THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

KOYO

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 AND NOTICE OF EGM

Financial Adviser to the Company

LY CAPITAL LIMITED
絡繹資本有限公司

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

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

A letter from the Board is set out on pages 6 to 30 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 31 to 32 of this circular.

A letter from Jun Hui International Finance Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 57 of this circular.

A notice convening the EGM to be held at 3 p.m. on Friday, 22 April 2022 at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong is set out on pages 134 to 137 of this circular. Whether or not you intend to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event, not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish.

PRECAUTIONARY MEASURES FOR EGM

Please see page ii of this circular for measures being taken to try to prevent and control the spread of the novel coronavirus (COVID-19) at the EGM. Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue.

23 March 2022

CONTENTS

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

(i) Compulsory body temperature check will be conducted on every shareholder, proxy and other attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be asked to leave the EGM venue.

(ii) Shareholders that (a) have travelled, and have been in close contact with any person who has travelled, outside of Hong Kong (as per guidelines issued by the Hong Kong government at https://www.chp.gov.hk/en/features/102742.html) at any time in the preceding 14 days; (b) are, and have been, in close contact with any person who is, subject to any Hong Kong Government prescribed compulsory quarantine (including home quarantine); (c) are, and have been, in close contact with anyone who has contracted COVID-19, has been tested preliminarily positive of COVID-19 or is suspected of contracting COVID-19; or (d) have any flu-like symptoms, may be denied entry into the EGM venue and be asked to leave the EGM venue.

(iii) All Shareholders, proxies and other attendees are required to wear surgical face masks inside the EGM venue at all times. Any person who does not comply with this requirement may be denied entry into the EGM venue and be asked to leave the EGM venue. A safe distance between seats are also recommended.

(iv) No refreshments will be served, and there will be no corporate gifts.

To enable Shareholders to participate in the EGM and to speak and observe in relation to the resolution(s) to be resolved at the EGM, Shareholders not attending the EGM in person may join a live streaming webcast of the EGM where they can both speak and see during the discussion session at the EGM via Zoom at zoom link address. Shareholders that intend to participate in the EGM via Zoom shall contact the Company's share registrar in Hong Kong, Union Registrars Limited before 4:00 p.m. on Wednesday, 20 April 2022 to obtain a passcode to join the EGM via the following means:

By email: 827EGM@unionregistrars.com.hk

By telephone: (852) 2849 3399

Shareholders should note that viewing the live streaming webcast of the EGM via Zoom will not be counted towards a quorum nor will they be able to cast their votes online. Shareholders who wish to vote are strongly encouraged to appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM by completing and returning the proxy form in accordance with the instructions therein by a time not less than 48 hours before the time appointed for the EGM (i.e. 3:00 p.m. on Wednesday, 20 April 2022), if they have not already done so.

To the extent permitted under the applicable laws, the Company reserves the right to deny any person entry into the EGM venue or require any person to leave the EGM venue so as to ensure the health and safety of the other attendees at the EGM. Subject to the development of COVID-19, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the websites of the Company (www.koyochem.com) and the Stock Exchange (www.hkexnews.hk) for further announcements and updates on the EGM arrangements.

In addition, the Company reminds all Shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights.

Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting instead of attending the meeting in person, by completing and return the proxy form attached to this document. If any Shareholder chooses not to attend the meeting in person but has any question about any resolution or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to our registered office. If any Shareholder has any question relating to the meeting, please contact the Company's share registrar in Hong Kong, Union Registrars Limited at (852) 2849 3399.

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

"2008 Share Option Scheme"	the share option scheme adopted on 18 September 2008;
"2018 Annual Report"	the annual report of the Company for the year ended 31 December 2018;
"2019 Annual Report"	the annual report of the Company for the year ended 31 December 2019;
"2019 Circular"	the circular dated 16 October 2019 of the Company in relation to the issue of convertible bonds under specific mandate;
"2020 Annual Report"	the annual report of the Company for the year ended 31 December 2020;
"2020 Circular"	the circular dated 4 December 2020 of the Company in relation to the proposed amendments to the terms of the convertible bonds of the Company;
"2020 Share Option Scheme"	the share option scheme adopted on 9 October 2020;
"2021 Interim Report"	the interim report of the Company for the six months ended 30 June 2021;
"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;
"Announcement"	the announcement dated 19 November 2021 of the Company in relation to the Acquisition;
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Audit Committee"	the audit committee of the Board;
"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 date of the Completion, being the fifth Business Day immediately following the day of 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 sub-section headed "Conditions Precedent" in this circular;
"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 sum 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" in this circular;
"Deposit"	the sum of RMB3,000,000 being part of the Consideration paid by the Purchaser to the Vendor within five Business Days upon signing of the Sale and Purchase Agreement;
"Directors"	the directors of the Company;

"EGM"	the extraordinary general meeting of the Company to be held at 3 p.m. on Friday, 22 April, 2022 at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong for the purposes of considering, and if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder;
"Enlarged Group"	the Group as enlarged by the Target Company following the Completion;
"Group"	the Company and its subsidiaries;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Independent Board Committee"	the independent committee of the Board comprising all the independent non-executive Directors formed for the purpose of advising the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder;
"Independent Financial Adviser" or "Jun Hui International"	Jun Hui International Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder;
"Independent Shareholder(s)"	Shareholder(s) other than Mr. Zhang and his associates who are involved or interested in the Acquisition;
"Latest Practicable Date"	18 March 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;

"Long Stop Date"	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;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong);
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company;
"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;
"Valuation Report"	the valuation report of the Target Company issued by an independent professional qualified valuer engaged by the Company on 23 March 2022;
"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.

Certain information contained in this circular constitutes forward-looking statements. Investors and Shareholders are cautioned that forward-looking statements are inherently uncertain and involve risks and uncertainties that could cause actual results, performance or achievements of the Group or the Target Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include, without limitation, statements relating to the business strategies, ability to integrate the Target Company, future business development, financial conditions and results of operations. No assurance can be given that such forward-looking statements will prove to have been correct. Whilst the Company may elect to update the forward-looking information at any time, the Company does not undertake to update it at any particular time or in response to any particular event. Investors and Shareholders are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the Latest Practicable Date.

Ko Yo Chemical (Group) Limited
玖源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

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

Independent Non-executive Directors:
Mr. Hu Xiaoping
Mr. Xu Congcai
Mr. Le Yiren

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

Principal place of business in Hong Kong:
Suite No. 02 31st Floor
Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

23 March 2022

To the Shareholders

Dear Sir or Madam,

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

1. INTRODUCTION

Reference is made to the Announcement in relation to the Acquisition.

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 conditionally agreed to purchase and the Vendor conditionally agreed to sell 90% equity interest in the Target Company at the Consideration of RMB27,000,000.

The purpose of this circular is to provide you with, among other things, (i) further information of the Acquisition; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition; (iv) the financial information of the Target Company; (v) a notice convening the EGM; and (vi) other information as required under the Listing Rules.

2. ACQUISITION

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.

Principal Terms of the Sale and Purchase Agreement

Date

19 November 2021

Parties

(a) Purchaser: Ko Yo Hong Kong New Material Company Limited

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

Details of the Vendor are set out in the section headed "Information on the Vendor" below.

As at the Latest Practicable Date, 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 the entire equity interest in Jiangsu Kangtai Holdings (Group) Co., Limited* 江蘇康泰控股集團有限公司 which 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.

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 at the Consideration of RMB27,000,000. Details of the Target Company are set out in the section headed "Information on the Target Company" below.

Consideration and Payment Terms

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

(i) the Deposit (being the sum of RMB3,000,000), has been paid 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 Company intends to satisfy the Consideration by internal resources of the Group.

The Consideration was negotiated on an arm's length basis with the Vendor after due diligence and financial analysis by the Company and its professional advisors on the information provided by the Vendor. Results of the due diligence and financial analysis were determined to be favourable and recommended that the Company to enter into negotiations with the Vendor.

The Consideration was determined on an arms' length basis following negotiations between the Purchaser and the Vendor with reference to, among others, (i) preliminary appraised value of the Target Company as at 30 September 2021 prepared by the Valuer by adopting the asset-based approach; (ii) the registered capital of the Target Company; (iii) underlying assets of the Target Company; (iv) status of construction of the production line of propylene oxide; (v) financial terms of certain other transactions involving production and sales of chemical products, in particular propylene oxide; (vi) business development and business prospects of the Target Company; and (vii) the reasons for and benefits of the Acquisition as stated under the section headed "Reasons for and benefits of the Acquisition".

As part of the due diligence and financial analysis, the Company and/or its advisers conducted the following: (i) performed site visits at the production site and offices of the Target Company to evaluate, among others, the production line, the type of equipment and machinery installed, and the production site – which indicated that the Target Company is in the process of establishing a technologically advanced and environmentally chemical production line, with capacity for future expansion; (ii) interviewed members of the senior management of the Target Company – which reflected that the members of the senior management of the Target Company are experts in their fields and would continue to support the growth and development of the Target Company following the completion of the Acquisition, and confirmed that proper internal governance and procedures have been adopted and followed; (iii) reviewed and discussed with the Valuer in relation to the preliminary appraised value of the Target Company as at 30 September 2021 prepared by the Valuer by adopting the asset-based approach – which provided useful reference to the quantum of the Consideration; (iv) reviewed the management accounts and financial information of the Target Company – which showed that the registered capital of the Target Company is RMB30 million, and that revenue generated from the principal business of the Target Company (i.e., trading of chemical products) has remained stable over the past three years alas the ever developing situation of COVID-19 over the past few years; (v) conducted independent searches against the Target Company and reviewed the material contracts entered into by the Target Company – which reflected that the Target Company has been engaging its business in accordance with its internal policies and the applicable laws. The results of the independent searches and review of the material contracts indicated that the Target Company was not involved in any material litigation and conducted its business in accordance with its internal policies and applicable laws; and (vi) interviewed representatives of the suppliers and customers of the Target Company – which indicated that they would continue to engage and source from the Target Company following the completion of the Acquisition.

In addition, for follow-up due diligence work, the Company has (a) instructed AllBright Law Offices, legal advisers as to the PRC laws to carry out analysis to confirm that the Target Company had no significant legal dispute; and (b) appointed the Auditors to prepare an accountants' report on the Target Company. No reference was made to the legal opinion and the accountants' report when determining the Consideration.

The registered capital of the Target Company is RMB30 million. The Consideration represents the amount of capital initially injected into the Target Company by its shareholders, despite the Target Company having incurred substantial amount in establishing the production line of propylene oxide; and as at 30 September 2021, the aggregate amount of the market value of investment made in property, plant and equipment, right-of-use assets, intangible assets (which mainly represent the patents of the Target Company's propylene oxide chemical production line and the establishment packet bag for the propylene oxide production line) and prepayments in the connection with the production line amounted to approximately RMB1,181 million. Further, the Valuation Report has concluded that the fair market value of the Target Company as at 30 September 2021 is approximately RMB32.72 million. Therefore, the Consideration represents a discount of approximately 8.31% of the market value of the Target Company. In arriving at the market value of the Target Company, and having regard to the operation, financial information and nature of the Target Company, the Valuer adopted the asset-based approach in arriving at the market value of Target Company. Under the asset-based approach, the market value of the Target Company refers to the market values of various assets and liabilities of the Target Company as at the valuation date, in which the market value of each asset and liability was determined by appropriate valuation approaches based on its nature. The Valuer did not adopt the (i) market-based approach because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were unavailable; and (ii) income-based approach was also not adopted because a lot of assumptions would have to be made and the valuation could be largely influenced by any inappropriate assumptions made. Further details of the bases and assumptions of the valuation of the Target Company are included in the Valuation Report as contained in the Appendix VI to the Circular.

Although there is a difference between book value of the Target Company and the value appraised by the Valuer, the Board is of the view that the difference is fair and reasonable as the appraised value took into account the market value of the assets of the Target Company as at the date of the valuation, and that if such assets (including the production line) were to be sold, they would be sold at a premium to reflect the time and risks involved in the construction process.

In addition to financial analysis, the Board took into account the reasons for and benefits of the Acquisition as stated under the section headed "Reasons for and benefits of the Acquisition".

Conditions Precedent

Completion is conditional upon 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; and

   (iii) the Board having been obtained;

(d) there having been no material adverse changes 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.

The Purchaser shall use its reasonable endeavours to procure the satisfactions of the above conditions precedent (where applicable to the Purchaser). The conditions precedent set out in paragraphs (a) and (d) to (h) above may be waived by the Purchaser if any of those conditions are unenforceable or illegal under the laws and regulations. Condition (b) cannot be waived. As at the Latest Practicable Date, condition (c) has been fulfilled.

Save for the conditions precedent set out in paragraphs (a) to (h) above, there are no other conditions precedent agreed by the parties for the Completion.

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 received from the Purchaser under the Sale and Purchase Agreement forthwith on demand to the Purchaser, 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. No interest shall accrue on such Deposit to be refunded by the Vendor to the Purchaser.

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 Purchaser shall 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.

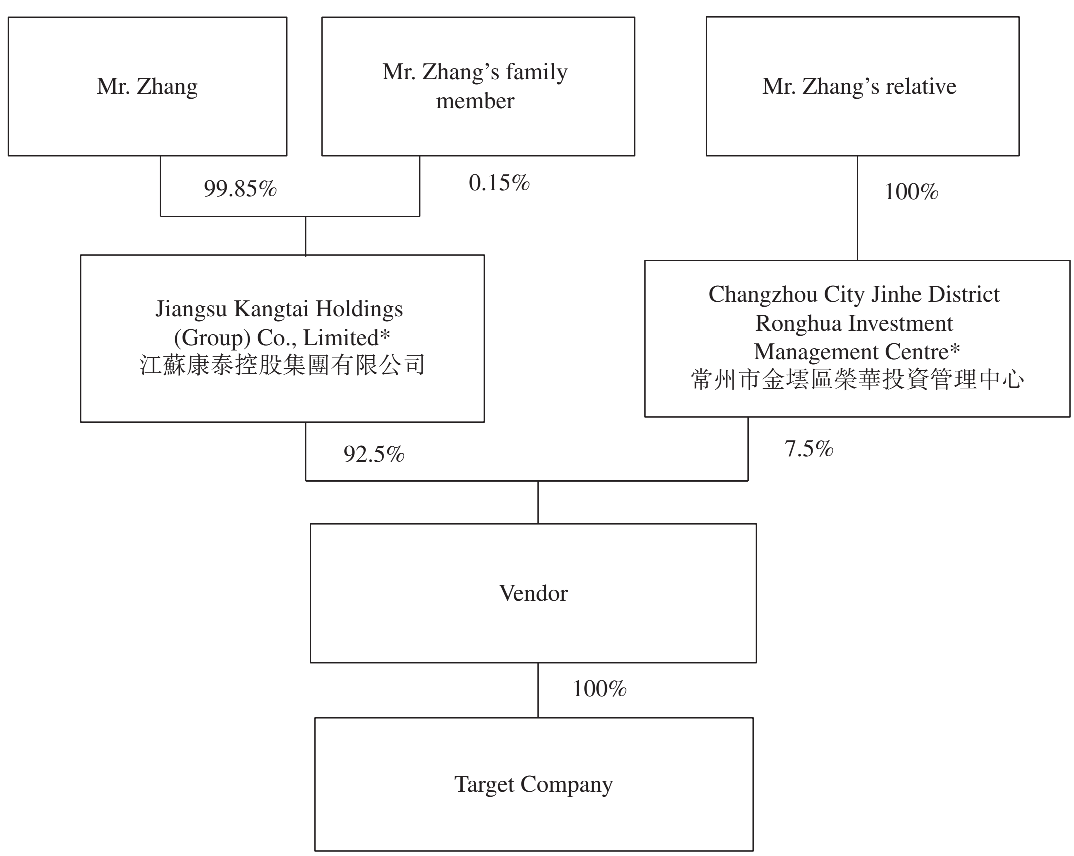
3. INFORMATION ON THE TARGET COMPANY

The Target Company is wholly owned by the Vendor and is principally engaged in (i) sales of chemical products, in particular, environmentally friendly refrigerants; and (ii) research and development of chemical products. The operation, operating assets and customers of the Target Company are located in the PRC.

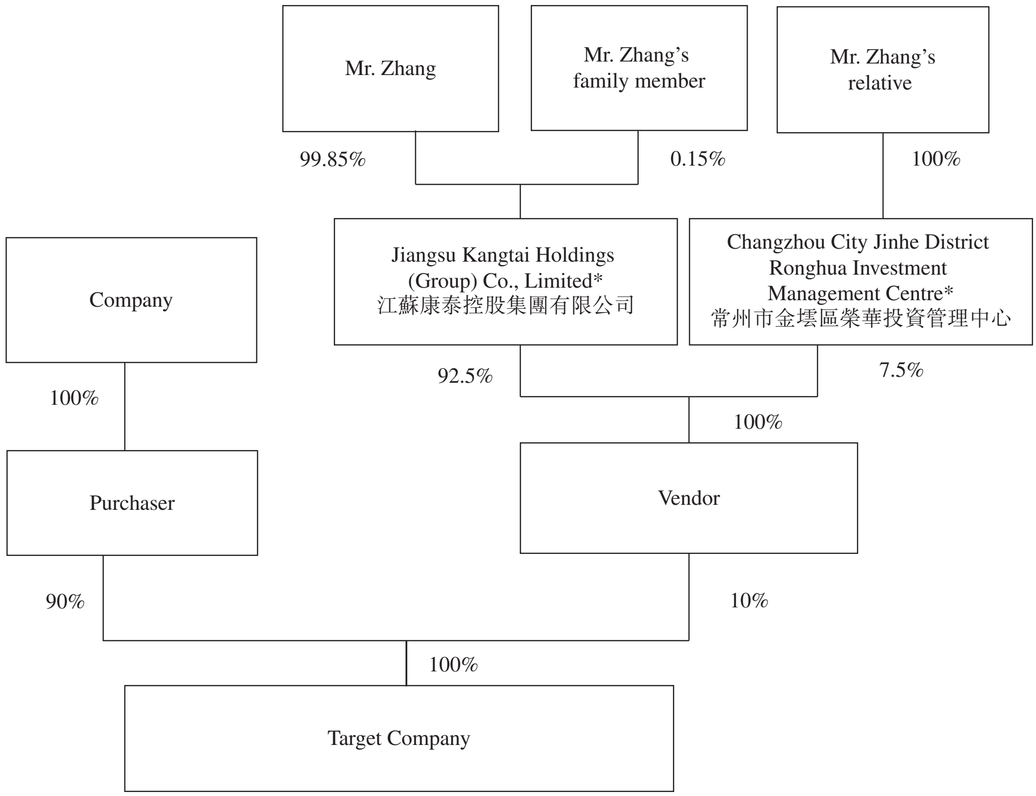
The Directors aware that the current business plans of the Target Company are to (i) continue to participate in the chemical trading business and (ii) begin to manufacture and sell the propylene oxide by completing the production line. In view of the low gross profit margin of the existing trading business of the Target Company, the Directors do not expect the trading business of the Target Company would make any material contributions to the financial performance of the Group as a whole, and the Company does not expect to focus on the development of the trading business of the Target Company. Following the completion of the Acquisition, the Company would continue to expend its resources to complete the establishment of the production line of propylene oxide, which is one of the main reasons for the Acquisition. For details of the production line of propylene oxide, please refer to the section headed "Reasons for and benefits of the Acquisition" in this circular.

Set out below are the corporate structure of the Target Company (i) as at the Latest Practicable Date; and (ii) immediately after the Completion.

(i) Corporate structure of the Target Company as at the Latest Practicable Date



(ii) Corporate structure of the Target Company immediately after the Completion



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

	For the year ended 31 December 2019	**For the year ended 31 December 2020**	**For the nine months ended 30 September 2021**
	RMB'000	*RMB'000*	*RMB'000*
	Unaudited	Unaudited	Unaudited
Loss before taxation	(28,717)	(25,764)	(21,108)
Loss after taxation	(28,717)	(25,764)	(21,108)

For the two years ended 31 December 2019 and 31 December 2020, and the nine months ended 30 September 2021, the Target Company recorded net losses of approximately RMB28.7 million, RMB25.8 million and RMB21.1 million, respectively.

As at 30 September 2021, the Target Company had net liabilities of approximately RMB86.1 million. The major assets of the Target Company mainly consisted of (i) construction in progress of approximately RMB873.2 million; (ii) inventory of approximately RMB223.7 million; (iii) non-current prepayment of approximately RMB32.1 million; and (iv) cash of approximately RMB0.3 million. The major liabilities of the Target Company mainly consisted of (i) long term borrowings of approximately RMB142.5 million; (ii) short term borrowings of approximately RMB209.7 million; (iii) trade and other payables of approximately RMB445.7 million; and (iv) amount to the Vendor of approximately RMB677.5 million.

	Year ended 31 December			**Nine months ended 30 September**
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from contracts with customers:				
Zinc granule	26,314	14,060	27,480	19,158
Perchloroethylene	14,290	14,967	11,476	8,618
Tetrafluoroethane	14,029	980	–	–
Hydrofluoric acid	11,261	32,836	14,227	12,178
Trifluorochloroethylene	2,069	107,403	78,628	5,658
Others	13,521	19,031	5,180	27,712
	81,484	189,277	136,991	73,324

As set out above, the Target Company has been primarily engaging in the trading of various chemical products for the past few years. The Target Company's sale of zinc granule decreased from approximately RMB26.3 million for the year ended 31 December 2018 to RMB14.1 million for the year ended 31 December 2019 and increased from approximately RMB14.1 million for the year ended 31 December 2019 to RMB27.5 million for the year ended 31 December 2020 were mainly due to the fluctuation of demand of customers.

The Target Company's sale of perchloroethylene remained stable for the year ended 31 December 2018 and for the year ended 31 December 2019. The sale of Perchloroethylene decreased from approximately RMB15.0 million for the year ended 31 December 2019 to RMB11.5 million for the year ended 31 December 2020 mainly due to the fluctuation of demand of customers.

The Target Company's sale of tetrafluoroethane decreased from approximately RMB14.0 million for the year ended 31 December 2018 to RMB1.0 million for the year ended 31 December 2019, and the Target Company did not record any sale of tetrafluoroethane for the year ended 31 December 2020 as it ceased to trade in this product.

The Target Company's sale of hydrofluoric acid increased from approximately RMB11.3 million for the year ended 31 December 2018 to RMB32.8 million for the year ended 31 December 2019; and the sale of Hydrofluoric acid decreased from approximately RMB32.8 million for the year ended 31 December 2019 to RMB14.3 million for the year ended 31 December 2020, mainly due to the fluctuation of demand of customers.

The Target Company's sale of trifluorochloroethylene increased from approximately RMB2.1 million for the year ended 31 December 2018 to RMB107.4 million for the year ended 31 December 2019 was mainly due to the market development of a new product. The sale of Trifluorochloroethylene decreased from approximately RMB107.4 million for the year ended 31 December 2019 to RMB78.6 million for the year ended 31 December 2020 was mainly due to the fluctuation of demand of customers.

Based on the unaudited management account of the Target Company as at 30 September 2021, the amount due to the Vendor increased from approximately RMB336.1 million for the year ended 31 December 2018 to approximately RMB494.3 million for the year ended 31 December 2019 and further increased to approximately RMB502 million for the year ended 31 December 2020 and approximately RMB677.5 million for nine months ended 30 September 2021. The continuous increase was attributed to the financing for the construction of the propylene oxide production line being established and operation by the Target Company. The repayment of the amount due to the Vendor is expected to start when the production line is completed and the production commences. The repayment amount will be determined based on the then profit derived from the production line. The Company shall enter into negotiation with its banks to restructure and refinance its existing bank loans if the Vendor demands repayment of the amount due to the Vendor.

4. REASONS FOR AND BENEFITS OF THE ACQUISITION

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.

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

The Company intends to combine its existing competitive advantages in downstream distribution with the upstream fertilizer production through the Acquisition, and to benefit from the synergies arising from further vertical business integration in the future. In addition, the vertical integration is expected to secure a steadier demand for the Company's chemical fertilizers and chemical products, provide greater insights 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 continued expansion of the Company's chemical fertilizer business and the enhancement of its core competitiveness, which is in line with the Company's strategy of upstream and downstream integration and its strategic in the industry.

In addition, the Acquisition will:

1. add to the Group's portfolio a technologically advanced and environmentally chemical production line with substantial upside – the production line will use HPPO (hydrogen peroxide to propylene oxide) process to produce propylene oxide. In the HPPO process, hydrogen peroxide is used as the oxidizing agent to oxidize propylene to propylene oxide. The HPPO process is environmentally friendly and does not produce any significant co-products besides water. HPPO process involves lower investment volume resulting in higher profitability than a conventional production process for propylene oxide. In addition, HPPO is one of the processes encouraged by the Ministry of Industry and Information Technology of the People's Republic of China;

2. position the Group to benefit from the growing demand for propylene oxide – propylene oxide is used as a building block for the manufacture of a versatile range of derivative products. Propylene oxide and its derivatives are used in the production of, among others, rigid and flexible foam (for use in, among others, building insulation, waterproof clothing, aircraft deicers, furniture, artificial sports track), coatings, adhesives, surfactants, oil demulsifiers, fuel additives, lubricants, engineering plastics, fibres, and hydraulic fluids. The demand for propylene oxide is expected to increase steadily in the future;

3. enhance the Group's earning and strengthen the management team – the Target Company and the Group could leverage their respective existing customer base and in-house marketing expertise to enhance customer out-reach, strengthen direct client relationships, and promote cross-selling potential. Given that the Target Company has been in chemical business in the PRC for an extended period of time, it has developed a network of customers. This network of customers provides a strong fundamental for the Target Company to build on its chemical production business, and further allowed the Group to cross-sell its chemical products to those customers, and vice versa. The Board intends to retain members of the senior management of the Target Company who are experts in the chemical industry following the completion of the Acquisition. To enhance the retention rates and to strengthen the integration of the management team, the Board intends to offer them competitive rates and arrange for the transfer of certain senior members of the Target Company to the other subsidiaries of the Company and vice versa;

4. establish the Group as a leading propylene oxide producers in China – the production line of propylene oxide will provide strategically diversification benefits to the Company's chemical products portfolio; and

5. offer near-term and long-term growth optionality – through the acquisition of the Target Company, the Group can speed up the establishment process of the production of propylene oxide. It would, otherwise, be time consuming for the Company to (a) applying for and obtaining the relevant permits and/or licences to engage in the establishment of the production line of propylene oxide; and (b) identifying and selecting the appropriate sites, sourcing the relevant equipment and materials, identifying and recruiting teams with the right expertise. As at the Latest Practicable Date, the Target Company has commenced the establishment of a production line of propylene oxide, which is expected to be completed in 2023 with a production capacity of approximately 400,000 tons/year.

Reasons for undertaking the Acquisition rather than establishing a new production line of propylene oxide afresh

As disclosed in the 2019 Circular, the Company intended to establish a new production line of propylene oxide in its Guangan plant. Based on the information then available to the Board and as disclosed, it was expected that the average annual operating revenue to be generated from the propylene oxide production line in the Guangan plant would amount to approximately RMB3,970 million, and the return on the total investment would be around 30%, with the expected payback period of investment would be around five years (including the two-year construction period).

In view of the outbreak of the COVID-19 in 2019 which led to general economic downturn and unstable demand for fertilizer and chemical products generally, the Board proactively sought and captured opportunities that would contribute to the business operations of the Group and generate better return to the Shareholders. As a result, the Company allocated its resources in the establishment of other production lines such as the PBAT production line and the nylon 66 production line. As disclosed in the 2020 Circular, it was expected that the average annual operating revenue of the PBAT production line would be approximately RMB1,800 million, the expected return on investment would be around two years (including a construction period of one year); and the average annual operating revenue of the nylon 66 production line would be approximately RMB4,701 million, and the expected return on investment would be around four years (including a construction period of two years). It was expected that the short construction period of the PBAT production line would facilitate the generation of positive cashflow for the development of other projects of the Group. The timely re-allocation of resources (which were initially earmarked for the establishment of propylene oxide production line) for the establishment of the PBAT production line and the nylon 66 production line, not only improved the speed, efficiency and effectiveness of the establishment of the two production lines, the re-allocation also strengthened the capital case and financial position of the Group. Further details of the change in the production lines were disclosed in section headed "7. Proposed Change in Use of Proceeds" in the 2020 Circular.

Given the current phase of the construction of the PBAT production line as disclosed in the 2020 Circular has been completed during the third quarter of 2021, the Company has since begun identifying business opportunities which could leverage on the existing production facilities and products of the Group as some of the raw materials used in the production of dimethyl carbonate and propylene oxide comprise some of the products manufactured by the Group with its existing production lines.

In view of the growing demand for chemical products, and in particular, the continued demand for propylene oxide, which is reflected in the increase in market price of propylene oxide (which increased from approximately RMB9,900 per tonne in October 2019 to approximately RMB13,400 per tonne in December 2021), the Board considered that the Acquisition presents an opportunity for the continued growth of the Group. The Acquisition will allow the Company to, among others, (i) to deploy the positive cashflow generated from the other production lines to contribute to the continued growth of the Group and generate better returns to the Shareholders; (ii) create vertical business integration where by the Group would be able to combine its existing competitive advantages in downstream distribution with the upstream fertilizer production through the Acquisition; and (iii) be able to quickly establish and own a majority interest in a technologically advanced and environmentally friendly propylene oxide production line, which would enable the Company to capture the growing demand for propylene oxide. The establishment of the production line of propylene oxide is expected to be completed in 2023 with a production capacity of 400,000 tonnes per year.

In addition, the propylene oxide production line being established by the Target Company is technologically advanced and environmentally friendly as the production line will apply HPPO (hydrogen peroxide to propylene oxide) process to produce propylene oxide. In the HPPO process hydrogen peroxide is used as the oxidizing agent to oxidize propylene to propylene oxide with only water as a by-product. The HPPO process is environmentally friendly and does not produce any significant co-products besides water. HPPO process involves lower investment volume resulting in higher profitability than a conventional production process for propylene oxide. In addition, HPPO is one of the processes encouraged by the Ministry of Industry and Information Technology of the People's Republic of China.

The Company had been proactively seeking other acquisition targets, but had not identified any suitable propylene oxide production lines at the similar size, scale and price of the Target Company. Should the Company decided to set up its own propylene oxide production lines, it is expected that the total establishment cost would be approximately HK$2.6 billion and the establishment may take 3 years to complete, which may be subject to delay given the developing COVID-19. Upon completion of the Acquisition, with the use of the existing machinery and equipment of the Target Company, the Group expects that, by using the internal resources of the Group, an additional investment of approximately RMB200 million can complete the production line of propylene oxide in 2 years. Subject to the liquid capital position of the Group and the profitability of propylene oxide, a further RMB600 million may be applied to construct the hydrogen peroxide production facilities to further improve the competitiveness. To save investment costs and shorten the construction period, the Directors are of the view that the Acquisition is the best available option to the Company.

Moreover, the Acquisition would allow the Group to have direct access to the customer base of the Target Company. The Target Company and the Group could leverage on their respective existing customer base and in-house marketing expertise to enhance customer out-reach, strengthen direct client relationships, and promote cross-selling potential.

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

5. FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Purchaser shall 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.

A. Assets and liabilities

The unaudited pro forma financial information on the Enlarged Group ("Unaudited Pro Forma Financial Information") is set out in Appendix V to this circular for illustrative purposes. The Unaudited Pro Forma Financial Information was prepared based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as if the Acquisitions had been completed on 30 June 2021.

The following table sets forth the significant financial effect of the Acquisitions on the Enlarged Group, as identified in the Unaudited Pro Forma Financial Information, assuming that the Closing had taken place on 30 June 2021, as compared to the financial position of the Group as at 30 June 2021:

	The Group as at 30 June 2021	**The Target Company as at 30 September 2021**	**Pro forma adjustments**	**Pro forma Enlarged Group**	**Change**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*%*
Net assets	172,516	(86,064)	86,827	173,279	0.44
Total assets	2,960,951	1,390,015	118,058	4,469,024	50.93
Total liabilities	2,788,435	1,476,079	31,231	4,295,745	54.06

Based on the Unaudited Pro Forma Financial Information, the unaudited pro forma consolidated total assets of the Enlarged Group as at 30 June 2021 would increase by approximately 50.93% to approximately RMB4,469 million, and the unaudited pro forma consolidated total liabilities of the Enlarged Group as at 30 June 2021 would increase by approximately 54.06% to approximately RMB4,296 million, after the Acquisitions, assuming that the Acquisition had taken place on 30 June 2021.

The net assets, the total assets, and the total liabilities of the Enlarged Group which are referred to in this subsection were extracted from the Unaudited Pro Forma Financial Information, which was based on, among other things, a Consideration of approximately RMB27 million and the assumption that the completion of the Acquisitions had occurred on 30 June 2021. As the actual amounts of the assets and liabilities of the Target Company will be different from the amounts used in the Unaudited Pro Forma Financial Information, the abovementioned figures as at the date of Acquisition Closing may also be different from the corresponding amounts presented in the Unaudited Pro Forma Financial Information.

ZHONGHUI ANDA CPA Limited has been appointed as an independent reporting accountant for the Acquisition and prepared the Unaudited Pro Forma Financial Information which is set out in Appendix V to this circular. For the purpose of the Unaudited Pro Forma Financial Information, the Board has assessed, among others, (i) the fair value of the identifiable assets of the Target Company as at 30 September 2021 by referring to the Valuation Report and (ii) whether there is any impairment in respect of the goodwill expected to arise from the Acquisition following the principles set out in Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the Board's assessment, it is considered that there is no impairment on the goodwill. The Board and the Audit Committee are of the view that the consistent accounting policies and principal assumptions and valuation method (as used in the Unaudited Pro Forma Financial Information) will be adopted by the Company to assess the impairment of the Enlarged Group's goodwill in the future.

B. Earnings

The audited net loss of the Group for the financial year ended 31 December 2020, as extracted from the 2020 Annual Report of the Company for the year ended 31 December 2020, was approximately RMB241,802,000.

As set out in Appendix III to this circular, the Target Company recorded an audited net loss of approximately RMB25,764,000 for the financial year ended 31 December 2020. Upon Completion, the Target Company will become a subsidiary of the Company and the financial results of the Target Company will be consolidated in the Group's consolidated financial statements.

According to the consolidated income statements of the Target Company for the three years ended 31 December 2018, 2019 and 2020 as set out in Appendix III to this circular, the revenue of the Target Company for each of the three years ended 31 December 2018, 2019 and 2020 were approximately RMB81,484,000, RMB189,277,000 and RMB136,991,000, respectively, and the net loss for the year were approximately of RMB37,914,000, RMB28,717,000 and RMB25,764,000 respectively.

As such, the Target Company is expected to have a positive impact on the revenue of the Enlarged Group upon Completion, but an adverse impact on its net income after taxation.

C. Impact on the action plan of the Company to address the disclaimer of opinion

According to the 2021 Interim Report, the Group's unaudited turnover increased from approximately RMB994.7 million to approximately RMB1,347 million for the six months ended 30 June 2021 as compared to the corresponding period in 2020. The unaudited gain attributable to shareholders of the Group was approximately RMB154.0 million for the six months ended 30 June 2021, as compared to the unaudited loss of approximately RMB103.3 million for the corresponding period in 2020.

The Group's financial position has improved given the recent increase in the revenue and profitability of the Group during the year, and the completion on subscription of the convertible bonds on 30 November 2021. The improved financial position has allowed the Group has to enter into negotiations with its banks to achieve more favourable restructuring of its existing bank loans. Further, alas the Target Company will be become a non-wholly owned subsidiary of the Company, the Company will not provide any form of guarantee or assume any of the outstanding debts and liabilities of the Target Company. In view of the above, the Directors are of the view that the Acquisition will not have any material impact on the action plan of the Group to address the disclaimer of opinion. The Directors are confident that the disclaimer is expected to be removed in the coming financial statements ending 31 December 2021.

D. Funding for additional investment on the Target Company

The Board expects that an additional sum of approximately RMB200 million would be needed to acquire and install the necessary machinery and equipment to complete the establishment of the production line of propylene oxide.

	Production line of propylene oxide	**2022**	**2023**	**2024**	**Total**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1	Mechanical equipment	48,000	–	–	**48,000**
2	Analysis room	3,500	–	–	**3,500**
3	Fire safety construction	8,000	–	–	**8,000**
4	Staff dorm	2,000	–	–	**2,000**

	Production line of propylene oxide	2022	2023	2024	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
5	Raw material for trial production (10 Days)	41,536	–	–	**41,536**
6	Working Capital	96,964	–	–	**96,964**
					200,000

After completion of the production line of propylene oxide, depending on the liquid capital position of the Group and the profitability of propylene oxide, it will consider to further invest approximately RMB600 million to construct the hydrogen peroxide (one of the raw material to produce propylene oxide) production facilities to improve the competitiveness of the Target Company. As the Latest Practicable Date, the Board intends to apply its internal resources (including cash generated from its business operations) and loans from financial institution to finalize the establishment of production line of propylene oxide.

Subject to the completion of the production line of propylene oxide, depending on the liquid capital position of the Group and the profitability of propylene oxide, the detailed timeline and usage for the further investment of RMB600 million is set out below:

	Production facilities of hydrogen peroxide	2022	2023	2024	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1	Pump	–	2,400	3,600	**6,000**
2	Fans and Filters	–	1,000	1,500	**2,500**
3	Other Equipment	–	13,600	20,400	**34,000**
4	Tower	–	44,000	66,000	**110,000**
5	Separator	–	2,000	3,000	**5,000**
6	Container	–	2,400	3,600	**6,000**
7	Heat Exchanger	–	600	900	**1,500**
8	Electrical instrument	–	6,000	9,000	**15,000**
9	Installation	–	48,000	72,000	**120,000**
10	Working fluid and catalyst	–	120,000	180,000	**300,000**
					600,000

According to the 2021 Interim Report, the profit of the Company for the six months ended 30 June 2021 is approximately RMB153.4 million and is expected to achieve a profit approximately RMB574 million for the year ended 31 December 2021 neglect the provision on issue of convertible bonds of approximately RMB227 million. The cash and bank deposit also increased from approximately RMB14.5 million as at 31 December 2020 to approximately

RMB43.9 million as at 30 June 2021. The improved financial position has allowed the Group to enter into negotiations with its banks to achieve more favourable terms in the restructuring of its existing bank loans. Further, alas the Target Company will be become a non-wholly owned subsidiary of the Company, the Company will not provide any form of guarantee or assume any of the outstanding debts and liabilities of the Target Company. As such, the Board considers the Company to have sufficient resources to finance the establishment of the production line of the Target Company.

Further information on the financial position and financial performance of the Target Company and its management discussion and analysis are set out in Appendices III and IV to this circular respectively.

6. INFORMATION ABOUT THE PARTIES

A. Information about 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 products and chemical fertilisers in the PRC.

B. Information about the Purchaser

The Purchaser is a company incorporated in Hong Kong with limited and a wholly-owned subsidiary of the Company. The Purchaser is principally engaged in the manufacturing and sale of chemical products.

C. Information about the Vendor

The Vendor is a joint stock company incorporated in the PRC with limited liability and is mainly engaged in manufacturing and sales of environmental friendly refrigerants, foaming agents, fluoride new material and fluoride fine chemicals. Its products are primarily applied in automotive, household electrical appliance, construction and pharmaceutical industries.

As at the Latest Practicable Date, the Vendor is directly owned as to (i) approximately 92.5% by in Jiangsu Kangtai Holdings (Group) Co., Limited* 江蘇康泰控股集團有限公司, which is subsequently owed by Mr. Zhang together with his family member; and (ii) approximately 7.5% by Changzhou City Jinhe District Ronghua Investment Management Centre* 常州市金壜區榮華投資管理中心 which is wholly-owned by Mr. Zheng's relative.

7. IMPLICATIONS UNDER THE LISTING RULES

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.

As at the Latest Practicable Date, Mr. Zhang directly and indirectly holds 500,000,000 Shares, representing approximately 8.7% 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.

The Independent Board Committee comprising all the independent non-executive Directors, namely Messrs. HU Xiaoping, XU Congcai and LE Yiren, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Sale and Purchase Agreement and as to voting after taking into account the advice from Jun Hui International, the Independent Financial Adviser. The Independent Financial Adviser has been approved by the Independent Board Committee and appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder.

8. FINANCIAL SUMMARY OF THE GROUP

A. Audited consolidated financial statements of the Company

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2020 and the six months ended 30 June 2021 are respectively disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk):

(a) the 2018 Annual Report
(https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0409/ltn20190409047.pdf);

(b) the 2019 Annual Report
(https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0409/2020040900027.pdf);

(c) the 2020 Annual Report (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0412/2021041200039.pdf); and

(d) the 2021 Interim Report (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0903/2021090300816.pdf).

B. Financial overview of the Group

Set out below is certain financial information of the Group for the three years ended 31 December 2020 and the six months ended 30 June 2021 as extracted from the 2018 Annual Report, the 2019 Annual Report, the 2020 Annual Report and the 2021 Interim Report respectively:

	For the year ended 31 December			**For the six months ended 30 June**	
	2020	**2019**	**2018**	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	2,111,133	1,964,476	3,101,031	1,347,031	994,724
Cost of sales	(2,076,920)	(1,958,077)	(2,877,039)	(1,056,292)	(991,837)
Gross profit	34,213	6,399	223,992	290,739	2,887
(Loss)/profit before tax	(222,439)	(712,242)	(347,685)	159,261	(115,509)
Income tax (expenses)/ credit	(19,363)	(19,570)	(601)	(5,262)	12,187
(Loss)/profit attributable to equity holders of the Company	(241,779)	(731,564)	(348,209)	154,009	(103,309)

Profit and loss

As depicted in the above table, the Group's revenue recorded an increase by approximately 7.46 % for the two years ended 31 December 2020. The Group recorded a total revenue of approximately RMB2,111,133,000 for the year ended 31 December 2020 as compared to that of approximately RMB1,964,476,000 for the year ended 31 December 2019. The loss attributable to equity holders of the Company has decreased by approximately 67.0% from approximately RMB731,564,000 for the year ended 31 December 2019 to approximately RMB241,779,000 for the year ended 31 December 2020. The decrease in the loss of the Group was mainly due to (i) the increase in gross profit by approximately RMB27,814,000; and (ii) the increase in sales of urea and ammonia.

The Group's revenue recorded a decrease by approximately 36.7 % for the two years ended 31 December 2019. The Group recorded a total revenue of approximately RMB1,964,476,000 for the year ended 31 December 2019 as compared to that of approximately RMB3,101,031,000 for the year ended 31 December 2018. The loss attributable to equity holders of the Company has increased by approximately 110.1% from approximately RMB348,209,000 for the year ended 31 December 2018 to approximately RMB731,564,000 for the year ended 31 December 2019. The increase in the loss of the Group was mainly due to (i) the decrease in gross profit by approximately RMB217,593,000; and (ii) the increase in other loss resulting from the deduction in fair value changes on derivative financial assets by approximately RMB176,000,000.

The Group recorded a total revenue of approximately RMB1,347,031,000 for the six months ended 30 June 2021, representing an increase by approximately 35.42% as compared to that of approximately RMB994,724,000 for the six months ended 30 June 2020. The loss attributable to equity holders of the Company turned from approximately RMB103,309,000 for the six months ended 30 June 2020 to profit of approximately RMB154,009,000 for the six months ended 30 June 2021. As disclosed in the 2021 Interim Report, the increase in turnover of the Group was mainly due to the increase in selling price of products. The total sales volume (excluding the trading portion) of the Group reached approximately 566,319 tonnes for the six months ended 30 June 2021, representing a decrease of 3.6% as compared with that of the same period last year.

C. Liquidity and Working Capital

As stated in the 2020 Annual Report, the current assets of the Group amounted to approximately RMB277,406,000 and the current liabilities of the Group amounted to approximately RMB2,461,599,000 as at 31 December 2020. The Group had cash and cash equivalents of approximately RMB14,539,000 as at 31 December 2020.

Set out below is certain financial information of the Group for the three years ended 31 December 2020 as extracted from the 2019 Annual Report and the 2018 Annual Report respectively:

	For the year ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	14,539	10,110	4,545
Current assets	277,406	221,375	214,874
Current liabilities	2,461,599	2,022,828	2,155,534
Net current liabilities	2,184,193	1,801,453	1,940,660
Net cash generated from operating activities	6,575	34,672	53,709

The net current liabilities of the Group amounted to approximately RMB1,940,660,000, RMB1,801,453,000 and RMB2,184,193,000 for the three years ended 31 December 2020 respectively. Furthermore, the Group's net cash generated from operating activities (after the deduction of the account operating expenses and interest paid) has remained in the positive for the three years ended 31 December 2020.

The Directors are of the opinion that, after taking into account the effects of the Acquisition and the financial resources available to the Enlarged Group, the Enlarged Group has sufficient working capital for its requirement for at least the next 12 months from the Latest Practicable Date.

D. Statement of Indebtedness

Borrowings

As at 28 February 2022 for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the total borrowings and notes payable balances of the Group amounted to approximately RMB1,779,069,000, in which all were short-term borrowings.

Set out below is an analysis of the Group's financial liabilities in relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**
	RMB'000	*RMB'000*	*RMB'000*
As at 28 February 2022			
Trade and other payables	487,121	–	–
Short-term borrowings	1,779,069	–	–
Convertible bonds (4%-7% annual interest rate)	–	–	768,701

The Group's interest rate risk mainly arises from pledged bank deposits and borrowings. Long-term borrowing issued at variable rates expose the Group to cash flow risk which is partially offset by cash held at variable rates. The Group's pledged bank deposits, short-term borrowings and convertible bonds were issued at fixed rates and exposed the Group to fair value interest rate risk. During 2021, the Group's long-term borrowings at variable rate were denominated in RMB.

As at 28 February 2022, certain land use rights with a total net book value of approximately RMB101,483,000, property, plant and machinery with a total net book value of approximately RMB1,681,113,000 and mining rights of approximately RMB334,306,000 were pledged as collateral for the Group's bank loans and notes payable.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not, at the close of the business on the Latest Practicable Date, have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptance (other than normal trade bills and payables), acceptance credits, or any guarantees or other material contingent liabilities. The Directors confirm that, save as disclosed above, there have been no material changes in the indebtedness or contingent liabilities of the Enlarged Group as at the Latest Practicable Date.

E. Financial prospects of the Group

The Group remained focused on manufacturing and distribution of chemical fertilizers and chemical products, including BB fertilizers and complex fertilizers, methanol, polyphenylene sulfide, urea and ammonia for the year ended 31 December 2020. The Group recorded turnover of approximately RMB2,111 million, an increase of approximately 7.49% during the year ended 31 December 2020 as compared to the same period in 2019. The loss attributable to shareholders of the Company amounted to approximately RMB241 million, representing a decrease in loss of approximately RMB490 million during the year ended 31 December 2020 as compared to the same period in 2019.

In 2022, the Company will continue to capitalize on opportunities arising from the recovery of the chemical fertilizers and chemical industries while it will establish new production lines including the Dazhou New Production Line, the PBAT production line in the Guangan New Material Plant, the nylon 66 production line in the Guangan Chemical Plant and the new production line from the Target Company.

9. EGM

Set forth on pages 134 to 137 of this circular is a notice convening the EGM to be held at 3 p.m., on Friday, 22 April 2022 at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong at which ordinary resolution will be proposed to approve, among other things, the Sale and Purchase Agreement and the transactions contemplated.

In light of the interest of Mr. Zhang and his associates in the Vendor, Mr. Zhang and his associates have material interest in the Acquisition. They are therefore required to abstain and will abstain from voting on approving the Sale and Purchase Agreement and the Acquisition at the EGM.

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

10. VOTE BY POLL

In accordance with Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the voting on the ordinary resolution at the EGM will be conducted by way of poll.

11. CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the Company' register of members will be closed from Tuesday, 19 April 2022 to Friday, 22 April 2022 (both days inclusive) during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company at 4:00 p.m. on Friday, 22 April 2022 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify for attending and voting at the EGM, Shareholders whose Shares are not registered in their names should complete and lodge their respective instruments of transfer with the relevant share certificates with the Company's share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, and in any case no later than 4:00 p.m. on Thursday, 14 April 2022.

12. RECOMMENDATION

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 31 to 32 of this circular which contains its views in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 33 to 57 of this circular, considers that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, are fair and reasonable so far as the Company and the Independent Shareholders are concerned as a whole. Accordingly, the Independent Board Committee recommends that the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Sale and Purchase Agreement and the Acquisition.

Having considered the terms of the Sale and Purchase Agreement and the Acquisition, the Board (including the independent non-executive Directors and excluding Mr. Zhang who abstained from voting on the relevant Board resolutions) is of the view that (i) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Group and is in the interest of the Company and the Independent Shareholders as a whole. The Board therefore recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Sale and Purchase Agreement and the Acquisition.

13. RESPONSIBILITY STATEMENT

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

14. ADDITIONAL INFORMATION

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

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

The English translation of Chinese names or words in this circular, where indicated by "", are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

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

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)

23 March 2022

To the Independent Shareholders

Dear Sir or Madam,

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

INTRODUCTION

We refer to the circular dated 23 March 2022 of the Company (the "**Circular**"), of which this letter forms part. Capitalised terms used herein have the same meanings as those defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to: (i) whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolution to approve the Sale and Purchase Agreement and the transactions contemplated at the EGM.

Jun Hui International Finance Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 33 to 57 of the Circular, which contains its advices and recommendations as to (i) whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and

(ii) whether the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole, as well as the principal factors and reasons taken into consideration for its advices and recommendations.

We also wish to draw your attention to the letter from the Board set out on pages 6 to 30 of the Circular and the additional information set out in the appendices to the Circular.

RECOMMENDATION

Having considered, among other matters, the terms of the Sale and Purchase Agreement and the factors and reasons considered by, and the advices and recommendations of the Independent Financial Adviser as stated in its aforementioned letter, we consider that (i) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the Acquisition.

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

Mr. Hu Xiaoping **Mr. Xu Congcai** **Mr. Le Yiren**

Independent Non-executive Directors

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

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

23 March 2022

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

Dear Sir or Madam,

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

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 23 March 2022 (the "**Circular**") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

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 conditionally agreed to purchase and the Vendor conditionally agreed to sell 90% equity interest in the Target Company at the Consideration of RMB27,000,000.

As at the Latest Practicable Date, 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.

The Independent Board Committee comprising all independent non-executive Directors, namely Messrs. HU Xiaoping, XU Congcai and LE Yiren, has been formed to advise the Independent Shareholders as to (i) the fairness and reasonableness of the terms of the Sale and Purchase Agreement; and (ii) how to vote at the EGM, after taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice.

In this connection, we, Jun Hui International, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. We do not, by this letter, warrant the merits of the Acquisition and the transactions contemplated under the Sale and Purchase Agreement, other than to form an opinion, for the purpose of the Listing Rules. Within the two years prior to the Latest Practicable Date, we were engaged as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to proposed amendments to the terms of convertible bonds, details of which are set out in the circular of the Company dated 4 December 2020. Other than that, we did not have any relationships with, or have any interests in the Group, the Vendor or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us for the aforesaid appointment and this appointment, no arrangement exists whereby we will receive any fees or benefits from any party abovementioned. Accordingly, we are considered eligible to give independent advice in respect of the Acquisition.

BASIS OF OUR OPINION

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

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

(a) reviewed the announcement of the Company in relation to the Acquisition, the Letter from the Board, the annual reports of the Company for the years ended 31 December 2019 and 2020 ("**Annual Report 2019**" and "**Annual Report 2020**" respectively), its interim report for the six months ended 30 June 2021 ("**Interim Report 2021**") and related documents published by the Company on the website of the Stock Exchange;

(b) reviewed the Sale and Purchase Agreement and other relevant information and documents in relation to the Acquisition;

(c) reviewed the PRC legal opinion prepared by AllBright Law Offices (the "**PRC Legal Adviser**") in relation to the Target Company (the "**PRC Legal Opinion**");

(d) reviewed the valuation report of the Target Company (the "**Valuation Report**") prepared by Roma Appraisals Limited (the "**Independent Valuer**") together with the valuation workings and related documents, and discussed with the Independent Valuer regarding, among other things, the methodology, basis and assumptions adopted for the valuation;

(e) conducted independent interviews with the PRC Legal Adviser and the Independent Valuer respectively regarding, among other things, their expertise and relevant experience, independence (i.e. any current or prior relationships with the Company, other parties to the Acquisition and core connected persons of either the Company or the Vendor), scope of work and any limitations, and any formal or informal representations made by the Company or the Vendor to the experts, and obtained and reviewed related documents such as their engagement letters in relation to the Acquisition setting out each of their scope of work and limitations thereto if any;

(f) conducted market research to analyse the reasons for/benefits of the Acquisition; and

(g) discussed with the Directors and the Management regarding, among other things, the background, reasons for and benefits of the Acquisition, the basis of the major terms of the Sale and Purchase Agreement (including the basis in determining the Consideration), the business development plan and prospect of the Target Company and so forth.

We have not, however, for the purpose of this exercise, conducted any independent detailed verification or audit into the businesses or future prospects of the Group and the Target Company, nor have we investigated the legal title or any liabilities against the subject matters relating to the Acquisition. Our opinion was necessarily based on the legal, financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date. We are also not aware the Company or the Vendor has made any formal or informal representations to the PRC Legal Adviser or the Independent Valuer which are not in accordance with our knowledge. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

I. Background and financial information of the Group

The Group is principally engaged in the manufacturing and sale of chemical products and chemical fertilisers (including bulk blending fertilisers and complex fertilisers, methanol, urea and ammonia) in the PRC. The following table summarises the results of operation and financial positions of the Group for the three years ended 31 December 2020 and the six months ended 30 June 2021:

	For the year ended 31 December			**For the six months ended 30 June**	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
Revenue	3,101,031	1,964,476	2,111,133	994,724	1,347,031
(Loss)/Profit for the year/period	**(348,286)**	**(731,812)**	**(241,802)**	**(103,322)**	**153,999**
Net cash inflow from operating activities	**53,709**	**34,672**	**6,575**	**28,978**	**138,542**

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
Total assets	3,282,871	2,982,762	2,847,247	2,960,951
Total liabilities	2,697,660	2,749,382	2,828,730	2,788,435
Net assets	**585,211**	**233,380**	**18,517**	**172,516**
Pledged bank deposits	24,339	30,116	29,593	19,479
Cash and bank deposits	4,545	10,110	14,539	43,924

Source: Annual Report 2019, Annual Report 2020 and Interim Report 2021 published by the Company on the website of the Stock Exchange

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB1,964.5 million, representing a year-on-year decrease of approximately 36.7% mainly led by the decrease in trading portion of its revenue. It is revealed in Annual Report 2019 that the Group faced economic downturn and unstable conditions of the fertiliser and chemical industry in 2019, while the price of natural gas rose and the price of products decreased. Net loss of the Group was approximately RMB731.8 million for the year ended 31 December 2019, which further deteriorated from the net loss of approximately RMB348.3 million for the corresponding period of last year. For the year ended 31 December 2020, the Group recorded revenue of approximately RMB2,111.1 million, representing a slight increase in revenue of approximately 7.5% from the year ended 31 December 2019, which was mainly due to the increase in sales of urea and ammonia as revealed in Annual Report 2020. Although the Group continued recording net loss which amounted to approximately RMB241.8 million during the year ended 31 December 2020, the amount of net loss narrowed comparing to that for the year ended 31 December 2019.

During the six months ended 30 June 2021, the Group recorded revenue of approximately RMB1,347.0 million, which increased by approximately 35.4% from the revenue of approximately RMB994.7 million for the six months ended 30 June 2020, as a result of the increase in selling price of products and the increase in trading portion. Net profit of approximately RMB154.0 million was recorded during the six months ended 30 June 2021, a turnaround from the net loss of approximately RMB103.3 million for the six months ended 30 June 2020. Such improvement was mainly due to the increase in selling price and gross profit margin of the Group's products as the result of improvement in the PRC economy and upward price trend of chemical products and chemical fertilisers for the six months ended 30 June 2021, as disclosed in the Company's positive profit alert announcement dated 6 August 2021. During the same period, the Group had net cash inflow from operating activities of approximately RMB138.5 million.

The Group's net assets were approximately RMB585.2 million and RMB233.4 million as at 31 December 2018 and 2019, respectively, and decreased to approximately RMB18.5 million as at 31 December 2020. The relatively lower net assets of the Group as at 31 December 2020, as compared to the balance as at 31 December 2019, was mainly due to the decreased balance of property, plant and equipment. As at 30 June 2021, the Group had net assets of approximately RMB172.5 million. As at the same date, the Group had cash and bank deposits of approximately RMB43.9 million and pledged bank deposits of approximately RMB19.5 million.

The above is illustrated to provide an overview on the background and financial information of the Group for the recent financial years and period (for more detailed analysis on the results of operation and financial positions of the Group, please refer to Annual Report 2019, Annual Report 2020 and Interim Report 2021 and other relevant documents published by the Company on the website of the Stock Exchange). Certain financial information may be referred in our analysis in the following with respect to the Acquisition where appropriate.

It is noted from Annual Report 2020 that the auditors of the Company (the "**Auditors**") issued disclaimer of opinion in relation to the Group's consolidated financial statements for the year ended 31 December 2020. As further referred to the Company's supplemental announcement in relation to Annual Report 2020 dated 10 May 2021, the Auditors are of the view that (i) the going concern and mitigation measures undertaken by the Company could address the underlying matters leading to the disclaimer of opinion; and (ii) for the year ending 31 December 2021, having the facts and circumstances remained the same and on the basis that the Group can successfully complete and implement the Company's plan to improve the Group's financial position, to provide liquidity and cash flows, the disclaimer is expected to be removed in the coming financial statements. We are confirmed by the Auditors that the above statements remained accurate as at the Latest Practicable Date, and we therefore consider the disclaimer of opinion would not have impact to our analysis with respect to the Acquisition.

II. Information of the Vendor

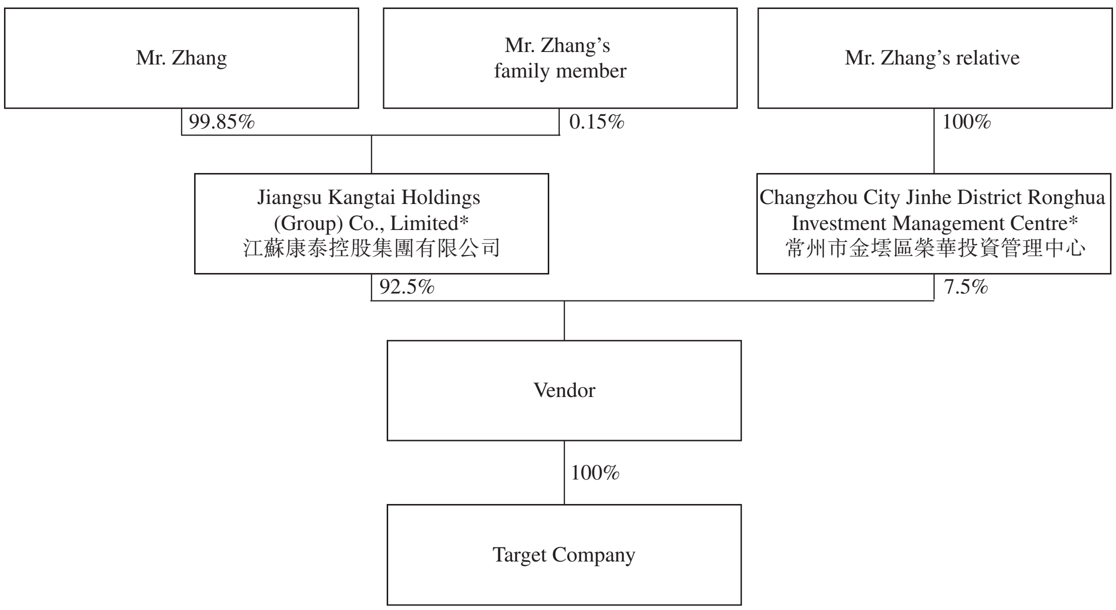
As stated in the Letter from the Board, the Vendor is a joint stock company incorporated in the PRC with limited liability and is mainly engaged in manufacturing and sales of environmental friendly refrigerants, foaming agents, fluoride new material and fluoride fine chemicals. Its products are primarily applied in automotive, household electrical appliance, construction and pharmaceutical industries.

As at the Latest Practicable Date, 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 is subsequently owed by Mr. Zhang together with his family member; and (ii) approximately 7.5% by Changzhou City Jinhe District Ronghua Investment Management Centre* (常州市金壇區榮華投資管理中心) which is wholly-owned by Mr. Zheng's relative.

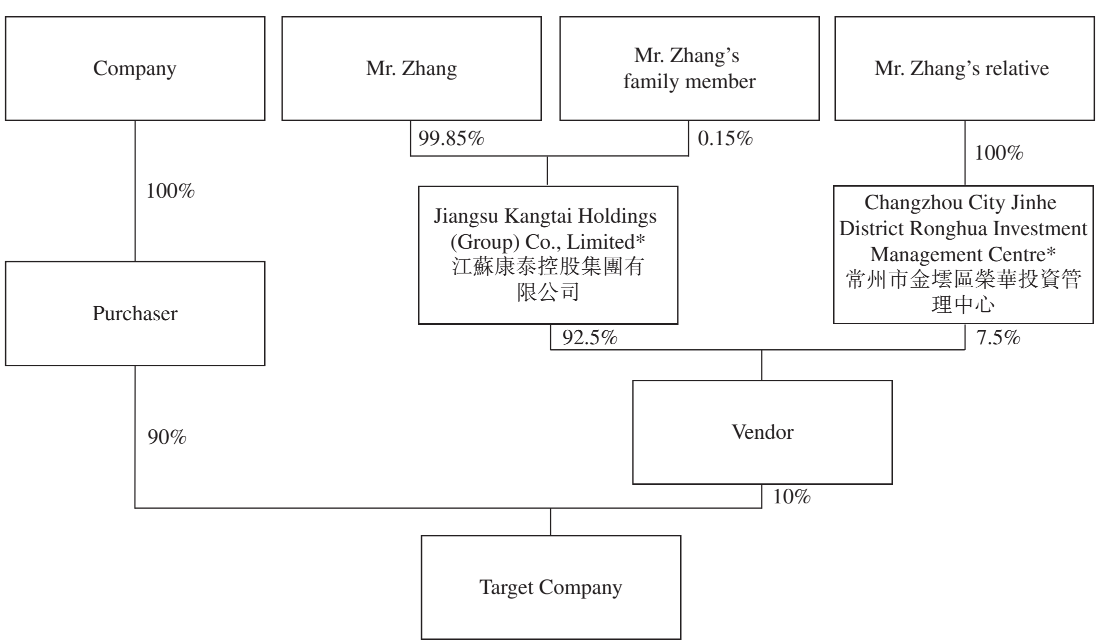
III. Information of the Target Company

The Target Company is a company established in the PRC with limited liability on 26 December 2011. The Target Company is wholly-owned by the Vendor. Set out below are the corporate structure of the Target Company (i) as at the Latest Practicable Date; and (ii) immediately after the Completion.

- *Corporate structure of the Target Company as at the Latest Practicable Date*



- *Corporate structure of the Target Company immediately after the Completion*



(i) Business and development plan

The Target Company is principally engaged in (i) sales of chemical products, in particular, environmentally friendly refrigerants; and (ii) research and development of chemical products.

As stated in the Letter from the Board, 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 as at the Latest Practicable Date. As advised by the Company, the production line of propylene oxide that is being built is one of the major assets of the Target Company. It is expected that the establishment of the propylene oxide production line will be completed by 2023, and is expected to commence production of propylene oxide within the same year.

Based on the information furnished by the Company, the production line of propylene oxide is built in the production site of the Target Company erected on land parcels owned by the Target Company located in Jintan District, Changzhou City, Jiangsu Province, the PRC (中國江蘇省常州市金壇區) (the "**Land Parcels**"). As advised by the PRC Legal Adviser, given propylene oxide and its by-products are regarded as hazardous chemicals, there are specific regulatory requirements on the Land Parcels, particularly safety distance from surroundings such as schools, hospitals and residential areas. The production factory is also required to fulfill specified regulatory requirements particularly on safety production and environmental protection aspects. We note from the PRC Legal Adviser that the production site of the Target Company maintained required permits in accordance with its construction progress.

As abovementioned, the Target Company is establishing the production line of propylene oxide. According to the PRC Legal Opinion, the Target Company still requires to obtain certain approvals/permits for trial production of propylene oxide (which is expected to commence within 2023 by the Target Company), such as an energy conservation examination approval (節能審查批覆), which is under application by the Target Company as at the Latest Practicable Date, a pollution discharge permit or registration (排污許可證/固定污染源排污登記) and a trial production permit (試生產批文). The PRC Legal Adviser is of the view that there will be no legal impediments in obtaining the required approvals/permits by the Target Company. In addition, based on the information available and that the Target Company could comply with the relevant regulations with respect to construction of production site and trial production, the PRC Legal Adviser is also not aware of legal impediments for the Target Company in obtaining required licenses/permits for formal production (which is also expected to commence within 2023 by the Target Company).

(ii) Financial information

Set out below is the summary of the key audited financial information of the Target Company for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 prepared under the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, details of which are set out in Appendix III to the Circular:

	For the year ended 31 December		For the nine months ended 30 September
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Revenue	189,277	136,991	73,324
Loss before tax	28,717	25,764	21,108
Loss after tax	**28,717**	**25,764**	**21,108**

	As at 31 December		As at 30 September
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Total assets	1,126,831	1,361,206	1,390,015
Total liabilities	1,166,023	1,426,162	1,476,079
Net liabilities	**39,192**	**64,956**	**86,064**

Note: with reference to Appendix III to the Circular, the Auditors issued disclaimer of opinion in respect of the historical financial information of the Target Company due to the existence of a material uncertainty which may cast significant doubt about the Target Company's ability to continue as a going concern (the "**Disclaimer of Opinion**").

For the year ended 31 December 2020, revenue of the Target Company was approximately RMB137.0 million, which decreased from approximately RMB189.3 million for the year ended 31 December 2019 primarily due to decrease in sales from certain chemical products during 2020. During the nine months ended 30 September 2021, the Target Company's revenue was approximately RMB73.3 million, which decreased from approximately RMB92.8 million for the nine months ended 30 September 2020 primarily due to decrease in sales from a chemical product during the period. For the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, the Target Company had net loss of approximately RMB28.7 million, RMB25.8 million and RMB21.1 million respectively.

The Target Company had net liabilities of approximately RMB39.2 million, RMB65.0 million and RMB86.1 million as at 31 December 2019 and 2020 and 30 September 2021 respectively. As at 30 September 2021, the Target Company had non-current assets comprising (i) property, plant and equipment of approximately RMB873.4 million; (ii) right-of-use assets of approximately RMB98.6 million; (iii) intangible assets of approximately RMB52.4 million; and (iv) prepayments of approximately RMB32.1 million, and current assets of approximately RMB333.6 million comprising mainly inventories, trade and other receivables and pledged bank deposits. As at the same date, total liabilities of the Target Company were approximately RMB1,476.1 million, comprising mainly amount due to immediate holding company of approximately RMB677.5 million, trade and other payables of approximately RMB445.7 million and total bank borrowings of approximately RMB352.2 million.

(iii) Industry prospects

As advised by the Company, the production line of the Target Company will use hydrogen peroxide to propylene oxide ("**HPPO**") process to produce propylene oxide which is environmentally friendly, and is one of the processes encouraged by the Ministry of Industry and Information Technology of the PRC. Taking into account the market condition, the Company considered that the Acquisition could position the Group to benefit from the growing demand for propylene oxide.

It is noted from the PRC Legal Opinion that the propylene oxide production line of the Target Company using HPPO process is under the encouraged category in the National Catalogue for Guidance on Industrial Restructuring (2019 Version) (《產業結構調整指導目錄(2019年本)》) promulgated by the National Development and Reform Commission in December 2005 and last amended in December 2021 and is expected to enjoy relevant encouraging policy support. In addition, according to 2021 edition of the Consolidated Catalogue of Environmental Protection (《環境保護綜合名錄(2021年版)》) published by the Ministry of Industry and Information Technology of the PRC in November 2021, HPPO process is the only method for production of propylene oxide that is excluded from high pollution catalogue. Due to its environmental friendly nature, which is in line with the environmental policy of the PRC government in recent years, the propylene oxide produced by HPPO process is expected to gain greater market demand in the future.

According to annual reports for propylene oxide market in the PRC (中國環氧丙烷市場年度報告) published by Sublime China Information Co., Ltd. ("**SCI**"), a market research company in the PRC, consumption of propylene oxide in the PRC reached approximately 3.4 million tons in 2020 from approximately 2.6 million tons in 2015, representing a compound annual growth rate of approximately 5.3%. Also, according to an article published by China Chemical News ("**CCN**"), a chemical industry magazine in the PRC in March 2021, the demand for propylene oxide in the PRC is expected to grow by approximately 7.7% annually during the period from 2020 to 2025. Such historical and expected growths indicate a potential demand for propylene oxide in the PRC. It is noted from (i) SCI's official website that SCI, which was established in 2004, provides market information, consulting, as well as events and exhibition services for energy, chemical, metal and agriculture industry, and it works as a strategic partner of the National Bureau of Statistics in commodity big data area and over 500 media takes SCI as the regular information source; and (ii) official websites of CCN and the National Press and Publication Administration that CCN, founded in 1985, is a publication approved by the authority, and based on the above, we consider such sources are reliable.

(iv) Management team

As advised by the Company, the Target Company's management team are experts in chemical industry. The Target Company currently has three key personnel, namely Mr. Liu Jun* (劉俊), Mr. Liu Xingwu* (劉興武) and Mr. Liu Zhen* (劉震), with extensive experiences and expertise in engineering, production and daily operation of chemical production plants. Mr. Liu Jun*, the general manager of the Target Company, served as technician, production supervisor, etc. in different chemical companies in the PRC. He has around ten years of industry experience and is familiar with the design, engineering and installation of large-scale chemical production lines and facilities. Mr. Liu Xingwu*, the chief supervisor and chief engineer of the propylene oxide production line of the Target Company, has over 30 years of industry experience. He has rich experience in the management and operation of chemical production plants, and had led a production line establishment project involving HPPO devices in a chemical company. Mr. Liu Zhen*, the engineer of the Target Company, served as engineer in different chemical companies. He has around 19 years of industry experience, and is familiar with the engineering, design and upgrading, maintenance of production facilities. With respect to the above, we have performed independent work including, but not limited to, obtained and reviewed the profiles, identity proof and employment proof of these key personnel of the Target Company, and conducted independent enquiries with them regarding, among others, their role and duties in the Target Company, industry experiences and expertise, and have been confirmed by them that they would stay at the Target Company upon Completion. It is considered that the Company could leverage on their experiences and expertise in completing the production line set-up and daily operation of the Target Company.

IV. Reasons for and benefits of the Acquisition

As stated in the Letter from the Board, the Company intends to combine its existing competitive advantages in downstream distribution with the upstream fertiliser production through the Acquisition, and to benefit from the synergies arising from further vertical business integration in the future. In addition, the vertical integration is expected to secure a steadier demand for the Company's chemical fertilisers and chemical products, provide greater insights 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 continued expansion of the Company's chemical fertiliser business and the enhancement of its core competitiveness, which is in line with the Company's strategy of upstream and downstream integration and its strategic in the industry.

We are advised by the Directors that the Group has been allocating resources to examine possible new materials aiming to diversify products within the Group to keep pace with the changing market and to improve its operating results. From time to time, the Company reviews its product portfolio and recent market conditions, and concludes on possible business opportunities. We understand from the Company that propylene oxide, being the Target Company's business focus, is a downstream product of methanol and widely used as a fundamental raw material in chemical industries and a non-ionic surfactant in agricultural pesticide, spinning and chemical industries. Given its wide usage, the Company considered such product could serve as an expansion to its chemical product portfolio and benefits to the Group. As discussed under the sub-section headed "Industry prospects" in the previous section, we note the potential demand for propylene oxide and the encouraging policy in the PRC.

It is also stated in the Letter from the Board that the Acquisition presents an opportunity for the continued growth of the Group and will allow the Company to be able to quickly establish and own a majority interest in a propylene oxide production line which would enable the Company to capture the growing demand for propylene oxide. Through the Acquisition, the Group can speed up the establishment process of the production of propylene oxide. In this regard, we have discussed with the Company and note that: (i) propylene oxide and its by-products are hazardous chemicals as defined under relevant regulations, the production site of which requires fulfillment of relatively high regulatory requirements, including the safety distance of land site and the safety production and environmental protection requirements of production factory according to the PRC Legal Adviser. The Company advised us that an appropriate land site is difficult to identify, and considered that it would be time consuming for the Company to obtain the relevant permits and/or licenses for establishing the production line of propylene oxide (e.g. identifying and selecting the appropriate sites, sourcing the relevant equipment and materials, identifying and recruiting teams with the right expertise). We note from the PRC Legal Adviser that the production site of the Target Company fulfilled requirements and maintained required permits in accordance with its construction progress, and there will be no legal impediments for the Target Company in obtaining required licenses/permits for production (with details illustrated under the sub-section headed "Business and development plan" of the previous section); (ii) the construction of a new propylene oxide production line requires higher cost and longer construction period. As confirmed by the Company, the estimated capital expenditure for the establishment of a new production line of propylene oxide with similar production scale as that of the Target Company was approximately HK$2.6 billion and the construction period of which requires three years (which may be subject to delay given the developing COVID-19). As advised by the Company, the Target Company's propylene oxide production line is under construction and only requires an additional capital expenditure of approximately RMB200 million (the "**Additional Capital Expenditure**") to complete the establishment with its expected commencement of production within 2023. Through the Acquisition, the Company could capture the growing market demand in a timely manner; and (iii) the Company considered the Target Company as a suitable target and did not have alternative targets which could enable the Group to achieve similar time and cost effectiveness as that from the Acquisition. Based on the above, we agree with the Directors that it is reasonable for the Group to enter into the Acquisition.

In order to further assess the fairness and reasonableness of the Additional Capital Expenditure, we have obtained and reviewed, including but not limited to, (i) regulatory approval documents obtained/submitted by the Target Company with respect to the propylene oxide production line which contain information about the construction and such information contained in the PRC Legal Opinion to examine status of the construction advised by the Company; (ii) the breakdown of the Additional Capital Expenditure and the list of required machinery and equipment to understand the remaining development necessary to complete the construction; and (iii) the Company's records to demonstrate its due diligence performed on the production line and the estimated amount of the Additional Capital Expenditure, including (a) conducting site visits to the production plant of the Target Company, (b) conducting discussion with the Target Company's management on the existing construction status of the propylene oxide production line, (c) examining details of the additional required machinery and equipment with related installment plan for completion of the production line, and (d) reviewing studies and information about establishment/construction of the propylene oxide production line. We are advised by the Directors that the Additional Capital Expenditure is considered fair and reasonable which was arrived at after the Directors' due and careful enquires. After performing the aforesaid due diligence, we consider that the above due diligence procedures performed by the Company is reasonable and there is no evidence that would lead us to cast doubt on the fairness and reasonableness of the estimated amount of the Additional Capital Expenditure. Regarding the financial resources to the Additional Capital Expenditure, we agree with the Directors that the Group shall have sufficient resources, mainly in the view of (i) the improved financial performance of the Group as discussed under the section headed "Background and financial information of the Group" above, among which, the Group generated net cash inflow from operating activities of approximately RMB138.5 million during the six months ended 30 June 2021; (ii) the Auditors' view that the disclaimer of opinion in relation to the Group's financial statements for the year ended 31 December 2021 is expected to be removed as at the Latest Practicable Date in view of the basis as previously mentioned in the section headed "Background and financial information of the Group"; and (iii) the Group had cash and bank deposits of approximately RMB413.5 million as at 31 December 2021, based on its unaudited consolidated management accounts for the year ended 31 December 2021.

As previously mentioned under the sub-section headed "Management team" of the previous section, we note that the Target Company possesses key management who are experienced in the engineering, production and daily operation of chemical production plants, and have expertise in the engineering of chemical production lines and facilities. We agree with the Directors that the Company could leverage on their experiences and expertise in completing the production line set-up and daily operation of the Target Company.

Although there is the Disclaimer of Opinion arising from the loss incurred by the Target Company for the nine months ended 30 September 2021, and its net current liabilities, net liabilities and capital commitment as at 30 September 2021, having considered that:

(1) according to the Sale and Purchase Agreement, the Vendor has undertaken and warranted to the Purchaser, among others, (i) from the date of the Sale and Purchase Agreement and up to the date of Completion, the Vendor will pursue the Target Company to complete establishment of one production line and commence normal

production in compliance with relevant product quality requirements; and (ii) after Completion, the Vendor shall continue to provide guarantee to the original debts/liabilities borne by the Target Company. Although such undertaking/warranty is not a condition precedent to the Acquisition, it constitutes an obligation of the Vendor under the legally binding Sale and Purchase Agreement;

(2) the Company advised that the Directors have performed due and careful enquires on the existing status and prospects of the Target Company, including without limitation to, studies on government policies, the PRC Legal Opinion, financial forecast of the Target Company and market studies; and

(3) through the Acquisition, the Company could benefit from (i) growing market demand for propylene oxide and the encouraging government policies; (ii) the synergies arising from upstream and downstream vertical business integration, which is in line with the Group's business strategy; (iii) time and cost saving and effectiveness in view of the stringent regulatory requirements and difficulties in finding alternative acquisition targets; and (iv) the Target Company's experienced management team,

we agree with the Directors that the entering into of the Sale and Purchase Agreement is in the ordinary and usual course of business of the Group, and the Acquisition is in the interests of the Company and the Shareholders as a whole.

V. Principal terms of the Sale and Purchase Agreement

As set out in the Letter from the Board, the principal terms of the Sale and Purchase Agreement are summarised as below:

(i) Assets to be acquired

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 at the Consideration of RMB27,000,000.

(ii) Consideration

The Consideration for the Acquisition is RMB27,000,000, which shall be payable by the Purchaser to the Vendor in cash. Referring to the Letter from the Board, the Consideration was negotiated on an arms' length basis with the Vendor after due diligence and financial analysis by the Company and its professional advisers on the information provided by the Vendor. As advised by the Company, among which, (i) the preliminary appraised value of the Target Company as at 30 September 2021 prepared by the Independent Valuer by adopting the asset-based approach; and (ii) the registered capital of the Target Company are the two major quantitative factors considered by Directors in determining the Consideration.

(a) Valuation of the Target Company

According to the Valuation Report as set out in Appendix VI to the Circular, the market value of 100% equity interest in the Target Company was approximately RMB32.7 million as at 30 September 2021. It is noted that the Consideration for the Acquisition of RMB27.0 million represents a discount of approximately 8.3% to the corresponding valuation of the Target Company of approximately RMB29.4 million taking into account that the Purchaser is proposed to acquire 90% equity interest in the Target Company (i.e. RMB32.7 million x 90%). In assessing the fairness and reasonableness of the Consideration, we have reviewed the Valuation Report and discussed with the Independent Valuer regarding, among other things, the basis, assumptions and methodology adopted therein.

- Valuation methodology

We have discussed with the Independent Valuer regarding the selection of valuation methodology and the basis and assumptions adopted thereto, and the reasons and appropriateness of adopting asset-based approach for the valuation of the Target Company. We understand from the Independent Valuer that it has considered three different generally accepted approaches, namely asset-based approach, market-based approach and income-based approach, in arriving at the market value of the Target Company as at 30 September 2021. The Independent Valuer did not adopt (i) market-based approach because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were not readily available; and (ii) income-based approach because a lot of assumptions would have to be made and the valuation could be largely influenced by any inappropriate assumptions made. In view of the above and having regard to the operation, financial information and nature of the Target Company, the Independent Valuer adopted asset-based approach in arriving at the market value of the Target Company. Under the asset-based approach, the market value of the Target Company refers to the market values of various assets and liabilities of the Target Company as at the valuation date, in which the market value of each asset and liability was determined by appropriate valuation approaches based on its nature. To further examine the appropriateness of the chosen valuation methodology for appraising value of the Target Company, we have further obtained from the Independent Valuer (i) details of the important assumptions of comparable transactions generally applied in market-based approach, and we note the difficulty in identifying sufficient number of comparable transactions to facilitate a meaningful comparison with the Target Company, particularly, which engages in the production of propylene oxide and whose production line of propylene oxide is still establishing and therefore we agree that the adoption of market-based approach shall not be feasible; and (ii) details of assumptions generally made to valuation under income-based approach and their variations or influences, and in the view that the Target

Company's propylene oxide business is still under development whereas it will be a main business focus as advised by the Company, we agree that the result of valuation relying on a financial projection of the Target Company under income-based approach shall not be meaningful. Having considered the three valuation approaches and their respective characteristics, and upon our discussion with the Independent Valuer and the abovementioned work we performed, we are of the view that it is appropriate to use the asset-based approach in appraising the value of the Target Company, and cross-checking the valuation using other methodologies shall not be feasible or meaningful.

- Valuation of the Target Company

As advised by the Independent Valuer, asset-based approach relates to the valuation of assets and liabilities of the Target Company as at 30 September 2021, which includes current assets, non-current assets, current liabilities and non-current liabilities. Details of which are set forth below:

(a) Current assets

As at 30 September 2021, the current assets of the Target Company amounted to approximately RMB333.6 million, comprising inventories, trade and other receivables, pledged bank deposits, amount due from a fellow subsidiary and bank and cash balances. In view of the nature and liquidity of current assets, the Independent Valuer considers that market value adjustment to the current assets is not necessary. Accordingly, in appraising the market value of the current assets of the Target Company, the Independent Valuer has based on its book value as at 30 September 2021.

(b) Non-current assets

As at 30 September 2021, the non-current assets of the Target Company amounted to approximately RMB1,056.4 million, comprising property, plant and equipment of approximately RMB873.4 million, right-of-use assets of approximately RMB98.6 million, intangible assets of approximately RMB52.4 million and prepayments of approximately RMB32.1 million. As advised by the Independent Valuer, among the aforesaid items of non-current assets, it has made the following adjustments:

– Property, plant and equipment

The Target Company's property, plant and equipment comprised mainly construction in progress of approximately RMB873.2 million, which relates to the property, plant and equipment under construction or assembly in its production site, as at 30 September 2021. In determining the market value adjustment on the construction in progress, the Independent Valuer advised that it has taken into account the total actual costs spent by the Target Company for the construction of its production site and assembly of related equipment, machineries and facilities up to 30 September 2021, and then applied a developer's profit/risk premium of 10% representing the expected return on the cost invested from the sale of the property as at the valuation date to compensate the associated risks during the construction of the property. When examining the developer's profit/risk premium adopted by the Independent Valuer, we have independently (i) obtained HKIS Guidance Notes on Valuation of Development Land (the "**HKIS Guidance Notes**") issued by The Hong Kong Institute of Surveyors, being the guidance notes that the Independent Valuer referred to when determining the developer's profit/risk premium, and conducted desktop search and we consider the HKIS Guidance Notes as an appropriate reference for the developer's profit/risk premium; (ii) during our review, we note the HKIS Guidance Notes provided a range of developer's profit and indicated valuers shall also consider, among others, the property being valued in determining an appropriate profit rate; and (iii) with reference to the HKIS Guidance Notes, enquired the Independent Valuer and we consider they have taken into account the guidance suggested in the HKIS Guidance Notes when determining the developer's profit/risk premium adopted in the valuation of the Target Company, which includes the location of the appraised property (i.e. the PRC) to reflect the expected return as indicated by the profit rate. After performing the above independent work, we consider that the developer's profit/risk premium being determined as above is based on reasonable grounds and fair.

As advised by the Independent Valuer, save as the construction in progress, no adjustments have been made to other items of the Target Company's property, plant and equipment. Accordingly, the market value of the Target Company's construction in progress as at 30 September 2021 appraised by the Independent Valuer was approximately RMB960.5 million, and the appraised market value of the Target Company's property, plant and equipment as at the same date was approximately RMB960.7 million.

– Right-of-use assets

The Target Company's right-of-use assets of approximately RMB98.6 million as at 30 September 2021 represents the land use right of the Land Parcels. In determining the market value adjustment on the right-of-use assets, the Independent Valuer advised that it has considered the characteristics of the Land Parcels such as location, usage, land tenure and remaining years of land use right. Four comparable lands (which provide the basis/range on sale price per unit site area when making the fair value adjustment) are identified by the Independent Valuer, and certain relevant information of the comparable lands provided by the Independent Valuer are summarised below for illustrative purpose:

	Location	**Usage**	**Land tenure**	**Year of the land transaction conducted**	**Sale price per unit site area** *(approximately)*
Comparable land A	Jintan District, Changzhou City, Jiangsu Province, the PRC	Industrial use	50 years	2021	RMB420 per square meter
Comparable land B	Jintan District, Changzhou City, Jiangsu Province, the PRC	Industrial use	50 years	2021	RMB420 per square meter
Comparable land C	Jintan District, Changzhou City, Jiangsu Province, the PRC	Industrial use	50 years	2021	RMB420 per square meter
Comparable land D	Jintan District, Changzhou City, Jiangsu Province, the PRC	Industrial use	50 years	2021	RMB420 per square meter

To examine the selection of the comparable lands by the Independent Valuer, we have independently (i) obtained from the Independent Valuer and examined the source of information of the comparable lands, and consider the source is reliable; (ii) conducted desktop search on the comparable lands and independently retrieved information about the comparable lands, compared the aforesaid characteristics of the Land Parcels with those of the comparable lands and note that, among others, the comparable lands locate in the same district and are of the same usage as the Land Parcels; and (iii) examined the basis of selection of the comparable lands by the Independent Valuer and note that the location (i.e. Jintan District, Changzhou City, Jiangsu Province, the PRC (中國江蘇省常州市金壇區)), the land usage (i.e. industrial use) and the timing of the land transactions (i.e. conducted within 2021) were mainly taken into account as the selection criteria. We consider such selection criteria is relevant to facilitate the comparison and the comparable lands carrying similar characteristics as the Land

Parcels could then serve as an appropriate reference on the recent market value of the land use right of the Land Parcels. Based on the above, we consider the selection of the comparable lands is fair and representative. In arriving at the market value of the Target Company's right-of-use assets, the Independent Valuer applied the sale price per unit site area of the comparable lands to the Land Parcels and adopted a depreciation rate to reflect the remaining years of the land use right of the Land Parcels. To examine the market value adjustment on the right-of-use assets, apart from the work we performed on the selection of the comparable lands aforementioned, we have also, among others, independently (i) examined the basis for applying the sale price per unit site area of the comparable lands in the adjustment and note the comparable lands were generally sold at the same unit sale price (i.e. approximately RMB420 per square meter), and consider that it is fair to apply such unit sale price; (ii) examined the reason/basis for applying the depreciation rate in the adjustment, and consider that it is reasonable to reflect value of the land use right of the Land Parcels to its current status; and (iii) cross-checked the major calculations in relation to the fair value adjustment as shown in valuation workings prepared by the Independent Valuer. Based on the above, we consider that the market value adjustment on the right-of-use assets is fair and reasonable.

Accordingly, a market value of approximately RMB136.2 million as at 30 September 2021 was appraised for the Target Company's right-of-use assets.

After adjustments, the market value of the Target Company's non-current assets was appraised to be approximately RMB1,181.4 million as at 30 September 2021.

(c) Current liabilities

As at 30 September 2021, the current liabilities of the Target Company amounted to approximately RMB1,333.6 million, comprising (i) amount due to immediate holding company, which was the advance to the Vendor that is unsecured, interest-free and has no fixed repayment terms, of approximately RMB677.5 million, (ii) trade and other payables of approximately RMB445.7 million, which mainly comprised accrued construction cost, accrued machinery and equipment cost, proprietary technology cost payables and bills and trade payables, (iii) bank borrowings of approximately RMB209.7 million, which were mainly the secured bank borrowings repayable on demand or within one year, and (iv) contract liabilities of approximately RMB711,000. In view of the short-term nature and generally high liquidity of the current liabilities, the Independent Valuer considers that their book values are able to represent the fair value of the current liabilities given the discounting effect of value on these items shall be minimal, and market value adjustment to the current liabilities is not necessary. We consider that the determination of which was made on reasonable grounds and fair. Accordingly, in appraising the market value of the current liabilities of the Target Company, the Independent Valuer has based on its book value as at 30 September 2021.

(d) Non-current liabilities

As at 30 September 2021, the non-current liabilities of the Target Company, which were the secured bank borrowings of long-term nature (i.e. more than 12 months), amounted to approximately RMB142.5 million. The Independent Valuer considers that market value adjustment on the non-current liabilities is not necessary, as the long-term borrowings are obtained from licensed banks and the interest rates of such borrowings are comparable to the estimated discount rate of the Target Company and therefore the discounting effect of value on such borrowings would be minimal and its book value could reflect the fair value for appraisal purpose. In view of the nature of the long-term borrowings as aforesaid, we consider that the determination of not making market value adjustment for such borrowings was made on reasonable grounds and fair.

(e) Discount for lack of marketability ("**DLOM**")

It is also noted that the Independent Valuer applied a DLOM of 15.8% as an adjustment of marketability discount to the valuation of the Target Company. The DLOM is applied by the Independent Valuer given the shares of the Target Company is not publicly traded and an active market for its shares does not exist, and is determined with reference to the result of the restricted stock study published in "Stout Restricted Stock Study 2021" by Stout Risius Ross, LLC. The Independent Valuer considered that the above statistics are sound and adopted the median discount rate as a prudent approach. When assessing the fairness and reasonableness of the DLOM, we have independently (i) examined the use of the aforesaid study as a basis/reference of the DLOM, and we note that the study is a widely used database for determination of discount for lack of marketability and consider it as an appropriate basis/reference of the DLOM; (ii) obtained the result of the study and examined details such as composition of transactions included in it and interpretation of the result; and (iii) examined the DLOM applied in the valuation of the Target Company and cross-checked it against the result of the study and note that the DLOM adopted by the Independent Valuer is at the same rate as the median discount rate shown in the study, which is fair. Based on the above, we consider that the DLOM applied to the valuation of the Target Company was made on reasonable grounds and fair.

- *Assumptions*

According to the Valuation Report, the Independent Valuer has adopted certain specific assumptions in the valuation of the Target Company:

– the establishment of the propylene oxide production line is expected to complete by 2023, and commence production of propylene oxide within the same year;

– the intangible assets are in the nature of intellectual property in process and not completed up to the date of valuation. Based on the information available related to the intangible assets, the Independent Valuer has adopted the book value from the accountants' report as at the date of valuation to estimate its market value as at the date of valuation;

– the Target Company would be operated and developed as planned;

– all relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry;

– there will be sufficient supply of technical staff in the industry in which the Target Company operates, and the Target Company will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

– there will be no major change in the current taxation laws in the localities in which the Target Company 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 change in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company; and

– interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing.

Based on our discussions with the Independent Valuer, we understand that such assumptions are generally adopted in similar valuation and are necessary for the Independent Valuer to arrive at a reasonable estimated fair value of the Target Company. Accordingly, we consider that the adoption of the assumptions as mentioned above is fair and reasonable.

- *Experience of the Independent Valuer*

We have been furnished with the qualifications and experience of the Independent Valuer in relation to the performance of the valuation of the Target Company, and note that it possesses experience in, among others, business valuations and property valuations with services covering properties, plants, machineries, equipment and land parcels. One of the responsible persons in charge of the Valuation Report, Mr. Ken Yue, who is a member of the Hong Kong Institute of Certified Public Accountants, has over twenty years of experience in business valuations of target companies in Hong Kong and the PRC. Another responsible person in charge of the Valuation Report, Mr. Kenny Li, who is a charterholder of the Chartered Financial Analyst and a member of the Hong Kong Institute of Certified Public Accountants, has over ten years of experience in business valuations of target companies in Hong Kong and the PRC.

- *Our view*

Based on our review of the Valuation Report and discussion with the Independent Valuer regarding, among others, the scope of work and experiences of the Independent Valuer, the reasons and appropriateness of adopting the asset-based approach for the valuation of the Target Company, the basis, assumptions and methodology adopted in the Valuation Report, and the valuation work and adjustments performed by the Independent Valuer, nothing has come to our attention that causes us to doubt the fairness and reasonableness of the preparation of the Valuation Report. In the view of the above, we consider that the valuation performed by the Independent Valuer as well as the basis, assumptions and methodology adopted in the Valuation Report are appropriate.

(b) Registered capital of the Target Company

It is noted that the registered capital of the Target Company is RMB30 million, being the amount of capital initially injected into the Target Company by the Vendor as advised by the Company. According to the PRC Legal Opinion, we note that the Target Company's registered capital had been fully paid-up. The paid-up capital of the Target Company is therefore RMB30 million (while 90% of which equals to RMB27 million). The Consideration comparing to the pro-rata amount of registered capital, which had been fully paid-up, is fair.

When assessing the Consideration, we have independently (i) reviewed information contained in the Sale and Purchase Agreement, the PRC Legal Opinion, the accountants' report of the Target Company prepared by the Auditors, documents of the Target Company, etc., performed desktop search on the background of the Target Company, as well as conducted independent enquiries with the Target Company and the Auditors on the Target Company's business and financial information respectively where appropriate to understand the transaction structure, the subject matter to be acquired by the Company under the Acquisition and details of the Acquisition, (ii) reviewed the Letter from the Board setting out the basis and factors considered by the Directors in determining the Consideration, (iii) reviewed the Valuation Report, interviewed the Independent Valuer and obtained the valuation workings and related documents to examine its selection basis of the valuation methodology, major assumptions adopted, details of its work procedures/work done with respect to the balance sheet items of the Target Company under the asset-based approach and any valuation adjustments made thereto, and its relevant valuation experience to conclude our view relating to the valuation of the Target Company (with details illustrated under the sub-section headed "Valuation of the Target Company" above), and (iv) examined the registered capital of the Target Company and its paid-up status by reviewing the result of our desktop search on the Target Company and the PRC Legal Opinion, and so forth. After performing the above, among the factors considered by the Directors when negotiating with the Vendor on the Consideration as stated in the Letter from the Board, we consider the quantitative factors as illustrated in the above paragraphs under this section are comparably indicative to examine the amount of the Consideration given the Target Company is still in the construction stage of its production line of propylene oxide which will be its main business focus and no financial track record could be indicative to the propylene oxide business. Therefore, having considered as discussed above, including (i) the Consideration represents a discount of approximately 8.3% to the corresponding appraised market value of the Target Company as at 30 September 2021; (ii) the valuation performed by the Independent Valuer as well as the basis, assumptions and methodology adopted in the Valuation Report are appropriate; (iii) the Consideration comparing to the pro-rata amount of registered capital of the Target Company, which had been fully paid-up, is fair; and (iv) the factors considered as discussed under the section headed "Reasons for and benefits of the Acquisition" of this letter, we agree with the Directors that the terms of the Sale and Purchase Agreement is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

VI. Financial effects of the Acquisition

Based on our discussion with and the representation from the Directors, we understand from the Directors that they have taken into account the following factors when they considered the potential impact of the Acquisition on the financial positions of the Group, where the Target Company will become a non-wholly owned subsidiary of the Company and the financial results of which will be consolidated into the Group upon Completion:

(i) Net asset value

According to Interim Report 2021, the Group's net assets as at 30 June 2021 were approximately RMB172.5 million. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to the Circular, assuming the Acquisition had been completed as at 30 June 2021, the net assets of the Enlarged Group would be approximately RMB173.3 million.

(ii) Earnings

According to Annual Report 2020, the Group's net loss for the year ended 31 December 2020 was approximately RMB241.8 million. As referred to the Circular, the Target Company recorded net loss of approximately RMB25.8 million for the year ended 31 December 2020 and is constructing the propylene oxide production line with the production expected to be within 2023. As such, the Directors expect the Acquisition shall have an immediate adverse impact on the Group's net income after taxation, but a positive financial effect on the earnings of the Group in long run taking into account that the Acquisition could serve as a vertical integration to expand revenue stream of the Company's chemical industries business.

(iii) Liquidity

According to Interim Report 2021, the Group's cash and bank deposits as at 30 June 2021 were approximately RMB43.9 million, and generated net cash inflow from operating activities of approximately RMB138.5 million during the six months ended 30 June 2021. As referred to the Letter from the Board, the Consideration shall be settled by the Group's internal resources. Given the latest financial position of the Group and the section headed "Liquidity and working capital" in the Letter from the Board, we are advised by the Directors that the Group has sufficient resources.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial positions of the Group will be upon Completion.

VII. Risk factors

We would like to reiterate and remind the Independent Shareholders that there are uncertainties associated with the Acquisition, notwithstanding the potential benefits as described in the foregoing. The Independent Shareholders should take note that the business, development plan, operating results and sustainability of the Target Company in the future may not be ascertain in case of any changes in, among others, its business condition, construction progress of the production line, obtaining of all necessary licenses and permits, economic environment and so forth, and any failure may lead to adversely impact to the Target Company.

OPINION AND RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement.

Yours faithfully,
For and on behalf of
JUN HUI INTERNATIONAL FINANCE LIMITED

Tina Tian — *Managing Director*

Karol Hui — *Executive Director*

Note: Ms. Tina Tian and Ms. Karol Hui are licensed persons registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 13 years and ten years of experience in corporate finance industry respectively.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

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

		Nominal Value *(HK$)*
Authorised:		
As at the Latest Practicable Date		
20,000,000,000	Shares	2,000,000,000
As at the Latest Practicable Date		
5,728,042,599	Shares	572,804,259.90
Total:		
5,728,042,599	Shares	572,804,259.90

3. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

(a) Interest in the Company

i. Directors' interest in the Company

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

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

Directors	**Personal long position in shares (beneficial owner)**	**Personal long position in share options and convertibles bonds (beneficial owner)**	**Aggregate long position in shares and underlying shares**	**Total interests in the issued share capital**
Tang Guoqiang	169,800,000	8,080,000,000	8,249,800,000	144.02%
Shi Jianmin	47,000,000	300,000,000	347,000,000	6.06%
Zhang Weihua	500,000,000	1,020,000,000	1,520,000,000	26.54%
Hu Xiaoping	–	400,000	400,000	0.01%

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

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

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

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

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

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

(b) Dealings in securities

i. Directors

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

ii. Others

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

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

(c) Outstanding convertible securities

As at the Latest Practicable Date, the outstanding convertible securities that issued on 13 November 2014 can convert into 1,002,675,000 Shares, the outstanding convertible securities that issued on 31 January 2019 can convert into 320,000,000 Shares, the outstanding convertible securities issued on 15 March 2019 can convert into 950,000,000 Shares, the outstanding convertible securities that issued on 28 September 2020 can convert into 300,000,000 Shares and the outstanding convertible securities that issued on 30 November 2021 can convert into 7,700,000,000 Shares, set out below is the number of shares from conversion of outstanding convertibles securities converted into Shares:

As at the Latest Practicable Date	No. of shares from conversion of outstanding convertible securities
Directors	
Mr. Tang Guoqiang	8,080,000,000
Mr. Shi Jianmin	–
Mr. Zhang Weihua	1,020,000,000

As at the Latest Practicable Date	No. of shares from conversion of outstanding convertible securities
Others	
Public	1,172,675,000
Total	10,272,675,000

(d) Share options

The 2008 Share Options Scheme expired on 17 September 2018.

As at the Latest Practicable Date, there remained 5,700,000 and 377,312,000 share options granted under the 2008 Share Option Scheme and 2020 Share Option Scheme respectively. Details of the share options granted by the Company pursuant to the 2020 Share Option Scheme and share options outstanding as at the Latest Practicable Date are set out as follows:

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

	Share Options A *('000)*	Share Options B *('000)*	Share Options C *('000)*	Share Options D *('000)*	Total number of Share Options held as at the Latest Practicable Date
Directors					
Tang Guoqiang	–	–	–	–	–
Shi Jianmin	–	–	300,000	–	300,000
Zhang Weihua	–	–	–	–	–
Hu Xiaoping	400	–	–	–	400
Xu Congcai	–	–	–	–	–
Le Yiren	–	–	–	–	–
Employees	3,800	1,500	–	77,312	82,612
Total	4,200	1,500	300,000	77,312	383,012

Notes:

1. Share Options A: granted on 28 March 2013, exercisable until 27 March 2023 with exercise price at HK$0.595.

2. Share Options B: granted on 22 June 2016, exercisable until 21 June 2026 with exercise price at HK$0.151.

3. Share Options C: granted on 23 October 2020, exercisable until 22 October 2030 with exercise price at HK$0.141.

4. Share Options D: grant on 22 November 2021, 35% exercisable 1 year from grant date until 21 November 2031, 35% exercisable 2 years from grant date until 21 November 2031 and 30% exercisable 3 years from grant date until 21 November 2031 with exercise price HK$0.182.

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

a. no alternation to the authorised share capital of the Company since the end of its last financial year, being 31 December 2020. All of the Shares currently in issue rank *pari passu* in all respects with each other including, in particular, as to dividends, voting rights and capital;

b. there was no arrangement under which future dividends were waived or agreed to be waived;

c. no share or loan capital of the Company or any of its subsidiaries had been put under option or agreed conditionally or unconditionally to be put under option; and

d. the Company did not have any other derivatives, options, warrants and other convertible securities or rights convertible into Shares.

4. DIRECTORS' SERVICE CONTRACTS

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

5. DIRECTORS' COMPETING INTERESTS

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

6. MATERIAL LITIGATION

On 15 September 2020, Koyo Agrochem and the Bank of Communications Limited entered into a loan agreement ("BOCOM") for an aggregate principal loan amount of RMB68,000,000 ("Agrochem Loan A"). On 30 October 2020, the Intermediate People's Court of Chengdu Municipality, Sichuan Province* (四川省成都市中級人民法院) (the "Chengdu Intermediate Court") issued a judgment (the "Judgment") pursuant to which Koyo Agrochem was required to repay the Agrochem Loan A. Following the handing down of the Judgment, on 16 November 2020, the Company provided a repayment schedule in respect of the Agrochem Loan A to BOCOM. The Company is engaged in the negotiation process with BOCOM with an aim to renew and/or restructure the Agrochem Loan A. No action has been initiated by BOCOM in enforcing the Judgment. Koyo Agrochem had been repaid approximately RMB19,200,000 and is in discussion with BOCOM on the repayment schedule with the remaining balance of approximately RMB48,800,000.

On 24 September 2019, Koyo Agrochem and China Minsheng Bank ("Minsheng Bank") entered into a supplemental loan agreement for the principal loan amount of RMB70,000,000, repayable on 28 August 2020 ("Agrochem Loan"). The Agrochem Loan was secured by a pledge of office premises located in Chengdu and guaranteed by a 2 number of guarantors. Due to the events as stated in the Announcement in relation to the Dazhou Loan (which was guaranteed by Koyo Agrochem), Minsheng Bank initiated legal action against Koyo Agrochem and a judgement was handed down by the Chengdu Intermediate Court on 14 December 2020 (the "Agrochem Judgment"). The Company is engaged in negotiation process with Minsheng Bank with an aim to renew and/or restructure the Agrochem Loan. Minsheng Bank is withholding further legal actions against Koyo Agrochem pending the negotiations of the renewal and/or restructuring of the Agrochem Loan. The Company has provided a proposed repayment schedule to Minsheng Bank Chengdu for consideration and the Company has not yet to receive any feedback from Minsheng Bank Chengdu. The principal loan amount of RMB70,000,000 will be repaid in March 2022.

In March 2019, Guangan New Material and the Export-Import Bank of China ("EXIM Bank") entered into a supplemental agreement to the loan agreement dated 31 July 2015 in relation to the renewal of an aggregate principal loan amount of RMB90,000,000 ("New Material Loan"), pursuant to which the last repayment of the New Material Loan were extended to March 2021. EXIM Bank subsequently requested for an early repayment of the New Material Loan, and initiated legal action against Guangan New Material in relation to the New Material Loan with outstanding amount of approximately RMB76,919,000 at the No. 4 Intermediate People's Court of Beijing Municipality* (北京市第四中級人民法院). On 28 December 2020, the No. 4 Intermediate People's Court of Beijing Municipality* issued a judgment (the "New Material Judgment") pursuant to which Guangan New Material was required to repay the New Material Loan. Following the handing down of the New Material Judgment, the Company and EXIM Bank entered into negotiation, aiming at arriving at a possible repayment schedule in respect of the New Material Loan. No action has been initiated by EXIM Bank in enforcing the New Material Judgment. The Company and EXIM Bank have been in discussions to settle on a new repayment schedule.

In mid-December 2020, Changzhou Jingliyuan Technology Company against Koyo Agrochem in relation to a dispute arising from an amount of RMB30 million with Changzhou Jingliyuan to Koyo Agrochem. A court hearing took place on 23 February 2021 at Changzhou Court. It is respectfully submitted no judgment has been handed down by the Changzhou Court. The parties have agreed on the repayment schedule.

In 2021, the Chengdu Branch of the Industrial Bank Co., Ltd. ("IBC Bank") claimed Koyo Agrochem, Dazhou Koyo Chemical, Sichuan Chengyuan, Koyo Lotusan, Guangan Koyo Chemical, and Guangan Koyo New Material at the Chengdu Intermediate Court, in respect of an outstanding debt of approximately RMB44,745,000 together with accrued interests and costs. An enforcement action was instituted at Chengdu Intermediate Court on 4 February 2021; but no court order has been published. The Company is in the discussion with IBC Bank on the repayment schedule.

During November 2019, Koyo Agrochem, Dazhou Ko Yo Chemical and Ko Yo Guangan entered into a loan agreements with SPD Bank for an aggregate principal loan amount of RMB177,400,000. On 21 July 2021, the Chengdu Intermediate Court issued a judgment pursuant to which Koyo Agrochem, Dazhou Ko Yo Chemical and Ko Yo Guangan were required to repay the loan together with accrued interest and costs. An enforcement action was instituted at Chengdu Intermediate Court on 15 November 2021. The Group is engaged in the negotiation process with SPD Bank and has submitted its proposed repayment schedule to SPD Bank, and the Group is awaiting SPD Bank to revert on their views on the proposal.

During March 2021, Dazhou Ko Yo Chemical entered into a loan agreement with Bank of Dalian for aggregate principal loan amount of RMB80,000,000. On 24 August 2021, the Chengdu Intermediate Court issued a notice pursuant to which Dazhou Ko Yo Chemical were required to repay the loan together with accrued interest and costs in according to notarization made. An enforcement action was instituted at Chengdu Intermediate Court on 8 December 2021. The Group is engaged in the negotiation process with Bank of Dalian and has submitted its proposed repayment schedule to Bank of Dalian, and the Group is awaiting Bank of Dalian to revert on their views on the proposal.

During July 2016, Dazhou Ko Yo Chemical entered into a loan agreement with CMB for an aggregate principal loan amount of RMB75,000,000. On 31 May 2021, the Chengdu Intermediate Court issued a notice pursuant to which Dazhou Ko Yo Chemical were required to repay the loan together with accrued interest and costs in according to notarization made. The Group is engaged in the negotiation process with CMB and has submitted its proposed repayment schedule to CMB, and the Group is awaiting CMB to revert on their views on the proposal.

During June 2020, Dazhou Ko Yo Chemical entered into a loan agreement with Evergrowing Bank for an aggregate principal loan amount of RMB79,000,000. On 11 October 2021, the Chengdu Intermediate Court issued a notice pursuant to which Dazhou Ko Yo Chemical were required to repay the loan together with accrued interest and costs in according to notarization made. The Group is engaged in the negotiation process with Evergrowing Bank and has submitted its proposed repayment schedule to Evergrowing Bank, and the Group is awaiting Evergrowing Bank to revert on their views on the proposal.

7. QUALIFICATIONS AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given their opinion or advice which are contained in this circular:

Name	Qualification
AllBright Law Offices	Legal advisers as to the PRC laws
Jun Hui International Finance Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
LY Capital Limited	a corporation licensed to carry out types 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Roma Appraisals Limited	Independent valuer
ZHONGHUI ANDA CPA Limited	Certified public accountants

As at the Latest Practicable Date, the experts named above were not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and/or opinion, as the case may be, and references to its name in the form and context in which they respectively appear.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

9. MATERIAL CONTRACTS

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

(i) the subscription agreement dated 10 July 2019 entered into between the Company and Mr. Tang Guoqiang as the subscriber, pursuant to which the Company conditionally agreed to issue, and the subscriber conditionally agreed to subscribe for the convertible bonds which may be converted into the conversion shares, in the principal amount of HK$987,000,000;

(ii) the supplemental agreement dated 29 April 2020 entered into between the Company and Mr. Tang Guoqiang as the subscriber to vary and supplement the terms of the Subscription Agreement (the "First Supplemental Agreement");

(iii) the supplemental deed dated 28 September 2020 entered into between the Company and Mr. Tang Guoqiang as the subscriber to vary and supplement the terms of the Subscription Agreement as supplemented by the First Supplemental Agreement (the "**Second Supplemental Deed**");

(iv) the supplemental deed dated 25 June 2021 entered into between the Company and Mr. Tang Guoqiang as the subscriber to vary and supplement the terms of the Subscription Agreement as supplemented by the First Supplemental Agreement and the Second Supplemental Deed; and

(v) the Sale and Purchase Agreement.

10. MISCELLANEOUS

(i) The qualified accountant and the secretary of the Company is Mr. Chung Tin Ming, HKICPA, FCCA.

(ii) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(iii) The head office and principal place of business of the Company in Hong Kong is Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

(iv) The share registrar of the Company in Hong Kong is Union Registrars Limited at Suites 3301–04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

(v) As at the Last Practicable Date, the Board comprises 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.

(vi) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed themselves to vote for or against the Acquisition.

(vii) Save as disclosed in this circular, there is no agreement, arrangement or understanding (including any compensation arrangement) between Mr. Zhang and his associates or any person acting in concert with it and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the outcome of the Acquisition.

(viii) There are no benefits to be given to any Directors as compensation for loss of office or otherwise in connection with the Acquisition.

(ix) Save as disclosed in this circular, there is no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the Acquisition or otherwise connected therewith.

(x) Mr. Zhang and his associates, the Directors and any parties acting in concert with it have not borrowed or lent any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Company.

(xi) There is no material contract entered into by Mr. Zhang and his associates in which any Director has a material personal interest.

(xii) None of the Directors has any interest, direct or indirect, in any assets which had been, since 31 December 2020, being the date of the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(xiii) Mr. Zhang and his associates will abstain from voting on the resolution in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder including not limited to the grant of the New Specific Mandate.

(xiv) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS ON DISPLAY

A copy of the following documents will be published on the websites of the Company (http://www.koyochem.com) and the Stock Exchange (http://www.hkexnews.hk) during the period of 14 days from the date of this circular:

(i) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(ii) the letter of advice from Jun Hui International Finance Limited, the text of which is set out on pages 33 to 57 of this circular;

(iii) the report on the financial information of the Target Company, the text of which is set out in Appendix III to this circular;

(iv) the unaudited Pro Forma Financial Information of the Enlarged Group, the text of which is set out in Appendix V to this circular;

(v) the Valuation Report, the text of which is set out in Appendix VI to this circular;

(vi) the letters of consent from the experts identified in the above section headed "Qualifications and Consent of Experts" in this appendix; and

(vii) this circular.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2020 and the six months ended 30 June 2021 are respectively disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk):

- the 2018 Annual Report (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0409/ltn20190409047.pdf);
- the 2019 Annual Report (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0409/2020040900027.pdf);
- the 2020 Annual Report (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0412/2021041200039.pdf); and
- the 2021 Interim Report (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0903/2021090300816.pdf).

2. WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources presently available to the Enlarged Group including the internally generated funds, the currently available banking facilities and the effects of the Acquisition, the Enlarged Group has sufficient working capital for its normal business for at least the next twelve months from the date of this circular.

3. STATEMENT OF INDEBTEDNESS

As at 28 February 2022 for the purpose of ascertaining the indebtedness of the Enlarged Group prior to the printing of this circular the Enlarged Group had the following indebtedness:

Bank and other borrowings

The Enlarged Group had total outstanding bank and other borrowings of approximately RMB1,960,264,000, in which approximately RMB1,779,069,000 were short-term borrowings.

As at 28 February 2022, certain land use rights and buildings with a total net book value of approximately RMB305,218,000, property, plant and equipment with a total net book value of approximately RMB1,681,113,000 and mining right of approximately RMB334,306,000 were pledged as collateral for the Enlarged Group's bank borrowings and bills receivables.

Convertible bonds

The Enlarged Group had five convertible bonds in the amount of approximately RMB170,188,000, RMB25,342,000, RMB74,435,000, RMB26,974,000 and RMB471,762,000, which bear interest at 7%, 4%, 4%, 5% and 5% per annum, respectively and are repayable in 10, 5, 5, 5 and 5 years respectively from the date of issuance.

Lease liabilities

The Enlarged Group had lease liabilities (comprising both current and non-current liabilities) of approximately RMB3,562,000.

Amount due to a related company

The Enlarge Group had amount due to a related company controlled by Mr. Zhang of approximately RMB735,035,000 which is unsecured interest free and payable on demand.

Contingent liabilities

As at 28 February 2022, the Enlarged Group has issued guarantees of RMB136,890,000 to a bank in respect of banking facilities granted to a related company controlled by Mr. Zhang the Target Company. The amount disclosed above presents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not, at the close of the business on 28 February 2022, have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptance (other than normal trade bills and payables), acceptance credits, or any guarantees or other material contingent liabilities. The Directors confirm that, save as disclosed above, there have been no material changes in the indebtedness or contingent liabilities of the Enlarged Group as at 28 February 2022.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financing or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. RISKS

Our business performance is dependent upon adequate supplies of gas at reasonable prices and the oil price. Any significant disruption in these supplies or significant fluctuation in the oil and gas prices may harm our results of operations.

Our results of operations and profitability are sensitive to the market price of oil and gas. In particular, the selling price of our products are positively correlated with oil price and our cost of sales are greatly affected by the gas price as natural gas is the major raw material of most of our products. There is no assurance that we can maintain our profit margin in the event that there are unfavourable movements in the price of oil and gas. Such unfavourable movements could thereby have a material adverse impact on our net cash flow generated from operating activities as well as the sufficiency of our working capital. As a result, unfavourable movements in the oil and gas prices may adversely affect our profit margin, our working capital sufficiency and other aspects of our results of operations.

Our sales and growth in market demand for our products are dependent, amongst other things, on the conditions of the global and, in particular, the PRC economy.

All of our revenue was derived from sales of our products to customers in the PRC. The demand for our products is dependent, amongst other things, on the conditions of the global and, in particular, the PRC economy. For instance, the demand for our products in the PRC is significantly affected by the demand from our customers in the industrial sector industry located in the PRC. The PRC economy and the demand from our customers have grown significantly in recent years. However, there is no assurance that this level of growth will continue, in particular, whether the PRC government may implement stricter rules to restrict the expansion of our industry in the future.

The Acquisition may limit our ability to react to changes in the economy or our industry, or may otherwise adversely affect our operating results and production.

The Target Company incurred a loss of RMB21,108,000 for the nine months ended 30 September 2021. As at 30 September 2021, the Target Company had net current liabilities and net liabilities of RMB1,000,046,000 and RMB86,064,000 respectively. In addition, the Target Company has capital commitment of RMB152,766,000 as at 30 September 2021. The Acquisition may have severe consequences, including:

(i) reducing our cash flow as we allocate a substantial portion of the cash flow from our operations to making capital expenditures instead of repayment of our indebtedness;

(ii) reducing our ability to take advantage of future business opportunities and executing our business strategies due to lack of working capital;

(iii) limiting our ability to adjust to changing market conditions; and

(iv) placing us at a disadvantage compared to competitors who are less highly leveraged.

The Target Company's customer concentration exposes us to risks and factors affecting the performance of the major customers and may subject us to fluctuations or decline in the selling price of our products and our turnover.

For the years ended 31 December 2018, 31 December 2019, 31 December 2020 and the nine months ended 30 September 2021, the Target Company generated approximately 71.5%, 71.4%, 87.8% and 87.4% of the total revenue from the two largest customers respectively.

There is also no guarantee that the major customers will not cease to purchase or reduce substantially their order size in the future, whether due to their decision to change suppliers or for any other reason. On the other hand, the gross profit margin of the Target Company for the years ended 31 December 2018, 31 December 2019, 31 December 2020 and the nine months ended 30 September 2021 were approximately 0.35%, 1.2%, 0.48% and 0.13%. The decrease in turnover of the Target Company does not have material effect on the profitability of the Group for the low gross margin of the trading business.

The Directors are of the view that such customer concentration in trading business of the Target Company will not affect the Company's interest in the Acquisition after taking into consideration, among others, (i) the low gross profit margin of existing trading business of Target Company; (ii) the management of the Target Company would stay after Acquisition and maintain rapport with customers; (iii) the Group has a solid customer base and may explore new opportunities upon the Acquisition; and (iv) the Group is interested in the profitability of the propylene oxide production line of the Target Company and will develop new customer base after the commencement of such production line.

6. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in manufacturing and distribution of chemical fertilizers and chemical products, including BB fertilizers and complex fertilizers, methanol, polyphenylene sulfide, urea and ammonia for the year ended 31 December 2020. The Group recorded turnover of approximately RMB2,111 million, an increase of approximately 7.49% during the year ended 31 December 2020 as compared to the same period in 2019. The loss attributable to shareholders of the Company amounted to approximately RMB241 million, representing a decrease in loss of approximately RMB490 million during the year ended 31 December 2020 as compared to the same period in 2019.

In 2022, the Company will continue to capitalize on opportunities arising from the recovery of the chemical fertilizers and chemical industries while it will establish new production lines including the Dazhou New Production Line, the PBAT production line in the Guangan New Material Plant, the nylon 66 production line in the Guangan Chemical Plant and the new production line from the Target Company.

The Directors are of the view that the Acquisition, if materialised, would enable the Enlarged Group to expand its chemical fertilizer business and the enhance its core competitiveness in the future.

The following is the text of a report received from the independent reporting accountants, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular.

中汇 ZHONGHUI

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KO YO CHEMICAL (GROUP) LIMITED

Introduction

We were engaged to report on the historical financial information of Jiangsu Bluestar Green Material Company Limited* (the "Target Company") set out on pages III-76 to III-108, which comprises the statements of financial position of the Target Company as at 31 December 2018, 31 December 2019 and 31 December 2020 and 30 September 2021, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the three years ended 31 December 2020 and nine months ended 30 September 2021 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 23 March 2022 in connection with the proposed acquisition of 90% equity interest in the Target Company.

Director's responsibility for the Historical Financial Information

The director of the Target Company is responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 3 to the Historical Financial Information, and for such internal control as the director determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Basis for Disclaimer of Opinion

We draw attention to note 2 to the Historical Financial Information which mentions that the Target Company incurred a loss of RMB21,108,000 for the nine months ended 30 September 2021 and as at 30 September 2021, the Target Company had net current liabilities and net liabilities of RMB1,000,046,000 and RMB86,064,000 respectively. In addition, the Target Company has capital commitment of RMB152,766,000 as at 30 September 2021. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Target Company's ability to continue as a going concern.

The Historical Financial Information have been prepared on a going concern basis, the validity of which depends upon the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows. The Historical Financial Information do not include any adjustments that would result from the failure to improve its financial position, to provide liquidity and cash flows. We consider that the material uncertainty has been adequately disclosed in the Historical Financial Information. However, in view of the extent of the uncertainty relating to the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

Disclaimer of opinion

Because of the significance of the material uncertainty relating to the going concern basis as described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the Historical Financial Information. In all other respects, in our opinion, the Historical Financial Information have been properly prepared in compliance with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

Review of stub period comparative financial information

We were engaged to review the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 30 September 2020 and other explanatory information (the "Stub Period Comparative Financial Information").The director of the Target Company is responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 (Revised) "Engagements to Review Historical Financial Statements" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Because of the significance of the material uncertainty relating to the going concern basis as described in the basis for disclaimer of opinion paragraph, we were unable to carry out sufficient review procedures to provide a basis for a conclusion on the Stub Period Comparative Financial Information. Accordingly, we do not express a conclusion on the Stub Period Comparative Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page III-76 have been made.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Yeung Hong Chun
Audit Engagement Director
Practising Certificate Number P07374
Hong Kong, 23 March 2022

* *The English name is a translation of its Chinese name of and included herein for identification purpose only.*

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

Jiangsu Bluestar Green Material Company Limited* (the "Target Company") was incorporated on 26 December 2011 in the People's Republic of China (the "PRC") with limited liability, engaged in sale of chemical products in the PRC.

The Target Company has adopted 31 December as the financial year end date.

No audited financial statements of the Target Company have been prepared for the Relevant Periods as there is no statutory audit requirement in the PRC.

The director of the Target Company has prepared the financial statements of the Target Company for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA (the "Underlying Financial Statements"). We have performed our independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

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STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Nine months ended 30 September	
	Notes	**2018**	**2019**	**2020**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*9*	81,484	189,277	136,991	92,790	73,324
Cost of goods sold		(81,199)	(187,020)	(136,327)	(92,241)	(73,228)
Gross profit		285	2,257	664	549	96
Interest revenue		67	4,987	617	612	8
Other income and loss	*10*	(2,644)	(2,262)	1,952	1,381	168
Administrative expenses		(19,124)	(12,524)	(8,586)	(6,281)	(6,408)
Loss from operations		(21,416)	(7,542)	(5,353)	(3,739)	(6,136)
Finance costs	*12*	(16,498)	(21,175)	(20,411)	(13,683)	(14,972)
Loss before tax		(37,914)	(28,717)	(25,764)	(17,422)	(21,108)
Income tax expenses	*13*	–	–	–	–	–
Loss and total comprehensive expense for the years/periods attributable to owners of the Target Company	*14*	(37,914)	(28,717)	(25,764)	(17,422)	(21,108)

STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December 2018	At 31 December 2019	At 31 December 2020	At 30 September 2021
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*15*	266,547	347,178	859,665	873,398
Right-of-use assets	*16*	104,596	102,414	100,232	98,595
Intangible assets	*17*	63,306	59,329	55,352	52,369
Prepayments	*19*	76,711	62,286	14,345	32,070
		511,160	571,207	1,029,594	1,056,432
CURRENT ASSETS					
Inventories	*18*	211,836	307,337	251,781	223,710
Trade and other receivables	*19*	63,765	87,948	74,843	66,653
Due from a fellow subsidiary	*20*	–	–	2,871	2,871
Pledged bank deposits	*21*	–	140,000	–	40,000
Restricted bank balances	*21*	–	–	1,818	–
Bank and cash balances	*21*	7,276	20,339	299	349
		282,877	555,624	331,612	333,583
CURRENT LIABILITIES					
Trade and other payables	*22*	182,544	248,509	575,745	445,738
Contract liabilities	*23*	856	18,811	4,146	711
Due to immediate holding company	*24*	336,112	494,328	502,021	677,480
Bank borrowings	*25*	50,625	210,625	155,500	209,700
		570,137	972,273	1,237,412	1,333,629
NET CURRENT LIABILITIES		(287,260)	(416,649)	(905,800)	(1,000,046)
TOTAL ASSETS LESS CURRENT LIABILITIES		223,900	154,558	123,794	56,386
NON-CURRENT LIABILITIES					
Bank borrowings	*25*	234,375	193,750	188,750	142,450
NET LIABILITIES		(10,475)	(39,192)	(64,956)	(86,064)
CAPITAL AND RESERVE					
Share capital	*26*	30,000	30,000	30,000	30,000
Reserves		(40,475)	(69,192)	(94,956)	(116,064)
DEFICIT ON EQUITY		(10,475)	(39,192)	(64,956)	(86,064)

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company		
	Share capital	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018	30,000	(2,561)	27,439
Loss and total comprehensive expense for the year	–	(37,914)	(37,914)
At 31 December 2018 and 1 January 2019	30,000	(40,475)	(10,475)
Loss and total comprehensive expense for the year	–	(28,717)	(28,717)
At 31 December 2019 and 1 January 2020	30,000	(69,192)	(39,192)
Loss and total comprehensive expense for the year	–	(25,764)	(25,764)
At 31 December 2020 and 1 January 2021	30,000	(94,956)	(64,956)
Loss and total comprehensive expense for the period	–	(21,108)	(21,108)
At 30 September 2021	30,000	(116,064)	(86,064)
At 1 January 2020	30,000	(69,192)	(39,192)
Loss and total comprehensive expense for the period (unaudited)	–	(17,422)	(17,422)
At 30 September 2020 (unaudited)	30,000	(86,614)	(56,614)

STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Nine months ended 30 September	
		2018	2019	2020	2020	2021
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flows from operating activities						
Loss before tax		(37,914)	(28,717)	(25,764)	(17,422)	(21,108)
Adjustments for:						
Interest revenue		(67)	(4,987)	(617)	(612)	(8)
Finance costs		16,498	21,175	20,411	13,683	14,972
Amortisation of intangible assets		3,977	3,977	3,977	2,983	2,983
Depreciation		2,576	2,757	2,610	2,015	1,788
Loss allowance provision for trade receivables		2,805	2,807	3	2	185
Operating (loss)/profit before working capital changes		(12,125)	(2,988)	620	649	(1,188)
Change in inventories		(211,836)	(95,501)	55,556	38,108	28,071
Change in trade and other receivables		(5,714)	(22,518)	5,140	8,115	(1,241)
Change in due from a fellow subsidiary		–	–	(2,871)	(2,871)	–
Change in due from a related company		–	–	–	(23,572)	–
Change in trade and other payables		87,676	59,439	(115,059)	(135,321)	59,261
Change in contract liabilities		856	17,955	(14,665)	7,047	(3,435)
Change in due to immediate holding company		109,135	32,676	23,411	76,750	(89,308)
Cash used in operations		(32,008)	(10,937)	(47,868)	(31,095)	(7,840)
Income tax paid		(127)	–	–	–	–
Interests paid		(23,186)	(35,377)	(33,318)	(23,487)	(23,208)
NET CASH USED IN OPERATING ACTIVITIES		(55,321)	(46,314)	(81,186)	(54,582)	(31,048)
Cash flows from investing activities						
Purchases of property, plant and equipment		(67,261)	(34,724)	(7,230)	(6,211)	(193,960)
Prepayment for purchase of property, plant and equipment		(53,026)	(10,364)	(1,197)	(453)	(17,725)
Interest received		67	61	5,543	5,538	8
NET CASH USED IN INVESTING ACTIVITIES		(120,220)	(45,027)	(2,884)	(1,126)	(211,677)

	Note	Year ended 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	Nine months ended 30 September 2020 RMB'000 (unaudited)	2021 RMB'000
Cash flows from financing activities	27					
Bank borrowings raised		295,000	205,000	250,595	250,095	210,000
Repayment of bank borrowings		(35,048)	(85,625)	(310,720)	(285,625)	(202,100)
Placement of pledged bank deposits		–	(140,000)	–	–	(40,000)
Release of pledged bank deposits		50	–	140,000	140,000	–
Placement of restricted bank balances		–	–	(1,818)	(1,818)	–
Release of restricted bank balances		–	–	–	–	1,818
(Repayment)/advance from the immediate holding company		(86,129)	125,029	(14,027)	(67,045)	273,057
NET CASH GENERATED FROM FINANCING ACTIVITIES		173,873	104,404	64,030	35,607	242,775
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(1,668)	13,063	(20,040)	(20,101)	50
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEARS/PERIODS		8,944	7,276	20,339	20,339	299
CASH AND CASH EQUIVALENTS AT END OF THE YEARS/PERIODS		7,276	20,339	299	238	349
ANALYSIS OF CASH AND CASH EQUIVALENTS						
Bank and cash balances		7,276	20,339	299	238	349

NOTES TO HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company was incorporated in the PRC with limited liability. The address of its registered office and principal place of business are 99 Danyangmen North Road, Jintan District, Changzhou City, Jiangsu Province, China.

The Target Company is engaged in sale of chemical products in the PRC.

In the opinion of the director of the Target Company, as at 30 September 2021, Jiangsu Bluestar Green Technology Company Limited*, a company incorporated in the PRC, is the immediate holding company; Jiangsu Kangtai Holding Group Company Limited*, a company incorporated in the PRC, is the ultimate holding company and Mr. Zhang Weihua ("Mr. Zhang") is the ultimate controlling party of the Target Company.

* *The English name is a translation of its Chinese name and included herein for identification purpose only.*

2. GOING CONCERN BASIS

The Target Company incurred a loss of RMB21,108,000 for the nine months ended 30 September 2021 and as at 30 September 2021, the Target Company had net current liabilities and net liabilities of RMB1,000,046,000 and RMB86,064,000 respectively. In addition, the Target Company has capital commitment of RMB152,766,000 as at 30 September 2021. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Target Company's ability to continue as a going concern.

In the view of the director of the Target Company, in order to improve the Target Company's financial position, to provide liquidity and cash flows and sustain the Target Company as a going concern, the Target Company has been implementing a number of measures, including but not limited to:

(i) The immediate holding company of the Target Company agreed to extend the repayment after the new production line is put into operation;

(ii) With the completion of the Target Company's new production line, it is believed that the liquidity and profitability of the Target Company can be improved; and

(iii) The Target Company will continue to take active measures to control the administrative costs.

On the basis that the Target Company can successfully completed the certain measures as mentioned above to improve its operating results and cash flows, the director of the Target Company believes that the Target Company will have sufficient funds to finance its current working capital requirements in the next twelve months from the end of the reporting date. Accordingly, the Historical Financial Information have been prepared on a going concern basis.

3. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared in accordance with the accounting policies set out in note 5 below which conform with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Target Company had adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting period beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations.

The Target Company has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Target Company has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on the results of operations and financial position.

5. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income ("FVTOCI") that is measured at fair values at the end of each reporting period. The Historical Financial Information is presented in Renminbi ("RMB") which is the Target Company's functional and presentation currency and all figures are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the director to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these Historical Financial Information, are disclosed in note 6 to the Historical Financial Information.

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Plant and machinery	10%
Office equipment and others	20%-33%
Motor vehicles	25%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Leases

The Target Company as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Target Company. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land	2%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Target Company's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

Proprietary technology

Proprietary technology is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 20 years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Target Company transfers substantially all the risks and rewards of ownership of the assets; or the Target Company neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Target Company are classified under the following categories:

– Financial assets at amortised cost; and

– Financial assets at FVTOCI

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Financial assets at FVTOCI

Financial assets are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling assets; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Bills receivables classified as financial assets at FVTOCI

They are subsequently measured at fair value. Interest income calculated using the effective interest method is recognised in profit or loss. All other changes in the carrying amount of these bills receivables are recognised in other comprehensive income and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these bills receivables. When these bills receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Loss allowances for expected credit losses

The Target Company recognises loss allowances for expected credit losses on financial assets at amortised cost and financial assets at FVTOCI. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Target Company measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Target Company measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Target Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially recognised at fair value and subsequently measured at the higher of:

– the loss allowance; and

– the amount initially recognised less cumulative amortisation recognised in profit or loss over the terms of the guarantee contracts.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Target Company recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Target Company's performance;

– the Target Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other revenue

Interest income is recognised using the effective interest method.

Handling income is recognised when handling services are rendered.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the end of the reporting period.

(b) Pension obligations

In accordance with the rules and regulations in the Mainland China, the Mainland China based employees of the Target Company participate in various defined contribution plans organised by the relevant municipal and provincial governments in the Mainland China under which the Target Company and the Mainland China based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries (subject to a floor and cap).

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired Mainland China based employees payable under the plans described above. Other than the monthly contributions, the Target Company has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Target Company in independently administrated funds managed by the governments.

The Target Company's contributions to the defined contribution plans are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Target Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

A government grant is recognised when there is reasonable assurance that the Target Company will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Target Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Target Company.

(A) A person or a close member of that person's family is related to the Target Company if that person:

- (i) has control or joint control over the Target Company;
- (ii) has significant influence over the Target Company; or
- (iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company.

(B) An entity is related to the Target Company if any of the following conditions applies:

- (i) The entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Company of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company. If the Target Company is itself such a plan, the sponsoring employers are also related to the Target Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (A).
- (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to a parent of the Target Company.

Impairment of assets

At the end of each reporting period, the Target Company reviews the carrying amounts of its tangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Target Company's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

6. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the director has made the following judgement that has the most significant effect on the amounts recognised in the Historical Financial Information.

(a) Going concern basis

The Historical Financial Information have been prepared on a going concern basis, the validity of which depends upon the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flow. Details are explained in note 2 to the Historical Financial Information.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the fair value less costs of disposal. Where the fair value less costs of disposal are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of fair value less costs of disposal, a material impairment loss may arise.

(b) Impairment loss for bad and doubtful debts

The Target Company makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(c) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

7. FINANCIAL RISK MANAGEMENT

The Target Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and interest rate risk. The Target Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Company's financial performance.

(a) Credit risk

The carrying amounts of the bank balances, pledged bank deposits, trade and other receivables and amounts due from related companies included in the statements of financial position represent the Target Company's maximum exposure to credit risk in relation to the Target Company's financial assets.

Amounts due from related companies are closely monitored by the director.

For cash and cash equivalents and pledged bank deposits, management manages the credit risk by placing most bank deposits in the state-controlled and other listed banks in Mainland China without significant credit risk.

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the constant repayment history, the director is of the opinion that the risk of default by these counterparties is low.

The Target Company considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

– internal credit rating;

– external credit rating (if available);

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– actual or expected significant changes in the operating results of the borrower;

– significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Target Company. The Target Company normally categorises a receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where receivables have been written off, the Target Company, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Target Company uses two categories for non-trade receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Target Company considers historical loss rates for each category and adjusts for forward looking data.

Category	**Definition**	**Loss provision**
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

All of these receivables are considered to have low risk and under the 'Performing' category because they have a low risk of default and have strong ability to meet their obligations.

(b) Liquidity risk

The Target Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis, based on undiscounted cash flows, of the Target Company's financial liabilities is as follows:

	Less than 1 year *RMB'000*	**Between 1 and 2 years** *RMB'000*	**Between 2 and 5 years** *RMB'000*
At 31 December 2018			
Trade and other payables	182,544	–	–
Due to immediate holding company	336,112	–	–
Bank borrowings	65,278	53,460	215,396
	583,934	53,460	215,396
At 31 December 2019			
Trade and other payables	248,509	–	–
Due to immediate holding company	494,328	–	–
Bank borrowings	224,733	15,944	199,452
	967,570	15,944	199,452

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2020			
Trade and other payables	575,745	–	–
Due to immediate holding company	502,021	–	–
Bank borrowings	169,230	130,807	68,645
	1,246,996	130,807	68,645
At 30 September 2021			
Trade and other payables	445,738	–	–
Due to immediate holding company	677,480	–	–
Bank borrowings	225,770	137,911	9,228
Financial guarantee contracts issued – maximum amount guaranteed	136,890	–	–
	1,485,878	137,911	9,228

(c) Interest rate risk

The Target Company's bank deposits and certain bank borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Target Company's exposure to interest-rate risk arises from its bank borrowings. These bank borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, loss after tax for the years/period ended would have been RMB1,425,000, RMB1,222,000, RMB969,000 and RMB940,000 higher/lower respectively, arising mainly as a result of increase/decrease in interest expenses of bank borrowings.

(d) Categories of financial instruments

	At 31 December			At 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets:				
Bills receivables at FVTOCI	90	8,702	1,800	1,299
Financial assets at amortised cost (including cash and cash equivalents)	22,808	174,260	9,268	48,452
	22,898	182,962	11,068	49,751
Financial liabilities:				
Financial liabilities at amortised cost	803,656	1,147,212	1,422,016	1,475,368

(e) Fair values

The carrying amounts of the Target Company's financial assets and financial liabilities as reflected in the statements of financial position approximate their respective fair values.

8. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Target Company can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Target Company's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

Fair value of the Target Company's bills receivables at FVTOCI that are measured at fair value using level 2 inputs and on a recurring fair value measurement.

(a) Disclosure of valuation techniques and inputs used in fair value measurements at the end of reporting period:

Level 2 fair value measurements

At 31 December 2018

Description	**Valuation technique and Inputs**	**Fair value**
		RMB'000
Bills receivables at FVTOCI	Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets	90

At 31 December 2019

Description	**Valuation technique and Inputs**	**Fair value**
		RMB'000
Bills receivables at FVTOCI	Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets	8,702

At 31 December 2020

Description	**Valuation technique and Inputs**	**Fair value**
		RMB'000
Bills receivables at FVTOCI	Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets	1,800

At 30 September 2021

Description	**Valuation technique and Inputs**	**Fair value** *RMB'000*
Bills receivables at FVTOCI	Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets	1,299

There were no changes in the valuation techniques used.

9. REVENUE

	Year ended 31 December			**Nine months ended 30 September**	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue from contracts with customers:					
– Zinc granule	26,314	14,060	27,480	17,154	19,158
– Perchloroethylene	14,290	14,967	11,476	6,830	8,618
– Tetrafluoroethane	14,029	980	–	–	–
– Hydrofluoric acid	11,261	32,836	14,227	7,622	12,178
– Trifluorochloroethylene	2,069	107,403	78,628	58,602	5,658
– Others	13,521	19,031	5,180	2,582	27,712
	81,484	189,277	136,991	92,790	73,324

The Target Company's geographical market is in the PRC. All revenue is recognised at the point of time for the Relevant Periods.

Sale of chemical products

The Target Company mainly sells chemical products to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 0 to 30 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

10. OTHER INCOME AND LOSS

	Year ended 31 December			**Nine months ended 30 September**	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Government grants	20	–	347	340	110
Handling income	141	545	1,608	1,043	243
Loss allowance provision for trade receivables	(2,805)	(2,807)	(3)	(2)	(185)
	(2,644)	(2,262)	1,952	1,381	168

11. SEGMENT INFORMATION

The Target Company's operating segment is sale of chemical products. Since this is the only one operating segment of the Target Company, no further analysis thereof is presented.

The Target Company's operation and operating assets are located in the PRC. Accordingly, no geographical segment information is presented.

Geographical information

The Target Company's revenue are all derived from the PRC based on the location of goods sold and all of the Target Company's non-current assets are located in the PRC by physical location of assets.

Revenue from major customers

	Year ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Customer a	58,283	76,816	58,059	34,126	61,617
Customer b	–#	58,422	62,195	44,814	2,485#
Customer c	8,417	–#	–#	–#	–#

Revenue from this customer did not exceed 10% of total revenue in the respective year. These amounts were shown for comparative purpose.

12. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest charge on bills receivable and letter of credit discounted	14,847	13,022	11,833	7,171	8,470
Interest on bank borrowings	8,369	22,355	21,485	16,316	14,738
Less: Interest on bank borrowings capitalized	(6,718)	(14,202)	(12,907)	(9,804)	(8,236)
	16,498	21,175	20,411	13,683	14,972

13. INCOME TAX EXPENSES

	Year ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current tax – PRC enterprise income tax					
Provision for the years/periods	–	–	–	–	–

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Target Company is 25% for the years ended 31 December 2018, 31 December 2019, 31 December 2020 and nine months ended 30 September 2020 and 30 September 2021.

The reconciliation between the income tax expenses and the product of loss before tax multipled by the PRC enterprise income tax rate is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Loss before tax	(37,914)	(28,717)	(25,764)	(17,422)	(21,108)
PRC Enterprise Income Tax at 25%	(9,479)	(7,179)	(6,441)	(4,356)	(5,277)
Tax effect of expenses that are not deductible	717	713	12	5	54
Tax effect of tax losses not recognised	8,762	6,466	6,429	4,351	5,223
Income tax expense	–	–	–	–	–

As at 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, the Target Company has unused tax losses of RMB51,701,000, RMB77,567,000, RMB103,288,000 and RMB124,181,000, respectively, available for offset against future profits. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future income stream. As at 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, these unrecognised tax losses will expire in 2022 to 2023, 2022 to 2024, 2022 to 2025 and 2022 to 2026, respectively.

14. LOSS FOR THE YEARS/PERIODS

The Target Company's loss for the years/periods is stated after charging the following:

	Year ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Amortisation of intangible assets	3,977	3,977	3,977	2,983	2,983
Depreciation on property, plant and equipment	394	575	428	378	151
Depreciation on right-of-use assets	2,182	2,182	2,182	1,637	1,637
Loss allowance provision for trade receivables	2,805	2,807	3	2	185
Staff costs including director's emoluments					
Salaries, bonuses and allowances	8,354	3,301	1,069	523	550
Retirement benefits scheme contributions	1,477	809	53	36	119
	9,831	4,110	1,122	559	669

15. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery *RMB'000*	Office equipment and others *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost					
At 1 January 2018	–	–	1,635	150,583	152,218
Additions	18	80	–	115,175	115,273
At 31 December 2018 and 1 January 2019	18	80	1,635	265,758	267,491
Additions	–	584	–	80,622	81,206
At 31 December 2019 and 1 January 2020	18	664	1,635	346,380	348,697
Additions	–	–	–	512,915	512,915
At 31 December 2020 and 1 January 2021	18	664	1,635	859,295	861,612
Additions	–	7	–	13,877	13,884
At 30 September 2021	18	671	1,635	873,172	875,496
Accumulated depreciation					
At 1 January 2018	–	–	550	–	550
Charge for the year	1	4	389	–	394
At 31 December 2018 and 1 January 2019	1	4	939	–	944
Charge for the year	2	185	388	–	575
At 31 December 2019 and 1 January 2020	3	189	1,327	–	1,519
Charge for the year	2	201	225	–	428
At 31 December 2020 and 1 January 2021	5	390	1,552	–	1,947
Charge for the period	1	150	–	–	151
At 30 September 2021	6	540	1,552	–	2,098
Carrying amount					
At 31 December 2018	17	76	696	265,758	266,547
At 31 December 2019	15	475	308	346,380	347,178
At 31 December 2020	13	274	83	859,295	859,665
At 30 September 2021	12	131	83	873,172	873,398

16. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	At 31 December			At 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets				
Land	104,596	102,414	100,232	98,595

	Year ended 31 December			Nine months ended 30 September	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Depreciation charge of right-of-use assets					
Land	2,182	2,182	2,182	1,637	1,637

The Target Company leases various land use rights. Lease agreements are typically made for fixed periods of 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Certain right-of-use assets with an aggregate carrying amount of RMB85,178,000, RMB102,414,000, RMB100,232,000 and RMB98,595,000 as at 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021 were pledged to secure the borrowings of the Target Company, respectively.

17. INTANGIBLE ASSETS

	Proprietary technology *RMB'000*
Cost	
At 1 January 2018, 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020, 31 December 2020, 1 January 2021 and 30 September 2021	79,547
Accumulated amortisation	
At 1 January 2018	12,264
Amortisation for the year	3,977
At 31 December 2018 and 1 January 2019	16,241
Amortisation for the year	3,977
At 31 December 2019 and 1 January 2020	20,218
Amortisation for the year	3,977
At 31 December 2020 and 1 January 2021	24,195
Amortisation for the period	2,983
At 30 September 2021	27,178
Carrying amount	
At 31 December 2018	63,306
At 31 December 2019	59,329
At 31 December 2020	55,352
At 30 September 2021	52,369

18. INVENTORIES

	At 31 December			At 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	49,852	49,852	49,852	49,852
Finished goods	161,984	257,485	201,929	173,858
	211,836	307,337	251,781	223,710

19. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	16,617	13,086	13,063	12,259
Provision for loss allowance	(6,941)	(9,748)	(9,751)	(9,936)
Trade receivables, net *(note (i))*	9,676	3,338	3,312	2,323
Bills receivables at FVTOCI *(note (ii))*	90	8,702	1,800	1,299
Prepayments for machinery and equipment	34,061	19,623	7,809	7,809
Prepayments for construction costs	42,650	42,663	6,536	24,261
Prepayments for chemical products	4,500	17,462	18,874	13,159
Input value-added tax to be deducted	43,219	47,482	43,921	42,215
Deposits and other receivables	5,856	10,583	5,657	5,780
Other prepayments	424	381	1,279	1,877
Prepayments, deposits and other receivables	130,710	138,194	84,076	95,101
Trade and other receivables	140,476	150,234	89,188	98,723
Analysed as:				
– Non-current assets	76,711	62,286	14,345	32,070
– Current assets	63,765	87,948	74,843	66,653
	140,476	150,234	89,188	98,723

Notes:

(i) Trade receivables

Sales to customers are normally made with credit terms of 0 to 30 days. For new customers, deposits or cash on delivery may be required. The Target Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the director.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	At 31 December			At 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	6,510	160	9	2,090
91 to 180 days	302	16	108	233
181 to 365 days	59	2,803	20	–
Over 365 days	2,805	359	3,175	–
	9,676	3,338	3,312	2,323

Reconciliation of loss allowance for trade receivables:

	At 31 December			At 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	4,136	6,941	9,748	9,751
Increase in loss allowance for the year/period	2,805	2,807	3	185
At end of the year/period	6,941	9,748	9,751	9,936

The Target Company applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	**1 - 90 days past due**	**91 - 180 days past due**	**181 - 365 days past due**	**Over 365 days past due**	**Total**
At 31 December 2018						
Weighted average expected loss rate	0%	0%	0%	49%	100%	
Receivable amount (RMB'000)	6,510	–	302	5,668	4,137	16,617
Loss allowance (RMB'000)	–	–	–	2,804	4,137	6,941
At 31 December 2019						
Weighted average expected loss rate	0%	0%	0%	0%	96%	
Receivable amount (RMB'000)	50	126	–	2,803	10,107	13,086
Loss allowance (RMB'000)	–	–	–	–	9,748	9,748
At 31 December 2020						
Weighted average expected loss rate	0%	0%	0%	0%	75%	
Receivable amount (RMB'000)	–	9	108	20	12,926	13,063
Loss allowance (RMB'000)	–	–	–	–	9,751	9,751
At 30 September 2021						
Weighted average expected loss rate	0%	10%	0%	0%	100%	
Receivable amount (RMB'000)	660	1,848	–	–	9,751	12,259
Loss allowance (RMB'000)	–	185	–	–	9,751	9,936

(ii) Bills receivables at FVTOCI

The Target Company's bills receivables are held under a business model of collecting cash flows and endorsing to suppliers, and are classified as financial assets at FVTOCI. As at 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, all the bills receivables were with a maturity period of less than one year from the end of the reporting period.

The aging analysis of bills receivables, based on the bills' issue date, is as follows:

	At 31 December			At 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	90	8,661	–	799
91 to 180 days	–	10	1,800	500
Over 365 days	–	31	–	–
	90	8,702	1,800	1,299

As at 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, the Target Company endorsed certain bills receivables accepted by certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade and other payables due to such suppliers (the "Endorsement"). These Endorsed Notes had a maturity date of less than one year from the end of the reporting period. Subsequent to the Endorsement, the Target Company did not retain any rights on the use of the Endorsed Notes, including the sale, transfer or pledge of the Endorsed Notes to any other third parties. In accordance with the "Law of Negotiable Instruments" in the PRC, the holders of the Endorsed Notes have a right of recourse against the Target Company if the PRC banks default (the "Continuing Involvement").

The total carrying amount of the Endorsed Notes of the Target Company as at 31 December 2018, 2019, 2020 and 30 September 2021 were approximately RMB63,568,000, RMB70,295,000, RMB27,364,000 and RMB102,563,000, respectively. In the opinion of the director of the Target Company, the Target Company has transferred substantially all the risks and rewards of ownership of all Endorsed Notes accepted by large and reputable banks (the "Derecognised Notes"). Accordingly, the Target Company has derecognised the full carrying amounts of these Derecognised Notes and the associated trade and other payables.

The maximum exposure to loss from the Target Company's Continuing Involvement in these Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amount. In the opinion of the director of the Target Company, the fair values of the Target Company's Continuing Involvement in the Derecognised Notes are not significant.

During the Relevant Periods, the Target Company has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the Relevant Periods or cumulatively. The Endorsement has been made evenly throughout the Relevant Periods.

As at 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, bills receivables of approximately nil, nil, RMB1,800,000, and nil, respectively, were pledged as security for the bills payables mentioned on note (ii) of note 22 to the Historical Financial Information of the Target Company.

20. DUE FROM A FELLOW SUBSIDIARY

The amount is unsecured, interest-free and has no fixed repayment terms.

21. PLEDGED BANK DEPOSITS, RESTRICTED BANK BALANCES AND BANK AND CASH BALANCES

The Target Company's pledged bank deposits represented deposits pledged to banks to secure bills payables as set out in note (ii) of note 22 to Historical Financial Information. The deposits are in RMB and at fixed interest rate ranged from 2.13% to 4.30% p.a. and 2.10% to 2.18% p.a. as at 31 December 2019 and 30 September 2021, respectively, and therefore are subject to fair value interest rate risk.

As at 31 December 2020, restricted bank balances of RMB1,818,000 carry interest at market rate of 0.3% p.a. and can only be applied to settle compensation from litigation loss cases.

As at 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, the bank and cash balances of the Target Company denominated in RMB amounted to RMB7,276,000, RMB20,339,000, RMB299,000 and RMB349,000, respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

22. TRADE AND OTHER PAYABLES

	At 31 December			At 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(note (i))*	49,687	14,060	35,663	34,477
Bills payables *(note (ii))*	45,000	140,000	1,800	42,000
Accrued construction cost	–	–	362,044	174,087
Accrued machinery and equipment cost	–	–	81,300	80,614
Construction cost payables	9,544	10,252	10,214	12,259
Machinery and equipment cost payables	7,475	14,119	14,451	12,732
Proprietary technology cost payables	69,000	69,000	69,000	69,000
Other payables	1,838	1,078	1,273	20,569
	182,544	248,509	575,745	445,738

Notes:

(i) Trade payables

The aging analysis of trade payables, based on the invoice date, is as follows:

	At 31 December			At 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	24,220	7,934	22,183	13,646
91 to 180 days	13,355	4,012	3,487	7,633
181 to 365 days	12,112	809	6,104	8,723
Over 365 days	–	1,305	3,889	4,475
	49,687	14,060	35,663	34,477

(ii) Bills payables

The aging analysis of bills payables, based on the bills' issue date, is as follows:

	At 31 December			At 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	–	–	1,800	–
91 to 180 days	–	–	–	20,000
181 to 365 days	45,000	140,000	–	22,000
	45,000	140,000	1,800	42,000

Bills payables were secured by certain properties owned by a fellow subsidiary as at 31 December 2018.

Bills payables were secured by the pledged bank deposits amounted to approximately RMB140,000,000, nil and RMB40,000,000 as mentioned on note 21 to Historical Financial Information and bills receivables amounted to approximately nil, RMB1,800,000 and nil as mentioned on note (ii) of note 19 to Historical Financial Information as at 31 December 2019, 31 December 2020 and 30 September 2021, respectively.

23. CONTRACT LIABILITIES

Disclosure of revenue-related items:

	At 1 January	At 31 December			At 30 September
	2018	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	–	856	18,811	4,146	711

	At 1 January	At 31 December			At 30 September
	2018	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contract receivables (included in trade receivables)	11,169	9,676	3,338	3,312	2,323

	At 31 December			At 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Transaction prices allocated to performance obligations unsatisfied at end of years/period and expected to be recognised as revenue in:				
– year ended 31 December 2019	856	N/A	N/A	N/A
– year ended 31 December 2020	–	18,811	N/A	N/A
– year ended 31 December 2021	–	–	4,146	–
– year ended 30 September 2022	–	–	–	711
	856	18,811	4,146	711

	Year ended 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	Nine months ended 30 September 2021 RMB'000
Revenue recognised in the years/period that was included in contract liabilities at beginning of years/period	–	856	18,811	4,146

Significant changes in contract liabilities during the years/period:

	Year ended 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	Nine months ended 30 September 2021 RMB'000
Increase due to operations in the Relevant Periods	856	18,811	4,146	711
Transfer of contract liabilities to revenue	–	(856)	(18,811)	(4,146)

A contract liability represents the Target Company's obligation to transfer products to a customer for which the Target Company has received consideration (or an amount of consideration is due) from the customer.

24. DUE TO IMMEDIATE HOLDING COMPANY

The advance is unsecured, interest-free and has no fixed repayment terms.

25. BANK BORROWINGS

	At 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	At 30 September 2021 RMB'000
Secured bank borrowings are repayable as follows:				
On demand or within one year	50,625	210,625	155,500	208,700
In the second year	40,625	5,000	121,875	133,950
In the third to fifth years, inclusive	193,750	188,750	66,875	8,500
	285,000	404,375	344,250	351,150
Unsecured bank borrowing is repayable within one year	–	–	–	1,000
Total bank borrowings	285,000	404,375	344,250	352,150
Less: Amounts due for settlement within 12 months (shown under current liabilities)	(50,625)	(210,625)	(155,500)	(209,700)
Amount due for settlement after 12 months	234,375	193,750	188,750	142,450

The interest rates ranges at end of the years/period were as follows:

	At 31 December			At 30 September
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	5.22%-5.61%	5.08%-5.66%	4.35%-5.61%	4.35%-5.61%

At 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, bank borrowings of RMB285,000,000, RMB244,375,000, RMB193,750,000 and RMB250,650,000 are arranged at floating rates, respectively, thus exposing the Target Company to cash flow interest rate risk.

The bank borrowings are:

– guaranteed by independent third parties;

– guaranteed by the ultimate holding company;

– guaranteed by fellow subsidiaries;

– guaranteed by a related company controlled by Mr. Zhang;

– personal guarantee provided by Mr. Zhang and/or his spouse;

– secured by the Target Company's certain right-of-use assets as mentioned on note 16 to the Historical Financial Information;

– secured by certain properties owned by Mr. Zhang;

– secured by certain properties owned by a related company controlled by Mr. Zhang;

– secured by certain properties owned by fellow subsidiaries;

– secured by certain properties owned by the immediate holding company;

– secured by certain time deposits owned by the ultimate holding company; and

– secured by the immediate holding company's shares owned by the ultimate holding company;

26. SHARE CAPITAL

	Amount
	RMB'000
Authorised ordinary shares:	
At 1 January 2018, 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020, 31 December 2020, 1 January 2021 and 30 September 2021	30,000
Issued and fully paid ordinary shares:	
At 1 January 2018, 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020, 31 December 2020, 1 January 2021 and 30 September 2021	30,000

The Target Company's objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

27. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the Target Company's changes in liabilities arising from financing activities during the Relevant Periods:

	Due to immediate holding company *RMB'000*	**Bank borrowings** *RMB'000*	**Total liabilities from financing activities** *RMB'000*
At 1 January 2018	320,781	25,048	345,829
Changes in cash flows	23,006	259,952	282,958
Non-cash changes			
– Payables paid by the immediate holding company	3,813	–	3,813
– Receivables received by the immediate holding company	(11,488)	–	(11,488)
At 31 December 2018 and 1 January 2019	336,112	285,000	621,112
Changes in cash flows	157,705	119,375	277,080
Non-cash changes			
– Purchases of property, plant and equipment paid by the immediate holding company	141	–	141
– Payables paid by the immediate holding company	824	–	824
– Receivables received by the immediate holding company	(454)	–	(454)
At 31 December 2019 and 1 January 2020	494,328	404,375	898,703
Changes in cash flows	9,384	(60,125)	(50,741)
Non-cash changes			
– Purchases of property, plant and equipment paid by the immediate holding company	2	–	2
– Payables paid by the immediate holding company	1,343	–	1,343
– Receivables received by the immediate holding company	(3,036)	–	(3,036)
At 31 December 2020 and 1 January 2021	502,021	344,250	846,271
Changes in cash flows	183,749	7,900	191,649
Non-cash changes			
– Purchases of property, plant and equipment paid by the immediate holding company	6	–	6
– Payables paid by the immediate holding company	950	–	950
– Receivables received by the immediate holding company	(9,246)	–	(9,246)
At 30 September 2021	677,480	352,150	1,029,630
At 1 January 2020	494,328	404,375	898,703
Changes in cash flows (unaudited)	9,705	(35,530)	(25,825)
Non-cash changes (unaudited)			
– Purchases of property, plant and equipment paid by the immediate holding company	2	–	2
– Payables paid by the immediate holding company	9	–	9
– Receivables received by the immediate holding company	(80)	–	(80)
At 30 September 2020 (unaudited)	503,964	368,845	872,809

28. CAPITAL COMMITMENTS

The Target Company's capital commitments at the end of each reporting periods are as follows:

	At 31 December			At 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Construction commitments in respect of property, plant and equipment under construction contracted for but not provided for	577,108	537,799	158,429	152,766

29. CONTINGENT LIABILITIES

As at 31 December 2018, 31 December 2019 and 31 December 2020, the Target Company did not have any significant contingent liabilities.

Financial guarantees issued

As at 30 September 2021, the Target Company has issued guarantees of RMB136,890,000 to a bank in respect of banking facilities granted to the immediate holding company. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety. In the opinion of the director, the fair values of the financial guarantee contracts are not significant as the possibility of default by the immediate holding company is remote and, in case of default in payments, the net realisable value of the pledged properties by other parties can recover the repayment of the outstanding principals together with the accrued interest and penalty. Accordingly, no provision has been made in the Historical Financial Information for these guarantees.

30. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in notes to the Historical Financial Information, the Target Company had the following transactions and balances with its related parties during the Relevant Periods:

Balances with its related parties:

	At 31 December			At 30 September
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bills receivables from immediate holding company	–	–	–	1,299
Bills payables to immediate holding company	45,000	140,000	900	40,000

Transactions with its related parties:

	Year ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Sales to immediate holding company	58,283	76,816	58,059	34,126	61,617
Purchase from immediate holding company	124,916	60,787	157,666	17,448	29,932
Purchase from a fellow subsidiary	–	–	1,641	–	4,938
Handling income from immediate holding company	141	545	1,608	1,043	243

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 September 2021.

*Set out below is the management discussion and analysis of the Target Company for the three years ended 31 December 2018, 2019 and 2020, and the nine months ended 30 September 2020 and 2021 (the "**Relevant Period**"), for the purpose of this Appendix only. The following financial information is based on the Appendix III to this Circular headed "Financial Information of the Target Company".*

1. BUSINESS REVIEW

The Target Company was incorporated in the PRC with limited liability. The address of its registered office and principal place of business are 99 Danyangmen North Road, Jintan District, Changzhou City, Jiangsu Province, China. The Target Company is principally engaged in (i) sales of chemical products, in particular, environmentally friendly refrigerants; and (ii) research and development of chemical products.

2. RESULTS OF OPERATIONS

Set out below is the key financial information of the Target Company during the Relevant Period:

	Year ended 31 December			Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue	81,484	189,277	136,991	92,790	73,324
Cost of goods sold	(81,199)	(187,020)	(136,327)	(92,241)	(73,228)
Gross profit	285	2,257	664	549	96
Interest revenue	67	4,987	617	612	8
Other income and loss	(2,644)	(2,262)	1,952	1,381	168
Administrative expenses	(19,124)	(12,524)	(8,586)	(6,281)	(6,408)
Loss from operations	(21,416)	(7,542)	(5,353)	(3,379)	(6,136)
Finance costs	(16,498)	(21,175)	(20,411)	(13,683)	(14,972)
Loss before tax	(37,914)	(28,717)	(25,764)	(17,422)	(21,108)
Income tax expenses	–	–	–	–	–
Loss and total comprehensive expense for the years/periods attributable to owners of the Company	(37,914)	(28,717)	(25,764)	(17,422)	(21,108)

3. FINANCIAL REVIEW

(a) Revenue

During the Relevant Period, the revenue recorded by the Target Company was approximately RMB81.4 million, RMB189.3 million, RMB137.0 million and RMB73.3 million respectively, which was the sale of chemical products such as Trifluoroethanol, Tetrafluoroethane, Zinc granule and etc. during the Relevant Period. The decrease in revenue during the year ended 31 December 2020 was mainly due to decrease in sales of the Trifluorochloroethylene and Hydrofluoric acid which the Target Company trading.

(b) Gross profit margin

During the Relevant Period, the gross profit margin recorded by the Target Company was approximately 0.3%, 1.2%, 0.5% and 0.1% respectively.

(c) Interest Revenue

During the Relevant Period, interest revenue recorded by the Target Company was approximately RMB67,000, RMB5.0 million, RMB0.6 million and RMB8,000 respectively. The interest revenue mainly represents bank interest income on the fixed deposit.

(d) Other income

For the year ended 31 December 2018 and 31 December 2019, other losses recorded by the Target Company were approximately RMB2.6 million, RMB2.3 million respectively. For the year ended 31 December 2020 and the nine months ended 30 September 2021, other income recorded by the Target Company were approximately RMB2.0 million and RMB0.2 million respectively. The other income and loss mainly comprises of government grants, handling income and allowance provision for trade receivables.

(e) Administrative expenses

During the Relevant Period, the administrative expenses recorded by the Target Company were approximately RMB19.1 million, RMB12.5 million, RMB8.6 million and RMB6.4 million, respectively, which mainly include staff costs, insurance, office and utility expenses and depreciation. The decrease in the administrative expenses during the year ended 31 December 2020 was mainly attributable to a more effective cost control of the Target Company.

(f) Finance costs

During the Relevant Period, finance costs recorded by the Target Company were approximately RMB16.5 million, RMB21.2 million, RMB20.4 million and RMB15.0 million, respectively. The finance costs mainly represent interest on bills receivable and letter of credit discounted and interest on borrowings.

(g) Income tax expenses

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Target Company is 25% for the years ended 31 December 2018, 31 December 2019, 31 December 2020 and nine months ended 30 September 2020 and 30 September 2021. As at 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, the Target Company has unused tax losses of RMB51,701,000, RMB77,567,000, RMB103,288,000 and RMB124,181,000, respectively, available for offset against future profits. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future income stream. As at 31 December 2018, 31 December 2019, 31 December 2020 and 30 September 2021, these unrecognised tax losses will expire in 2022 to 2023, 2022 to 2024, 2022 to 2025 and 2022 to 2026, respectively.

(h) Loss for the year/period

During the Relevant Period, the Target Company recorded net losses of approximately RMB37.9 million, RMB28.7 million, RMB25.8 million and RMB21.1 million, respectively.

(i) Dividend paid

During the Relevant Period, the Target Company did not declare or pay any dividends.

(j) Liquidity and financial resources

The current ratio of the Target Company, calculated as current assets divided by current liabilities, as at 31 December 2018, 2019 and 2020 and 30 September 2021 was approximately 0.5, 0.57, 0.27 and 0.25, respectively. The bank balances and cash of the Target Company as at 31 December 2018, 2019 and 2020 and 30 September 2021 was approximately RMB7.3 million, RMB20.3 million, RMB0.3 million and RMB0.3 million, respectively.

(k) Gearing ratio

The gearing ratio of the Target Company, calculated as net debt divided by the total equity attributable to owners of the Target Company, were nil as the Target Company had negative equity in the corresponding periods.

(l) Charges on assets

As at 30 September 2021, the Target Company had RMB98.6 million of land use rights and RMB40.0 million of pledged bank deposits were pledged as bank borrowings and bills payables respectively for the Target Company's borrowings.

4. SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

During the Relevant Period, the Target Company did not have any significant investments or material acquisitions.

5. SEGMENTAL INFORMATION

The Target Company's operating segment is sale of chemical products. Since this is the only operating segment of the Target Company, no further analysis thereof is presented.

6. CAPITAL COMMITMENTS

As at 31 December 2018, 2019 and 2020 and 30 September 2021, the Target Company had capital commitments of approximately RMB577.1 million, 537.8 million, 158.4 million and 152.8 million respectively. The capital commitments comprised of construction commitments in respect of property, plant and equipment under construction contracted for but not provided for.

7. CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

As at 31 December 2018, 2019 and 2020 and 30 September 2021, the Target Company did not have any significant contingent liabilities.

8. FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Target Company had no plan for material investments or capital assets or significant disposals as at 31 December 2018, 2019 and 2020 and 30 September 2021.

9. NUMBER OF EMPLOYEES

As at the Latest Practicable Date, the Target Company had a total of 11 employees in the PRC.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong.

中汇
ZHONGHUI

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

23 March 2022

The Board of Directors
Ko Yo Chemical (Group) Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The Unaudited Pro Forma Financial Information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2021 and related notes as set out in Appendix V of the circular (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are set out in Appendix V of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the acquisition (the "Acquisition") of the 90% interest in Jiangsu Bluestar Green Material Co., Ltd.* (the "Target Company") (collectively the "Enlarged Group") on the Group's financial position as at 30 June 2021 as if the Acquisition had taken place on 30 June 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements as included in the interim report for the six months ended 30 June 2021, on which no review report has been published. Information about the Target Company's financial position as at 30 September 2021 has been extracted by the Directors from the accountants' report of the Target Company as set out in Appendix III to the Circular.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occured or transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition as at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Acquisition, and to obtain sufficient appropriate evidence about whether:

– The related pro forma adjustments give appropriate effect to those criteria; and

– The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

* *For identification purposes only.*

Yours faithfully,

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Yeung Hong Chun
Practising Certificate Number P07374

Hong Kong, 23 March 2022

(1) INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Capitalised terms used herein shall have the same meanings as those defined in this Circular, unless the context requires otherwise.

The accompanying unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared by the Directors of the Company to illustrate the effect of the Acquisition, assuming the transaction had been completed as at 30 June 2021, might have affected the financial position of the Group.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2021 as extracted from the interim report of the Group for the six months ended 30 June 2021 and the audited statement of financial position of the Target Company as at 30 September 2021 as extracted from the Accountants' Report set out in Appendix III of the Circular after making certain pro forma adjustments resulting from the Acquisition.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition actually occurred on 30 June 2021. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Group's future financial position.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix II of the Circular, the financial information of the Target Company as set out in Appendix III of the Circular and other financial information included elsewhere in the Circular.

(2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	Unaudited condensed consolidated financial statement of the Group as at 30 June 2021	Audited statement of financial position of the Target Company as at 30 September 2021	Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	*(Audited)*				
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current assets						
Right-of-use assets	107,130	98,595	37,605	–	–	243,330
Property, plant and equipment	2,018,318	873,398	87,317	–	–	2,979,033
Investment properties	55,849	–	–	–	–	55,849
Mining right	318,000	–	–	–	–	318,000
Intangible assets	108	52,369	–	–	–	52,477
Goodwill	–	–	–	20,136	–	20,136
Prepayments	–	32,070	–	–	–	32,070
Deferred income tax assets	62,012	–	–	–	–	62,012
	2,561,417	1,056,432	124,922	20,136	–	3,762,907
Current assets						
Inventories	114,103	223,710	–	–	–	337,813
Trade and other receivables	222,028	66,653	–	–	2,871	291,552
Due from a fellow subsidiary	–	2,871	–	–	(2,871)	–
Pledged bank deposits	19,479	40,000	–	–	–	59,479
Cash and bank deposits	43,924	349	–	(27,000)	–	17,273
	399,534	333,583	–	(27,000)	–	706,117
Current liabilities						
Trade and other payables	461,940	445,738	–	–	–	907,678
Contract liabilities	91,423	711	–	–	–	92,134
Short-term borrowings, secured	1,860,964	209,700	–	–	–	2,070,664
Provision for tax	5,968	–	–	–	–	5,968
Due to immediate holding company	–	677,480	–	–	(677,480)	–
Due to non-controlling interest	–	–	–	–	677,480	677,480
Lease liabilities	1,892	–	–	–	–	1,892
	2,422,187	1,333,629	–	–	–	3,755,816
Net current liabilities	(2,022,653)	(1,000,046)	–	(27,000)	–	(3,049,699)
Total assets less current liabilities	538,764	56,386	124,922	(6,864)	–	713,208

	Unaudited condensed consolidated financial statement of the Group as at 30 June 2021	Audited statement of financial position of the Target Company as at 30 September 2021	Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	*(Audited)*				
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current liabilities						
Long-term borrowings	–	142,450	–	–	–	142,450
Convertible bonds	287,932	–	–	–	–	287,932
Deferred income tax liabilities	76,790	–	31,231	–	–	108,021
Lease liabilities	1,526	–	–	–	–	1,526
	366,248	142,450	31,231	–	–	539,929
Net assets/(liabilities)	172,516	(86,064)	93,691	(6,864)	–	173,279

(3) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Figures are extracted from the unaudited condensed consolidated financial statements of the Group as set out in the interim report of the Company for the six months ended 30 June 2021.

(2) Figures are extracted from the Target Company's statement of financial position as at 30 September 2021 included in the accountants' report of the Target Company as set out in Appendix III to the Circular.

(3) For the purpose of the Unaudited Pro Forma Financial Information and for illustrative purpose only, the Directors have assessed the fair values of the identifiable assets and liabilities of the Target Company as at 30 September 2021 by taking reference of the valuation of the Target Company as at 30 September 2021 carried out by Roma Appraisals Limited, an independent valuer.

	RMB'000
Carrying amount of net liabilities value of the Target Company as at 30 September 2021	(86,064)
Add:	
Fair value adjustments on:	
Right-of-use assets	37,605
Property, plant and equipment	87,317
Adjustment for deferred income tax liabilities	(31,231)
Fair value of net assets acquired in the Acquisition	7,627

(4) Pursuant to the sale and purchase agreement (the "Sale and Purchase Agreement") entered into between Ko Yo Hong Kong New Material Company Limited (a wholly-owned subsidiary of the Company) and Jiangsu Bluestar Green Technology Co., Ltd.* (the "Vendor"), the total consideration amounting to RMB27,000,000 will be settled by cash. Upon completion of the Acquisition, the Company will own 90% equity interest in the Target Company. The identifiable assets and liabilities of the Target Company will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combination".

Goodwill arising from the Acquisition of 90% equity interest in the Target Company is calculated as follows:

	Note	*RMB'000*
Cash consideration		27,000
Identifiable assets acquired and liabilities assumed	*(3)*	(7,627)
Non-controlling interests with 10% equity interest		763
Goodwill		20,136

For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assessed whether there is any impairment in respect of the goodwill expected to arise from the Acquisition following the principles set out in Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the Directors' assessment, the Directors consider that there is no impairment on the goodwill.

The Company will adopt consistent accounting policies and principal assumptions and valuation method (as used in the Unaudited Pro Forma Financial Information) to assess the impairment of the Enlarged Group's goodwill in the future, and communicate such basis with its external auditor and audit committee.

(5) The adjustment represented the reclassification from amount due from a fellow subsidiary of approximately RMB2,871,000 to other receivables and amount due to immediate holding company of approximately RMB677,480,000 to due to non-controlling interest.

* *For identification purposes only.*

The following is the text of a report prepared for the purpose of incorporation in this circular received from Roma Appraisals Limited, an independent valuer, in connection with its valuations as at 30 September 2021.

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23 March 2022

Ko Yo Chemical (Group) Limited
Suite No. 02, 31st Floor, Sino Plaza,
255-257 Gloucester Road,
Causeway Bay, Hong Kong

Dear Sir/Madam,

Re: Valuation of 100% Equity Interests in 江蘇藍色星球環保新材料有限公司

In accordance with the instructions from Ko Yo Chemical (Group) Limited (hereinafter referred to as the "Company") to us to conduct a business valuation on 100% equity interests in 江蘇藍色星球環保新材料有限公司 (Jiangsu Bluestar Green Material Co., Ltd.*) (hereinafter referred to as the "Target Company"). We are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing our valuation as at 30 September 2021 (hereinafter referred to as the "Date of Valuation").

This report states the purpose of valuation, scope of work, industry overview, overview of the Target Company, overview of the deal, basis of valuation, investigation, valuation methodology, major assumptions, information reviewed, 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, Roma Appraisals Limited ("Roma Appraisals") acknowledges that this report may be made available to the Company for public documentation reference purpose only.

Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and on information provided by the management of the Company, the management of the Target Company and/or their representative(s) (together referred to as the "Management").

In preparing this report, we have had discussions with the Management in relation to the development, operations and other relevant information of the Target Company. In arriving at our opinion of value, we have relied on the completeness, accuracy and representation of operational, financial and other pertinent data and information of the Target Company as provided by the Management to a considerable extent.

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.

We do not express an opinion as to whether the actual results of the business operation of the Target Company will approximate those projected because assumptions regarding future events by their nature are not capable of independent substantiation.

3. INDUSTRY OVERVIEW

3.1 Global Consumption and Production for Propylene Oxide

In 2020, the global propylene oxide production capacity was about 11.2 million tons per year, of which Asia accounted for largest portion of about 45% of the total global production capacity. The production capacity of Western Europe and North America accounted for about 24% and 22% respectively.

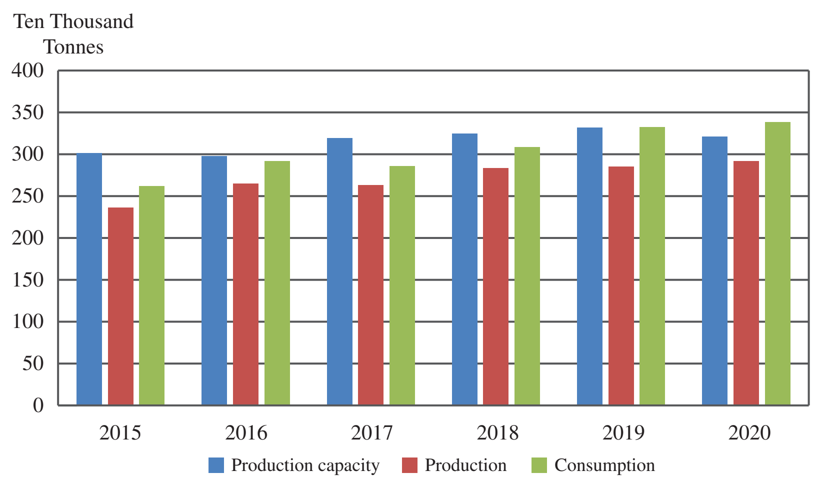
In consumption perspective, the world consumption of propylene oxide was 9.3 million tones in 2020. Asia is the world's largest consumption region for Propylene oxide, with an annual consumption of 4.48 million tons, accounted for 48% of the world's total consumption. The propylene oxide consumption for Western Europe and North America consumption is 2.21 million tons and 1.87 million tons respectively, accounted for 24% and 20%.

3.2 Consumption and Production for Propylene Oxide in China

For production, China's production capacity of 3.20 million tons of Propylene oxide per year in 2020. Production capacity was decreased by 110,000 tons compare with last year due to COVID-19 epidemic.

China consumed for around 3.38 million tons of propylene oxide in 2020 which increased by 1.78% when comparing with last year. Propylene oxide was mainly used in the production of polyether polyol, dimethyl carbonate, propylene glycol ethers and esters. The consumption in polyether polyol accounted for 75%. There was 292,000 tons of supply and demand gap of Propylene oxide in China in 2020. The below figure will show 2015-2020 supply and demand of Propylene oxide in China. The consumption and production of propylene oxide increased over the period.

Figure 1 – Supply and Demand of Propylene Oxide in China in 2015-2020



Source: 產業信息網 chyxx.com

4. OVERVIEW OF THE TARGET COMPANY

The Target Company is a private enterprise in Jintan District, Changzhou City. It is principally engaged in (i) manufacturing and sale of chemical products; and (ii) research and development of chemical products.

5. OVERVIEW OF THE DEAL

The Target Company agrees to sell the target shares to the Company, and the Company pays a total consideration of RMB27,000,000. After the completion of the acquisition, the Company will hold 90% of the equity in the Target Company.

As advised by the Management, the Company expects to complete the establishment of the propylene oxide production line by 2023, and commence production of propylene oxide within the same year.

The Target Company is currently engaged in trading of chemical products only. As advised by the Management, the business of trading of chemical products will not be transferred in the acquisition transaction.

6. BASIS OF VALUATION

Our valuation was conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2020, **market value** is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

7. INVESTIGATION

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Target Company.

We have had discussions with the Management in relation to the development, operations and other relevant information of the Target Company. We have also consulted other sources of financial and business information. In arriving at our opinion of value, we have relied on the completeness, accuracy and representation of operational, financial and other pertinent data and information of the Target Company as provided by the Management to a considerable extent.

The valuation of the Target Company requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Target Company;
- The financial information of the Target Company;
- The business plan of the Target Company as provided by the Management;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market; and
- Relevant licenses and agreements.

8. VALUATION METHODOLOGY

There are three generally accepted approaches to obtain the market value of the Target Company, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

8.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

8.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

8.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("equity and long term debt"). Under the Asset-Based Approach, the market value of equity of a business entity/group refers to the market values of various assets and liabilities on the statement of financial position of the business entity/group as at the measurement date, in which the market value of each asset and liability was determined by reasonable valuation approaches based on its nature.

8.4 Business Valuation

In the process of valuing the Target Company, we have taken into account of its operation and the nature of the industry it is participating.

The Market-Based Approach was not adopted in this case because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were not readily available. The Income-Based Approach was not adopted because a lot of assumptions would have to be made and the valuation could be largely influenced by any inappropriate assumptions made. We have therefore considered the adoption of the Asset-Based Approach in arriving at the market value of the 100% equity interests in the Target Company.

8.4.1 Inventories, Due from a Fellow Subsidiary, Pledged Bank Deposits, Prepayments and Bank and Cash Balances

After discussion with the Management and analyzing their natures, we have adopted the book values as their market values as at the Date of Valuation.

8.4.2 Trade and other receivables

The adopted market value is the present value of the amounts to be received, determined at appropriate current interest rates, less allowance for uncollectibility and collection costs, if necessary, in valuing beneficial contracts and other identifiable assets. However, discounting is not required for short-term receivables, beneficial contracts and other identifiable assets when the difference between the nominal and discounted amounts is not material.

8.4.3 Intangible Assets

After discussion with the Management, the intangible asset was related to a technology and rights named "40萬噸/年丙烯直接氧化法(HPPO)合成環氧丙烷專有技術" (hereinafter referred to as the "Intangible Asset"), the Intangible Asset was needed in order to build the propylene oxide production plant. The lump sum contract amount of the Intangible Asset was RMB80,000,000.

We considered it is an intellectual property in process and not completed up to the Date of Valuation, therefore we have adopted the book value from the accountants' report as at the Date of Valuation to estimate its market value as at the Date of Valuation based on the information available related to the intangible asset.

8.4.4 Property, plant and equipment and Right-of-use Assets

The Target Company's property, plant and equipment mainly included the plant and equipment under construction usages mainly included manufacturing and sale of chemical products of Propylene Oxide Project (環氧丙烷項目), Propylene Spherical Tank project (丙烯球罐項目), Lithium Hexafluorophosphate Project (六氟磷酸鋰項目), Hydrogen Peroxide Equipment (雙氧水設備裝置), Power Supplier Works (電力工程), Main Building (綜合樓) (as well as research and development of chemical products; and the property mainly included the buildings for operation management, storage and the infrastructures for supporting the development operation.

Right-of-use asset included the right of use of the five parcels of land situated in Jintan District, Changzhou City, Jiangsu Province. According to the Real Estate Certificates Nos. Su (2017) Jin Tan Qu Zhi Ye Di0023621, 004502, 0004499, Tan Guo Yong (2014 Di 3672 and Di 3673) (蘇(2017)金壇區不動產權第0023621號,第0004502號,第0004499號,壇國用(2014)第3672號及第3673號), the total site area of the five parcels of land is about 331,138 sq.m., for industrial use and the land tenure expiry dates are between 2063 and 2068.

There are three recognized and accepted approaches to value the property, plant and equipment and right-of-use assets (hereinafter referred to as the "Property, Plant and Equipment" and "Right-of-use Assets" respectively), namely the direct comparison approach, income or earnings approach, and depreciated replacement cost approach ("DRC").

(1) Direct Comparison Approach

Direct comparison approach is considered as the most appropriate method of valuation when comparable information is adequate. Comparable properties of similar nature, character and location are analyzed. Adjustments will be applied to the said comparable properties to reflect items such as location, size, building age, floor level, view and layout, and then carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of the market value of the property.

The property is specifically used as Propylene Oxide Project facilities. It was built with specific requirements such as building materials, capacities on chemical and electricity ancillary facility for which the buildings and structures of the property has been constructed. The property is unlikely be used for other ordinary manufacturing activities. According to our market research, such specific type of facility is not readily available in the market. Furthermore, the specialize facilities in which the property was located was tailor-made on electricity supply on the chemical industry to develop the Propylene Oxide production there. Therefore there are no readily identifiable market comparables. As such, the direct comparison approach is not appropriate in the circumstances.

(2) Income or Earnings Approach

This is a technique in which the estimated stream of future benefits may be enjoyed by reason of ownership, usually the anticipated or projected earnings, is processed to indicate the amount measured through capitalization of net income or application of multiples derived from financial analysis of similar industries. The property is not under any existing lease and as mentioned above, chemical products of Propylene Oxide Project facilities are not readily available in the market, therefore, the net rental income for such type of property achievable in the existing market is not known. Accordingly, the income approach is not appropriate in the circumstances.

(3) Depreciated Replacement Cost Approach ("DRC")

The DRC is derived from a market value of the bare land based on direct comparison approach, plus the current cost of replacing the structures existing on the bare land less deductions for physical deterioration and all relevant forms of obsolescence and optimization (if applicable).

In practice, DRC approach may be used as a substitute for ascertaining the market value of specialized purpose-built property, due to the lack of market comparables available. Due to the specialized purpose-built nature of the property with specific requirements designed for Propylene Oxide Project facility and the lack of market comparables available as mentioned above, the DRC approach may be used as a substitute for valuing the buildings and structures of the property. Physical deterioration would be an adjustment on physical condition for the asset based on its depreciation of used years. We have also considered the obsolescence and optimization, if applicable.

Our valuation does not necessarily represent the amount that might be realized from the disposition of the property and the DRC is subject to adequate profitability of the concerned business, therefore, we have considered the capability with respect to the operation of the business.

Physical depreciation is the loss in value due to physical deterioration resulting from wear and tear in operation and exposure to elements. Deterioration due to age and deterioration due to usage are the main factors that affect physical condition.

8.4.5 Conclusion

After discussion with the Management and analyzing the natures, the major items included in Property, Plant and Equipment and Right-of-use Assets mainly included the land use rights held under the five real estate title certificates, under construction properties, structures and plant and machineries provided by the Management.

For the valuation of the Right-of-use Assets, direct comparison approach is considered as the most appropriate method of valuation when comparable information is adequate. Comparable properties of similar nature, character and location are analyzed. The DRC is derived from a market value of the bare land based on direct comparison approach, plus the current cost of replacing the structures existing on the bare land less deductions for physical deterioration and all relevant forms of obsolescence and optimization (if applicable).

In practice, DRC approach may be used as a substitute for ascertaining the market value of specialized purpose-built property, due to the lack of market comparables available. Due to the specialized purpose-built nature of the property with specific requirements designed for axle manufacturing and axle assembly facility and the lack of market comparables available as mentioned above, the DRC approach may be used as a substitute for valuing the buildings and structures of the property.

In determining the market value adjustment on the right-of-use assets using DRC, we have considered the characteristics of the land parcels such as location, usage, land tenure and remaining years of land use right. Four comparable lands were identified by the Independent Valuer, and certain relevant information of the comparable lands were summarised as below for illustration purpose:

	Location	Usage	Land tenure	Year of the land transaction conducted	Sale price per unit site area (approximately)
Comparable Land A	Jintan District, Changzhou City, Jiangsu Province, the PRC	Industrial Use	50 years	2021	RMB420 per square meter
Comparable Land B	Jintan District, Changzhou City, Jiangsu Province, the PRC	Industrial Use	50 years	2021	RMB420 per square meter
Comparable Land C	Jintan District, Changzhou City, Jiangsu Province, the PRC	Industrial Use	50 years	2021	RMB420 per square meter
Comparable Land D	Jintan District, Changzhou City, Jiangsu Province, the PRC	Industrial Use	50 years	2021	RMB420 per square meter

In arriving at the market value of the Target Company's right-of-use assets, we applied the sale price per unit site area of the comparable lands to the land parcels and adopted a depreciation rate to reflect the remaining years of the land use right of the land parcels. Accordingly, a market value of approximately RMB136.2 million as at 30 September 2021 was appraised.

In valuing the asset which are currently under development as at the date of valuation, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have also taken into account the accrued construction cost and professional fees relevant to the stage of construction with an extra premium 10% of a developer's profit/risk premium representing the expected return on top of the incurred costs to reflect the time and risk involved in the construction process as at the date of valuation.

We have assumed the fixed assets are kept in reasonable condition and should be capable of operating the purpose for which they were designed and produced. In addition, our valuation has been prepared based upon assumptions that the fixed assets will continue in the existing uses.

8.4.6 Trade and Other Payables

The acquirer shall use the present value of amounts to be disbursed in settling the liabilities determined at appropriate current interest rates. However, discounting is not required for short-term liabilities when the difference between the nominal and discounted amounts is not material.

8.4.7 Contract liabilities, Due to immediate holding company and Bank and other borrowings

After discussion with the Management and analyzing their natures, we have adopted the book values as their market values as at the Date of Valuation.

8.4.8 Conclusion of Asset-Based Approach

Market Values of the Assets and Liabilities of the Target Company as at 30 September 2021

	Market Value
	RMB
Non-Current Assets	
Property, Plant and Equipment	960,715,200
Right-of-use Assets	136,200,000
Intangible Assets	52,369,000
Prepayments	32,070,000
Total Non-Current Assets	1,181,354,200
Current Assets	
Inventories	223,710,000
Trade and other receivables	66,653,000
Due from a fellow subsidiary	2,871,000
Pledged bank deposits	40,000,000
Bank and cash balances	349,000
Total Current Assets	333,583,000
Total Assets	1,514,937,200
Current Liabilities	
Trade and other payables	445,738,000
Contract liabilities	711,000
Due to immediate holding company	677,480,000
Bank and other borrowings	209,700,000
Total Current Liabilities	1,333,629,000
Non-Current Liabilities	
Bank and other borrowings	142,450,000
Total Non-Current Liabilities	142,450,000
Total Liabilities	1,476,079,000
Net Asset Value	38,858,200

Note: Total figure may not sum up due to rounding.

8.4.9 Marketability Discount

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. With reference to the result of the restricted stock study published in "Stout Restricted Stock Study 2021" by Stout Risius Ross, LLC, a discount for lack of marketability of 15.80% was adopted in arriving at the market value of the Target Company as at the Date of Valuation.

8.5 Calculation Details

The calculation details of the market value of 100% equity interests in the Target Company were illustrated as follows:

Net Asset Value of the Target Company (RMB)	38,858,200
Marketability Discount	15.80%
100% Market Value of Target Company after the Marketability Discount (RMB)	32,718,604
100% Market Value of the Target Company after the Marketability Discount (RMB) (Rounded)	32,719,000

Note: The totals may not sum up due to rounding.

9. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- As advised by the Management, the Company expects to complete the establishment of the propylene oxide production line by 2023, and commence production of propylene oxide within the same year;

- The Intangible Asset is in the nature of intellectual property in process and not completed up to the Date of Valuation. Based on the information available related to the Intangible Asset, we have adopted the book value from the accountants' report as at the Date of Valuation to estimate its market value as at the Date of Valuation;

- The Target Company would be operated and developed as planned by the Management;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry;

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

- There will be no major change in the current taxation laws in the localities in which the Target Company 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 change in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company; and

- Interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing.

10. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors affecting the market value of the Target Company. The factors considered included, but were not necessarily limited to, the following:

- The Accountant's Report of Target Company as at 30 September 2021;

- Land certificate of the Target Company;

- Business Plan of the Target Company;

- 專有技術(成套技術工藝包)實施許可合同; and

- General descriptions in relation to the Target Company.

We have discussed the details with the Management on the information provided and assumed that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied on such information to a considerable extent in arriving at our opinion of value.

11. 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.

We would particularly point out that our valuation was based on the information such as the company background, business nature and financial information of the Target Company provided to us.

To the best of our knowledge, all data set forth in this report are assumed to be 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 are not in the position to verify the accuracy of all information provided to us. The information has not been audited or compiled by us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We assumed that the Management is competent and perform duties under the company regulation. Also, ownership of the Target Company was in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the market value of the Target Company.

We have not investigated the title to or any legal liabilities of the Target Company, and have assumed no responsibility for the title to the Target Company appraised.

Our conclusion of the market 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. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and the Management in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

No change to any item in any part of this report shall be made by anyone except Roma Appraisals. We have no responsibility for any such unauthorized change. Neither all nor any part of this report shall be disseminated to the public without the written consent and approval of Roma Appraisals through any means of communication or referenced in any publications, including but not limited to advertising, public relations, news or sales media.

This report may not be reproduced, in whole or in part, and utilized by any third parties for any purpose, without the written consent and approval of Roma Appraisals.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report shall not pass to the Company until all professional fee has been paid in full.

12. REMARKS

Unless otherwise stated, all monetary amounts 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 Company and their associated companies, or the values reported herein.

13. OPINION OF VALUE

Based on the investigation stated above and the valuation method employed, the market value of 100% equity interests in the Target Company as at the Date of Valuation, in our opinion, was reasonably stated as **RMB32,719,000 (RENMINBI THIRTY TWO MILLION SEVEN HUNDRED AND NINETEEN THOUSAND ONLY)**.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

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)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Ko Yo Chemical (Group) Limited (the "**Company**") will be held at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong on Friday, 22 April 2022 at 3 p.m. for considering and, if thought fit, passing, with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**,

   (a) the Sale and Purchase Agreement (as defined in the circular dated 23 March 2022 of the Company, a copy of which has been produced to the EGM marked "A" and initialed by the chairman of the EGM for identification purposes) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and

   (b) any one director of the Company (the "**Director**"), save for Mr. Zhang Weihua, be and is/are hereby authorised to do all such acts and things and sign and execute all such documents and to take such steps as he may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder or in connection therewith and to agree to and make such variation, amendments or waiver of matters relating thereto or in connection therewith."

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

Hong Kong, 23 March 2022

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

Principal place of business in Hong Kong:
Suite No. 02, 31st Floor, Sino Plaza
255-257 Gloucester Road
Causeway Bay, Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

2. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the share registrar of the Company, Union Registrars Limited, Suites 3301–04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not less than 48 hours before the time appointed for holding the meeting (or any adjournment thereof).

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.

4. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.

5. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.

6. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the ordinary resolution as set out above will be conducted by way of poll.

7. For the purpose of determining the right to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 19 April 2022 to Friday, 22 April 2022 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 14 April 2022.

8. If Typhoon Signal No. 8 or above is hoisted, or a "black" rainstorm warning signal or "extreme conditions after super typhoons" announced by the Hong Kong Government is/are in force in Hong Kong at or at any time after 12:00 noon on the date of the meeting, the meeting will be postponed. The Company will publish an announcement on the website of the Company at http://www.koyochem.com and on the website of the Stock Exchange at http://www.hkexnews.hk to notify Shareholders of the date, time and venue of the rescheduled meeting.

PRECAUTIONARY MEASURES FOR THE EGM

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

(i) Compulsory body temperature check will be conducted on every shareholder, proxy and other attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be asked to leave the EGM venue.

(ii) Shareholders that (a) have travelled, and have been in close contact with any person who has travelled, outside of Hong Kong (as per guidelines issued by the Hong Kong government at https://www.chp.gov.hk/en/features/102742.html) at any time in the preceding 14 days; (b) are, and have been, in close contact with any person who is, subject to any Hong Kong Government prescribed compulsory quarantine (including home quarantine); (c) are, and have been, in close contact with anyone who has contracted COVID-19, has been tested preliminarily positive of COVID-19 or is suspected of contracting COVID-19; or (d) have any flu-like symptoms, may be denied entry into the EGM venue and be asked to leave the EGM venue.

(iii) All shareholders, proxies and other attendees are required to wear surgical face masks inside the EGM venue at all times. Any person who does not comply with this requirement may be denied entry into the EGM venue and be asked to leave the EGM venue. A safe distance between seats are also recommended.

(iv) No refreshments will be served, and there will be no corporate gifts.

To enable Shareholders to participate in the EGM and to speak and observe in relation to the resolution(s) to be resolved at the EGM, Shareholders not attending the EGM in person may join a live streaming webcast of the EGM where they can both speak and see during the discussion session at the EGM via Zoom at zoom link address. Shareholders that intend to participate in the EGM via Zoom shall contact the Company's share registrar in Hong Kong, Union Registrars Limited before 4:00 p.m. on Wednesday, 20 April 2022 to obtain a passcode to join the EGM via the following means:

By email: 827EGM@unionregistrars.com.hk

By telephone: (852) 2849 3399

Shareholders should note that viewing the live streaming webcast of the EGM via Zoom will not be counted towards a quorum nor will they be able to cast their votes online. Shareholders who wish to vote are strongly encouraged to appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM by completing and returning the proxy form in accordance with the instructions therein by a time not less than 48 hours before the time appointed for the EGM (i.e. 3:00 p.m. on Wednesday, 20 April 2022), if they have not already done so.

To the extent permitted under the applicable laws, the Company reserves the right to deny any person entry into the EGM venue or require any person to leave the EGM venue so as to ensure the health and safety of the other attendees at the EGM. Subject to the development of COVID-19, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the websites of the Company (www.koyochem.com) and the Stock Exchange (www.hkexnews.hk) for further announcements and updates on the EGM arrangements.

In addition, the Company reminds all Shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting instead of attending the meeting in person, by completing and return the proxy form attached to this document. If any Shareholder chooses not to attend the meeting in person but has any question about any resolution or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to our registered office. If any Shareholder has any question relating to the meeting, please contact the Company's share registrar in Hong Kong, Union Registrars Limited at (852) 2849 3399.

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