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

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

**PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC
MANDATE**

The Board is pleased to announce that on 19 July 2018, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$270,000,000 (equivalent to RMB229,500,000) and the Company has conditionally agreed to issue the Convertible Bonds, subject to and on the terms of the Subscription Agreement.

Based on the initial Conversion Price of HK\$0.108 per Conversion Share and assuming full conversion of the Convertible Bonds, a maximum number of 2,500,000,000 Conversion Shares will be allotted and issued by the Company, representing approximately 58.2% of the issued share capital of the Company as at the date of this announcement; and 36.8% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares (assuming that there is no change in the issued share capital of the Company after the date of this announcement and before Closing).

The gross proceeds from the issue of Convertible Bonds will be approximately HK\$270,000,000 (equivalent to RMB229,500,000). The net proceeds from the issue of the Convertible Bonds pursuant to the Subscription Agreement, after deduction of all relevant costs and expenses, is estimated to be approximately HK\$269,000,000. The proceeds from the issue of the Convertible Bonds are intended to be used to repay borrowings, advances received from customers and the general working capital of the Group.

MANDATE TO ISSUE THE CONVERSION SHARES

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

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

IMPLICATIONS UNDER THE LISTING RULES

The Subscriber has been nominated by the nomination committee of the Board to serve as an executive Director. Subject to the approval of the Board, it is expected that the Subscriber will be appointed as an executive Director in the upcoming Board meeting, which would take place on or around 20 July 2018. Accordingly, the Subscriber would be a connected person of the Company under Chapter 14A of the Listing Rules at the time of Closing. Therefore, the issue of the Convertible Bonds to the Subscriber would constitute a connected transaction of the Company subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

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

An Independent Board Committee will be established to make recommendations to the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder.

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the obtaining of the Specific Mandate).

A circular containing, amongst other things, (i) further information on the Subscription Agreement; (ii) the Specific Mandate; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the terms of the Subscription Agreement with the Subscriber and the issue of the Convertible Bonds to the Subscriber; (iv) the advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription Agreement and the transactions contemplated thereunder; and (v) a notice of the EGM and a form of proxy, will be dispatched to the Shareholders as soon as practicable. It is estimated that the circular will be despatched to the Shareholders on or before 31 August 2018, as additional time is required by the Company for the preparation of certain information for inclusion in the circular.

Shareholders and potential investors should be aware that the Subscription Agreement and the transactions contemplated thereunder are subject to the fulfilment of the Conditions, and therefore the proposed issue of the Convertible Bonds may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

On 19 July 2018 (after market close), the Company entered into the Subscription Agreement with the Subscriber (an individual who has been nominated by the nomination committee of the Board to serve as an executive Director), pursuant to which the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$270,000,000 (equivalent to RMB229,500,000) and the Company has conditionally agreed to issue the Convertible Bonds, subject to and on the terms of the Subscription Agreement.

SUBSCRIPTION AGREEMENT

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

The Conversion Price of HK\$0.108 per Share represents:

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

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

The initial Conversion Price was determined after arm's length negotiations between the Company and the Subscriber with reference to, among others, the prevailing market price of the Shares.

Conditions Precedent

The issue of Convertible Bonds shall be conditional upon:

- a) the execution and delivery of the transaction documents by the Company and the Subscriber on or before the Closing Date;
- b) on the date of the Subscription Agreement and the Closing Date, the representations, warranties, agreements and undertakings of the Company in the Subscription Agreement being true, accurate and correct in all material respect at, and as if made on, the Closing Date;
- c) the Shareholders duly passing the resolutions approving, the Subscription Agreement and the transactions contemplated thereunder, including the granting of the Specific Mandate for the allotment and issue of the Conversion Shares at the EGM; and
- d) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares.

If the conditions above is not fulfilled on or before 31 December 2018 (or such other date as may be agreed between the Subscriber and the Company), the obligations of the parties under the Subscription Agreement shall lapse.

Closing of the Subscription

Closing of the issue of the Convertible Bonds shall take place at the principal place of business of the Company in Hong Kong (or such other place as may be agreed by the parties) on the third (3rd) Business Day (or such other date as may be agreed by the parties) after, and excluding, the date upon which the Closing Conditions in the Subscription Agreement has been satisfied.

Adjustments to the Conversion Price

The Conversion Price shall be adjusted as provided in each of the following cases:

- a) an alteration of the nominal value of the Shares as a result of consolidation, subdivision, re-denomination or reclassification;
- b) an issue by the Company of any Shares credited as fully-paid to the Shareholders by way of capitalization of profits or reserves including, Shares paid up out of distributable profits or reserves and/ or share premium account issued;
- c) a capital distribution (including an extraordinary dividend) being made by the Company to the Shareholders;

- d) an issue of any securities to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at less than 85% of the market price on the date of the announcement of the terms of such issue or grant;
- e) an issue of any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares);
- f) an issue of any securities (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (otherwise than as mentioned in item (d)) options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares in each case at a price per Share which is less than 85% of the market price on the date of announcement of the terms of such issue or grant;
- g) save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this item (g), an issue of any securities (other than the Convertible Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than 85% of the market price on the date of announcement of the terms of issue of such securities (otherwise as mentioned in items (d), (e) or (f) above);
- h) any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in item (g) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is reduced and is less than 85% of the market price on the date of announcement; and
- i) any other events where the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to above.

Ranking of Conversion Shares

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

Conversion Period

The Conversion Period shall be the period beginning on, and including, the date of issue of the Convertible Bonds and ending on, and including, 5:00 p.m. on the day which is five (5) Trading Days before the Maturity Date, provided that the conversion of the Convertible Bonds (i) does not trigger any mandatory offer obligations under Rule 26 of the Takeovers Code on the part of the Subscriber which exercised the conversion rights, namely more than 30% (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (ii) does not reduce the public float of the Shares to less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares.

Conversion Rights

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

Redemption at Maturity

Unless previously redeemed, converted or purchased and cancelled, the Company shall, subject to receipt of the relevant Convertible Bonds Certificate, redeem all the outstanding Convertible Bonds held by a bondholder on the Maturity Date at an amount equal to the Redemption Amount.

"Redemption Amount" means the amount equal to the aggregate of:

- a) the aggregate principal amount of such outstanding Convertible Bonds held by the relevant bondholder; and
- b) any accrued but unpaid interest on such outstanding Convertible Bonds on the Maturity Date.

Application for listing

Application will be made to the Stock Exchange for the approval for the listing of, and permission to deal in, the Conversion Shares.

MANDATE TO ISSUE THE CONVERSION SHARES

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

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

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

INFORMATION ABOUT THE GROUP

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

INFORMATION ABOUT THE SUBSCRIBER

The Subscriber is the chairman of Liyang Huakan Jianda Health Co., Ltd. which is incorporated in the PRC. As at the date of this announcement, the Subscriber has been nominated by the nomination committee of the Board to serve as an executive Director.

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

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

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

1. approximately HK\$170 million to repay high interest rate short-term borrowings;
2. approximately HK\$70 million to reduce the amount received in advances from customers (as the Company provides sales discounts to certain customers that can make payment in advance); and
3. the remaining balance, approximately HK\$29 million as general working capital of the Group.

The Directors consider raising funds by issuing the Convertible Bonds is justifiable considering the recent market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base and financial

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

The Directors (excluding the independent non-executive Directors who will form their view after considering advice from an independent financial adviser in respect of the Subscription) are of the view that the Subscription Agreement (including the Conversion Price of the Conversion Shares) has been entered into on normal commercial terms that are fair and reasonable and is in the interests of the Company and the Shareholders as a whole. As the Directors are confident about the prevailing and future business development of the Group, the Directors believe that the issue of the Convertible Bonds will allow the Company to raise the necessary funds at a reasonable cost to meet additional cash requirements for its operation and future development.

EFFECTS ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the conversion of the Conversion Shares in full (assuming that there is no other change in the issued share capital of and the shareholding of the Company) is as follows:

Shareholders	As at the date of this announcement		Immediately after the issue and allotment of the Conversion Shares upon full conversion of the Convertible Bonds	
	Number of Shares	% (approx.)	Number of Shares	% (approx.)
Subscriber	100,000,000	2.33	2,600,000,000	38.25
Asia Pacific Resources Development Investment Limited (<i>Note 1</i>)	800,000,000	18.61	800,000,000	11.77
Directors				
Wu Tianran (<i>Note 2</i>)	9,352,000	0.22	9,352,000	0.14
Li Weiruo	410,392,000	9.55	410,392,000	6.04
Yuan Bai	71,292,800	1.66	71,292,800	1.05
Zhang Fubo	5,000,000	0.12	5,000,000	0.07
Public Shareholders	<u>2,902,005,799</u>	<u>67.51</u>	<u>2,902,005,799</u>	<u>42.68</u>
Total	<u>4,298,042,599</u>	<u>100.00</u>	<u>6,798,042,599</u>	<u>100.00</u>

Note 1: Asia Pacific Resources Development Investment Limited is wholly owned by Mr. Cheng Kin Ming, who is a substantial shareholder of the Company

Note 2: Mr. Wu Tianran and his spouse held 140,000 shares and 9,212,000 shares of the Company respectively

IMPLICATIONS UNDER THE LISTING RULES

The Subscriber has been nominated by the nomination committee of the Board to serve as an executive Director of the Company. Subject to the approval of the Board, it is expected that the Subscriber will be appointed as an executive Director in the upcoming Board meeting, which would take place on or around 20 July 2018. Accordingly, the Subscriber would be a connected person of the Company under Chapter 14A of the Listing Rules at the time of Closing. Therefore, the issue of the Convertible Bonds to the Subscriber would constitute a connected transaction of the Company subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

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

An Independent Board Committee will be established to make recommendations to the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder.

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the obtaining of the Specific Mandate).

A circular containing, amongst other things, (i) further information on the Subscription Agreement; (ii) the Specific Mandate; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the terms of the Subscription Agreement with the Subscriber and the issue of the Convertible Bonds to the Subscriber; (iv) the advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription Agreement and the transactions contemplated thereunder; and (v) a notice of the EGM and a form of proxy will be dispatched to the Shareholders as soon as practicable. It is estimated that the circular will be despatched to the Shareholders on or before 31 August 2018, as additional time is required by the Company for the preparation of certain information for inclusion in the circular.

Shareholders and potential investors should be aware that the Subscription Agreement and the transactions contemplated thereunder are subject to the fulfilment of the Conditions, and therefore the proposed issue of the Convertible Bonds may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

DEFINITIONS

The following terms have the following meanings in this announcement unless the context otherwise requires:

“Board”	the board of Directors
“Business Day”	means a day on which commercial banks and foreign exchange markets settle payments in Hong Kong, excluding any day in Hong Kong on which a typhoon signal number 8 or above or a “black” rainstorm warning is hoisted
“Closing”	completion of the subscription for the Convertible Bond in accordance with the terms of the Subscription Agreement
“Closing Conditions”	terms and conditions required for the completion of the Subscription for the Convertible Bond in accordance with the terms of the Subscription Agreement
“Closing Date”	the date of the Closing
“Company”	Ko Yo Chemical (Group) Limited (Stock Code: 827), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Convertible Bonds Certificate”	a certificate issued to each Convertible Bonds holder in respect of its registered holding of Convertible Bonds
“Conversion Shares”	the Share(s) which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bond
“Convertible Bonds”	convertible bond issued pursuant to the Subscription Agreement

“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the Specific Mandate for the allotment and issue of the Conversion Shares)
“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 board committee of the Company, comprising all the independent non-executive Directors, to be formed for the purpose of advising the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than the Subscriber and his respective associates and/or concert parties who are involved or interested in the Subscription
“Issue Date”	means the date on which completion of the Subscription Agreement takes place and the Convertible Bonds are issued in accordance with the Subscription Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	means the date falling on the fifth (5th) anniversary of the Issue Date
“PRC”	the People’s Republic of China
“Rate of Interest”	4% per annum
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)

“Specific Mandate”	the specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to allot, issue and deal with up to 2,500,000,000 Shares, being 58.2% of the issued share capital of the Company as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Tang Guoqiang
“Subscription”	the subscription for the Convertible Bonds by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement dated 19 July 2018 entered into between the Company and the Subscriber
“substantial shareholder(s)”	having the meaning ascribed thereto under the Listing Rules
“Takeover Code”	the Hong Kong Code on Takeovers and Mergers
“Trading Day”	means a day when the Stock Exchange is open for dealing business, provided that if no closing price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days
“%”	per cent.

SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD NOTE THAT THE SUBSCRIPTION IS SUBJECT TO THE FULFILLMENT OF CONDITIONS AND MAY OR MAY NOT PROCEED. SHAREHOLDERS AND POTENTIAL INVESTORS ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY.

By Order of the Board
Ko Yo Chemical (Group) Limited
Wu Tianran
Chairman

Hong Kong, 19 July 2018

As at the date of this announcement, the Board comprises four executive Directors, being Mr. Wu Tianran, Mr. Li Weiruo, Mr. Yuan Bai and Mr. Wan Congxin, one non-executive Director being Mr. Zhang Fubo and three independent non-executive Directors being, Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai.