrustor), FOTIC (as asset manager) and CMB BJ CW Sub-branch (as asset custodian), pursuant to which the Vendor agreed to participate in the asset management plan operated by FOTIC and to deposit an investment amount of RMB46,150,000 into the designated account with CMB BJ CW Sub-branch;

(vii) the asset management agreement dated 17 July 2018 entered into among the Vendor (as asset entrustor), Minsheng Wealth Management Co., Ltd (as asset manager) and China Merchants Securities Co., Ltd. (as asset custodian), pursuant to which the Vendor agreed to participate in the asset management plan operated by Minsheng Wealth Management Co., Ltd and to deposit an investment amount of RMB20,000,000 into the designated account with China Merchants Securities Co., Ltd;

(viii) an equity transfer agreement dated 27 August 2018 entered into between the Vendor and HUVIS in respect of the disposal of 30% equity interest in Nantong Yongsheng at the consideration of approximately RMB17,660,000 in cash;

(ix) a joint venture agreement dated 27 August 2018 entered into between the Vendor, HUVIS and the Nantong Minority Shareholders (who hold, in aggregate, 3% of the equity interests in Nantong Yongsheng) in respect of ownership and management of Nantong Yongsheng immediately upon and after completion of the disposal of 30% equity interest in Nantong Yongsheng;

(x) a technology and brand licensing agreement dated 27 August 2018 entered into between HUVIS and Nantong Yongsheng pursuant to which HUVIS agreed to grant to Nantong Yongsheng, among other things, the exclusive right (except as to Yongsheng Chemical Fiber) to use certain licensed technology and brands in the PRC;

(xi) a technology and brand licensing agreement dated 27 August 2018 entered into between Yongsheng Chemical Fiber and HUVIS pursuant to which HUVIS agreed to grant to Yongsheng Chemical Fiber, among other things, the exclusive right (except as to Nantong Yongsheng) to use certain brands in the PRC;

(xii) an exclusive agency and distribution agreement dated 27 August 2018 entered into between Nantong Yongsheng and HUVIS pursuant to which HUVIS appoints Nantong Yongsheng as an exclusive agent and distributor of polyester filament yarn products in the PRC on behalf of HUVIS for a term of three years;

(xiii) an exclusive agency and distribution agreement dated 27 August 2018 entered into between Nantong Yongsheng and HUVIS pursuant to which Nantong Yongsheng appoints HUVIS as an exclusive agent and distributor of polyester filament yarn products in South Korea on behalf of Nantong Yongsheng for a term of three years;

(xiv) a share purchase agreement dated 1 November 2018 entered into between Astute Horizon Limited ("**Astute Horizon**") (as vendor) and the Company (as purchaser) in respect of the acquisition of 100% equity interest in First Intelligence International Limited ("**First Intelligence**") at the consideration of RMB800,000,000 to be satisfied by RMB200,000,000 in cash and RMB600,000,000 in 272,661,290 new ordinary shares of HK$0.01 of the Company allotted and issued by the Company to Astute Horizon as consideration shares;

(xv) a master procurement agreement dated 28 November 2018 entered into between Yongsheng Advanced Materials (HK) Limited (on its own behalf and as trustee for the benefit for the other members of the Group) and HUVIS pursuant to which the Group agreed to purchase and the HUVIS and/or its associate(s) agreed to supply PFY products for production of differentiated PFY;

(xvi) a sale and purchase agreement dated 1 February 2019 entered into between the Company, Easy Speed Inc. ("**Easy Speed**"), and two guarantors namely, Mr. Au Yueng Yiu Chung and Ms. Chang Po Chun, in respect of the acquisition of 100% equity interest in Summer Power International Inc. at the consideration of HK$206,000,000 to be satisfied by HK$6,000,000 in cash and HK$200,000,000 in 80,000,000 new ordinary shares of the Company allotted and issued by the Company to Easy Speed as consideration shares with issue price of HK$2.50 each;

(xvii) a supplemental agreement dated 8 April 2019 entered into between HUVIS and Nantong Yongsheng to revise the annual caps for the continuing connected transactions contemplated under the exclusive agency and distribution agreement dated 27 August 2018 entered into between Nantong Yongsheng and HUVIS for the two years ending 31 December 2020;

(xviii) a debt release agreement dated 25 April 2019 entered into between Hangzhou Yongsheng Holding Co., Ltd ("**Yongsheng Holding**") and Hangzhou Yonghao Investment Management Company Limited ("**Yonghao Investment Management**") pursuant to which Yongsheng Holding unconditionally and irrevocably waived an amount of approximately RMB21,611,000 (the "**Waived Amount**") due from Yonghao Investment Management;

(xix) a supplemental agreement dated 25 April 2019 entered into between Astute Horizon and First Intelligence to (i) acknowledge the full settlement of approximately RMB235,613,000, being all the outstanding debts of First Intelligence as at 31 October 2018 (the "**Outstanding Debts**") (except the Waived Amount) and a copy of the written proof of repayment of the Outstanding Debts had been served and delivered to the Company; (ii) acknowledge the signing of the debt release agreement dated 25 April 2019 entered into between Yongsheng Holding and Yonghao Investment Management; and (iii) declare that all Outstanding Debts had been fully settled and waived (as the case may be);

(xx) the Equity Transfer Agreements; and

(xxi) the Supplemental Agreements.

9. GENERAL

(i) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

(ii) The company secretary of the Company is Ms. Yeung Wing Kwan, who is an associate number of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

(iii) The registered office of the Company is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and the head office and principal place of business of the Company is located at Unit C2, 29th Floor, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong.

(iv) The Company's Hong Kong branch share registrar is Tricor Investor Services Limited at Level 54, Hopewell Centre 183 Queen's Road East Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's head office and principal place of business at Unit C2, 29th Floor, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong up to and including the date of the EGM:

(i) the memorandum and articles of association of the Company;

(ii) the letter from the Board, the text of which is set out in pages 6 to 21 of this circular;

(iii) the letter from the Independent Board Committee, the text of which is set out on pages 22 to 23 of this Circular;

(iv) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 24 to 46 of this Circular;

(v) the valuation report issued by the Valuer, the text of which is set out in Appendix II to this circular;

(vi) the annual reports of the Company for each of the two years ended 31 December 2017 and 2018;

(vii) the interim report of the Company for the six months ended 30 June 2019;

(viii) the written consents referred to in the paragraph headed "7. EXPERTS AND CONSENTS" in this Appendix;

(ix) the material contracts referred to in the paragraph headed "8. MATERIAL CONTRACTS" in this Appendix; and

(x) this circular.

Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Yongsheng Advanced Materials Company Limited (the "**Company**") will be held at United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 18 October 2019 at 2:30 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company. Capitalised terms contained in the circular dated 24 September 2019 issued by the Company (the "**Circular**") shall have the same meanings when used herein unless otherwise specified.

ORDINARY RESOLUTIONS

"**THAT**

(a) the equity transfer agreement (the **"Hangzhou SPA**") dated 26 July 2019 and entered into between Hangzhou HUVIS Yongsheng Dyeing and Finishing Company Limited*（杭州滙維仕永盛染整有限公司）(the "**Vendor**"), as vendor, and Mr. Li Cheng ("**Mr. Li**"), as purchaser, (a copy of which is produced to the EGM marked "A" and signed by the chairman of the EGM for identification purposes) (as supplemented by the supplemental agreement (the "**Hangzhou Supplemental Agreement**") to the Hangzhou SPA dated 16 August 2019 and entered into between the Vendor, Mr. Li and Hangzhou Yongsheng Lituo E-commerce Company Limited*（杭州永盛力拓電子商務有限公司）(the "**Purchaser**"), as new purchaser (a copy of which is produced to the EGM marked "AA" and signed by the chairman of the EGM for identification purpose)) in relation to, among others, the disposal of 70% of the equity interests in Hangzhou HUVIS Yongsheng Chemical Fiber Limited*（杭州滙維仕永盛化纖有限公司）and all transactions contemplated thereunder and in connection therewith, be and are hereby approved, confirmed and ratified;

(b) the equity transfer agreement (the **"Nantong SPA"**) dated 26 July 2019 and entered into between the Vendor, as vendor, and Mr. Li, as purchaser, (a copy of which is produced to the EGM marked "B" and signed by the chairman of the EGM for identification purposes) (as supplemented by the supplemental agreement (the "**Nantong Supplemental Agreement**") to the Nantong SPA dated 16 August 2019 and entered into between the Vendor, Mr. Li and the Purchaser, as new purchaser (a copy of which is produced to the EGM marked "BB" and signed by the chairman of the EGM for identification purpose)) in relation to, among others, the disposal of 67% of the equity interests in Nantong Yongsheng HUVIS Fiber Advanced Materials Co., Ltd.*（南通永盛滙維仕纖維新材料有限公司）and all transactions contemplated thereunder and in connection therewith, be and are hereby approved, confirmed and ratified;

(c) the equity transfer agreement (the **"Jiansu SPA"**) dated 26 July 2019 and entered into between the Vendor, as vendor, and Mr. Li, as purchaser, (a copy of which is produced to the EGM marked "C" and signed by the chairman of the EGM for identification purposes) (as supplemented by the supplemental agreement (the "**Jiangsu Supplemental Agreement**") to the Jiangsu SPA dated 16 August 2019 and entered into between the Vendor, Mr. Li and the Purchaser, as new purchaser (a copy of which is produced to the EGM marked "CC" and signed by the chairman of the EGM for identification purpose)) in relation to, among others, the disposal of 70% of the equity interests in Jiangsu Yongsheng High Polyester Advanced Materials Research Institute Company Limited*（江蘇永盛高分子新材料研究所有限公司）and all transactions contemplated thereunder and in connection therewith, be and are hereby approved, confirmed and ratified; and

(d) subject to and conditional upon the fulfillment of the conditions in each of the Hangzhou SPA (as supplemented by the Hangzhou Supplemental Agreement), Nantong SPA (as supplemented by the Nantong Supplemental Agreement) and Jiangsu SPA (as supplemented by the Jiangsu Supplemental Agreement), the Directors be and are hereby authorised to, for and on behalf of the Company, execute all such documents, instructions and agreements, and do all such acts or things, as they may consider necessary, desirable or expedient to give effect to each of the Hangzhou SPA (as supplemented by the Hangzhou Supplemental Agreement), Nantong SPA (as supplemented by the Nantong Supplemental Agreement) and Jiangsu SPA (as supplemented by the Jiangsu Supplemental Agreement) and the respective transactions contemplated thereunder."

By order of the board of Directors of
Yongsheng Advanced Materials Company Limited
Li Cheng
Chairman

Hong Kong, 24 September 2019

Registered office:
P.O. Box 1008
Willow House, Cricket Square
Grand Cayman, KY1-1001

Head office and principally place of business in Hong Kong:
Unit C2, 29th Floor
Tower 1, Admiralty Centre
No. 18 Harcourt Road
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

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

3. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM (no later than 2:30 p.m. on Wednesday, 16 October 2019 (Hong Kong time)) or any adjournment thereof.

4. Where there are joint holders of any shares, any one of such joint holders may vote at the EGM, 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 be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

5. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the EGM if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.

6. The transfer books and register of members of the Company will be closed from Tuesday, 15 October 2019 to Friday, 18 October 2019, both days inclusive. During such period, no share transfers will be effected. In order to qualify for attending the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 14 October 2019.

7. A form of proxy for use at the EGM is enclosed with the circular to the shareholders of the Company.

8. The ordinary resolutions set out above will be determined by way of poll.

9. As at the date of this notice, the board of Directors comprises Mr. Li Cheng, Mr. Zhao Jidong, Mr. Li Conghua and Mr. Ma Qinghai as executive Directors and Ms. Wong Wai Ling, Mr. Shiping James Wang and Dr. Wang Huaping as independent non-executive Directors.

* *For identification purpose*