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## **Ko Yo Chemical (Group) Limited**

**玖源化工（集團）有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00827)**

### **MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 90% EQUITY INTEREST IN THE TARGET COMPANY**

**Financial adviser to the Company**



**LY CAPITAL LIMITED**  
絡繹資本有限公司

#### **ACQUISITION**

The Board is pleased to announce that on 19 November 2021 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company) and the Vendor entered into the Sale and Purchase Agreement pursuant to which the Purchaser agreed to purchase and the Vendor agreed to sell 90% equity interest in the Target Company for the sum of RMB27,000,000.

Upon Completion, the Purchaser will be interested in 90% equity interest in the Target Company and the Target Company will become a subsidiary of the Company. The Target Company's financial results will be consolidated into the financial statements of the Company.

#### **LISTING RULES IMPLICATIONS**

As at the date of this announcement, the Target Company is a wholly-owned subsidiary of the Vendor. Mr. Zhang, an executive Director together with his family member, own all the equity interest in Jiangsu Kangtai Holdings (Group) Co., Limited\* 江蘇康泰控股集團有限公司 which in turn is interested in approximately 92.5% equity interest in the Vendor. Therefore, the Vendor is an associate of Mr. Zhang and a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 25% but all of the percentage ratios are less than 100%, the Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. The Acquisition is therefore subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. LY Capital Limited has been appointed as the financial adviser of the Company in respect of the Acquisition.

Mr. Zhang, being an executive Director, has abstained from voting on the relevant resolutions proposed in the meeting of the Board. In addition, Mr. Zhang and his associates are required to abstain from voting on the relevant resolutions approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

## **GENERAL**

To the best of the knowledge and belief of the Directors having made all reasonable enquiries, save and except for Mr. Zhang and his associates, no other Shareholder has a material interest in the Acquisition.

An Independent Board Committee comprising the independent non-executive Directors has been established to advise the Independent Shareholders on whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

## **DESPATCH OF CIRCULAR**

The EGM will be convened and held to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. A circular containing, among other things, (i) further details of the Acquisition; (ii) the financial information of the Group; (iii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Acquisition; (iv) a letter from the independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition; (v) the notice of the EGM; and (vi) other information as required to be disclosed under the Listing Rules, will be despatched to the Shareholders on or before 31 December 2021, as additional time is required to prepare, among other things, the financial information to be included in the circular.

## **ACQUISITION**

The Board is pleased to announce that on 19 November 2021 (after trading hours), the Purchaser (a wholly-owned subsidiary of the Company) and the Vendor entered into the Sale and Purchase Agreement pursuant to which the Purchaser agreed to purchase and the Vendor agreed to sell 90% equity interest in the Target Company at the Consideration of RMB27,000,000.

Upon Completion, the Purchaser will be interested in 90% equity interest in the Target Company and the Target Company will become a subsidiary of the Company. The Target Company's financial results will be consolidated into the financial statements of the Company.

## THE SALE AND PURCHASE AGREEMENT

The principal terms and conditions of the Sale and Purchase Agreement are set out below:

### Date

19 November 2021

### Parties

Purchaser: Ko Yo Hong Kong New Material Company Limited

Vendor: Jiangsu Bluestar Green Technology Co., Ltd.\* 江蘇藍色星球環保科技股份有限公司

As at the date of this announcement, the Purchaser is a wholly-owned subsidiary of the Company. The Target Company is a wholly-owned subsidiary of the Vendor. Mr. Zhang, an executive Director together with his family member, own all the equity interest in Jiangsu Kangtai Holdings (Group) Co., Limited\* 江蘇康泰控股集團有限公司 which in turn is interested in approximately 92.5% equity interest in the Vendor. Therefore, the Vendor is an associate of Mr. Zhang and a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

### Subject matter

Pursuant to the Sale and Purchase Agreement, the Purchaser has agreed to purchase and the Vendor has agreed to sell 90% equity interest in the Target Company for the sum of RMB27,000,000.

### Consideration

The Consideration for the Acquisition is RMB27,000,000, which will be payable by the Purchaser to the Vendor in cash in the following manner:

- (i) the sum of RMB3,000,000 (the “**Deposit**”), will be payable to the Vendor within five Business Days upon signing of the Sale and Purchase Agreement; and
- (ii) the sum of RMB24,000,000, being the balance of the Consideration, will be payable to the Vendor within five Business Days immediately following the Completion Date.

The Consideration was determined after arms’ length negotiations between the Purchaser and the Vendor with reference to, among others, (i) the preliminary appraised value of the Target Company; (ii) the registered capital of the Target Company; and (iii) the business prospect of the Target Company.

The Company intends to satisfy the Consideration by internal resources of the Group.

## Conditions Precedent

Completion is conditional upon, among others, the following conditions being satisfied (or waived, if applicable) on or before the Long Stop Date:

- (a) the Company having completed and being satisfied with the due diligence on the Target Company (including but not limited to legal, financial, tax and commercial aspects);
- (b) the Company having obtained the Independent Shareholders' approval in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM in accordance with the Listing Rules;
- (c) the approvals to the Sale and Purchase Agreement and the transactions contemplated thereunder from:
  - (i) the Vendor's board of directors having been obtained;
  - (ii) the Purchaser's board of directors having been obtained;
  - (iii) the Board having been obtained;
- (d) there being no material adverse change to the Target Company;
- (e) all the necessary consents, approvals, registration and filings required in connection with the transactions contemplated under the Sale and Purchase Agreement having been obtained or completed with government agencies, regulatory authorities, the Stock Exchange;
- (f) all required authorisation, registration, enrolment, filing, confirmation, licensing, consent, permission and approval, notification and filing procedures (including but not limited to as a result of changes in major shareholders) in connection with the transactions contemplated under the Sale and Purchase Agreement having been obtained or completed with government agencies, regulatory authorities;
- (g) all the warranties given by the Vendor in the Sale and Purchase Agreement remaining true and accurate and not misleading as at Completion and no events having occurred that would result in any breach of any of the warranties or provisions of the Sale and Purchase Agreement by the Vendor; and
- (h) all consents, authorizations or approvals that must be obtained for the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained and not having been cancelled before the Completion Date.

As at the date of this announcement, condition (c) has been fulfilled.

If the above conditions are not satisfied (or waived, as the case may be) on or before the Long Stop Date, the Sale and Purchase Agreement shall terminate, in which event the Vendor shall return the Deposit to the Purchaser forthwith, following which all rights and obligations of the parties shall cease immediately, and no party shall have any obligations and liabilities under the Sale and Purchase Agreement save for any antecedent breaches of the terms thereof.

## **Completion**

Completion shall take place on the Completion Date, being the fifth Business Day immediately following the day of the fulfilment (or waiver, as applicable) of all the Conditions or on such other date as the Purchaser and the Vendor may agree in writing.

Upon Completion, the Target Company will become a subsidiary of the Company.

## **INFORMATION ON THE PARTIES**

### **The Company and the Group**

The Company is the holding company of the Group which is listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacturing and sale of chemical fertilisers and chemical products in the PRC.

### **The Purchaser**

The Purchaser is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company.

### **The Vendor**

The Vendor is a joint stock company incorporated in the PRC with limited liability and is mainly engaged in the research, development, manufacturing and sale of environmental friendly refrigerants, foaming agents, fluoride new material and fluoride fine chemicals, as well as the import and export of various commodities and technologies. Its products are primarily applied in automotive, household electrical appliance, construction and pharmaceutical industries.

As at the date of this announcement, the Vendor is directly owned as to (i) approximately 92.5% by Jiangsu Kangtai Holdings (Group) Co., Limited\* 江蘇康泰控股集團有限公司, which in turn is owned by Mr. Zhang together with his family member; and (ii) approximately 7.5% by an investment fund, an Independent Third Party.

## The Target Company

The Target Company is 100% owned by the Vendor and is mainly engaged in (i) manufacturing and sale of chemical products; and (ii) research and development of chemical products.

## Financial Information of the Target Company

Set out below is a summary of the financial information of the Target Company for the two years ended 31 December 2019 and 2020 and the six months ended 30 June 2021:

	For the year ended 31 December 2019 <i>RMB'000</i> unaudited	For the year ended 31 December 2020 <i>RMB'000</i> unaudited	<b>For the six months ended 30 June 2021 <i>RMB'000</i> unaudited</b>
Profit/(loss) before taxation	746.8	(570.5)	<b>(4,974)</b>
Profit/(loss) after taxation	746.8	(570.5)	<b>(4,974)</b>

Based on the management account of the Target Company, as at 30 June 2021, the unaudited net assets of the Target Company were approximately RMB10.7 million.

The original acquisition cost of the Target Company by the Vendor, was approximately RMB30 million, being the paid up capital of the Target Company.

## REASONS FOR AND BENEFIT OF THE ACQUISITION

The Group is principally engaged in the manufacturing and sale of chemical products and chemical fertilisers including BB Fertilizers and compound fertilizers, methanol, urea and ammonia. The Target Company is mainly engaged in (i) manufacturing and sale of chemical products; and (ii) research and development of chemical products.

The Target Company has commenced the establishment of a production line of propylene oxide, which is expected to achieve a production capacity of 400,000 tons/year. The Group intends to take advantage of the existing machinery and equipment of the Target Company to complete the establishment of the propylene oxide production line, which will save investment costs and shorten the construction period. Through the Acquisition, the Company intends to benefit from the synergies arising from further vertical business integration in the future. In addition, the potential downstream integration is expected to secure a more steady demand for the Company's chemical products, provide greater insight into downstream customers' needs and generate synergies through streamlining resources management in the long run.

The Board believes that the Acquisition is conducive to the expansion of the Company's chemical products business and the enhancement of its core competitiveness, which is in line with the Company's strategy of upstream and downstream integration and its strategy of development in the industry.

The Directors (excluding the independent non-executive Directors, whose views will be provided after taking into account the opinion and advice from the independent financial adviser) consider that the terms of the Acquisition are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Mr. Zhang, an executive Director together with his family member, own all the equity interest in Jiangsu Kangtai Holdings (Group) Co., Limited\* 江蘇康泰控股集團有限公司 which in turn is interested in approximately 92.5% equity interest in the Vendor. Therefore, the Vendor is an associate of Mr. Zhang and a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. LY Capital Limited has been appointed as the financial adviser of the Company in respect of the Acquisition.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 25% but all of the percentage ratios are less than 100%, the Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. the Acquisition is therefore subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The voting in respect of the Acquisition at the EGM will be conducted by way of poll. As at the date of this announcement, Mr. Zhang directly and indirectly holds 500,000,000 Shares, representing approximately 8.8% of the total issued Shares. Mr. Zhang, being an executive Director, has abstained from voting on the relevant resolutions proposed in the meeting of the Board. In addition, Mr. Zhang and his associates are required to abstain from voting on the relevant resolutions approving the Sale and Purchase Agreement and the transactions contemplated thereunder to be passed at the EGM.



## **GENERAL**

To the best of the knowledge and belief of the Directors having made all reasonable enquiries, save and except for Mr. Zhang and his associates, no other Shareholder has a material interest in the Acquisition.

An Independent Board Committee comprising the independent non-executive Directors has been established to advise the Independent Shareholders on whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

## **DESPATCH OF CIRCULAR**

The EGM will be convened and held to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. A circular containing, among other things, (i) further details of the Acquisition; (ii) the financial information of the Group; (iii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Acquisition; (iv) a letter from the independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition; (v) the notice of the EGM; and (vi) other information as required to be disclosed under the Listing Rules, will be despatched to the Shareholders on or before 31 December 2021, as additional time is required to prepare, among other things, the financial information to be included in the circular.

**As the Completion is subject to the fulfilment of the Conditions, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to the action they should take.**



## DEFINITIONS

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

“Acquisition”	the acquisition of 90% equity interest in the Target Company by the Purchaser from the Vendor pursuant to the terms and conditions of the Sale and Purchase Agreement;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Business Day(s)”	means a day (other than Saturdays, Sundays and on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business;
“Company”	Ko Yo Chemical (Group) Limited (Stock Code: 827), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	the completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement;
“Completion Date”	the fifth Business Day immediately following the day of the fulfilment (or waiver, as applicable) of all the Conditions or on such other date as the Purchaser and the Vendor may agree in writing;
“Conditions”	the conditions precedent required for the completion of the Sale and Purchase Agreement as set out in the section headed “Conditions Precedent” in this announcement;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules;
“Consideration”	the total consideration of RMB27,000,000 payable by the Purchaser to the Vendor for the Acquisition as described under the section headed “The Sale and Purchase Agreement” above;
“Director(s)”	director(s) of the Company;

“EGM”	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors formed for the purpose of advising the Independent Shareholders in respect of the Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder;
“Independent Shareholder(s)”	Shareholders other than Mr. Zhang and his associates who are involved or interested in the Acquisition;
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	30 June 2022 or such later date as the parties to the Sale and Purchase Agreement may agree in writing;
“Mr. Zhang”	Mr. Zhang Weihua, an executive Director;
“PRC”	the People’s Republic of China;
“Purchaser”	Ko Yo Hong Kong New Material Company Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale and Purchase Agreement”	the sale and purchase agreement dated 19 November 2021 entered into between the Vendor and the Purchaser in respect of the Acquisition;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	the Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;

“Target Company”	Jiangsu Bluestar Green Material Co., Ltd.* 江蘇藍色星球環保新材料有限公司, a company established in the PRC with limited liability which is wholly owned by the Vendor as at the date of the Sale and Purchase Agreement;
“Vendor”	Jiangsu Bluestar Green Technology Co., Ltd.* 江蘇藍色星球環保科技股份有限公司, a joint stock company incorporated in the PRC with limited liability; and
“%”	per cent.

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

Hong Kong, 19 November 2021

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

\* *For identification purposes only.*