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Yip's Chemical Holdings Limited

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

**(Stock Code: 408)**

## **DISCLOSEABLE TRANSACTION ACQUISITION OF THE ASSETS AND THE BUSINESS**

### **ACQUISITION OF THE ASSETS AND THE BUSINESS**

On 2 January 2018, the Purchasers entered into the Agreement for Sale of Assets with the Vendors and the Vendors' Guarantors, under which the Purchasers have agreed to purchase, and the Vendors have agreed to sell the Assets and the Business at the Consideration.

On the same date of execution of the Agreement for Sale of Assets, the Vendors and the Purchasers have also entered into the Transition Services Agreement, pursuant to which the Vendors will provide the Purchasers with, or cause to be provided to the Purchasers, the Transition Services in order for the Purchasers to carry on the Business and to be able to manufacture the Products as soon as possible after Completion.

## **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Transfer exceed 5% but are less than 25%, the Transfer constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Transition Services are of a revenue nature in the ordinary and usual course of business of the Group, the entering into of the Transition Services Agreement does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules pursuant to Rule 14.04(1)(g).

## **ACQUISITION OF THE ASSETS AND THE BUSINESS AND THE AGREEMENT FOR SALE OF ASSETS**

The principal terms of the Agreement for Sale of Assets are summarised below:

### **Date:**

2 January 2018

### **Parties:**

1. DCI
2. DCHK
3. DCC
4. DCS

(as the Vendors)

5. DGI

6. NLPP

(as the Vendors' Guarantors)

7. Yip's Coatings

8. Hang Cheung

(as the Purchasers)

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendors and the Vendors' Guarantors and their ultimate beneficial owner(s) are independent of the Company and are non-connected persons of the Company.

### **Subject Matter**

Pursuant to the Agreement for Sale of Assets, the Purchasers have agreed to purchase, and the Vendors have agreed to sell the Assets and the Business free of any encumbrances, among which Yip's Coatings has agreed to buy the Hong Kong Assets, the Macau Assets, the Hong Kong Business and the Macau Business, while Hang Cheung has agreed to buy the PRC Assets and the PRC Business.

## **Information of the Assets and the Business**

### ***Assets***

The assets to be acquired by the Purchasers from the Vendors pursuant to the Agreement for Sale of Assets comprise the following (the “**Assets**”):

- 1) the Business Records;
- 2) the Customer Lists;
- 3) the Intellectual Property (including the Brand Names, the Domain Names, the Formulas and the Trademarks);
- 4) the Inventory;
- 5) the Technology;
- 6) the Tinting Materials;
- 7) the goodwill of the Business; and
- 8) the Completion Date Receivables,

but exclude plant and equipment, certain assets and other businesses of the Vendors.

The Assets comprise, namely, Hong Kong Assets, Macau Assets and PRC Assets.

### **Business**

The business to be acquired by the Purchasers from the Vendors pursuant to the Agreement for Sale of Assets is the business of manufacturing, distributing, and selling of the Products as carried on by the Vendors in Hong Kong, Macau, and the PRC as at the Completion Date (“**Business**”), which consists of the Hong Kong Business, the Macau Business and the PRC Business.

## **Financial Information**

The net loss before and after taxation and extraordinary items attributable to the Assets and the Business for the year ended 30 September 2017 were approximately HK\$17,900,000 and HK\$22,900,000 respectively, and the net loss before and after taxation and extraordinary items attributable to the Assets and the Business for the year ended 30 September 2016 were approximately HK\$8,000,000 and HK\$9,300,000 respectively.

The value of the Assets and the assets attributable to the Business (excluding Business Records, Customer List, Formulas, Technology and goodwill of the Business) as at 30 September 2017 was approximately HK\$76,800,000.

## **Completion**

It is expected that Completion will take place on 1 February 2018.

At Completion, the Vendor(s) shall, among others,:

- 1) give the Purchasers possession of those Assets which are transferable by physical delivery, including the Business Records and the Customer Lists;
- 2) cooperate with the Purchasers and follow the procedures for the transfer of the Formulas;
- 3) deliver to the Purchasers the Inventory;
- 4) execute and deliver to the Purchaser(s) the IP Rights Assignment Deed to assign to the Purchasers, among others, all their rights, title, interest, and goodwill in and to the Trademarks together with the goodwill of the Business; and
- 5) execute and deliver to the Purchaser(s) the Trademark Licence Agreement to grant to the Purchasers an exclusive, irrevocable and royalty-free licence to use the Licensed Trademarks in the PRC and Macau to enable the Purchasers to use the Licensed Trademarks prior to the successful registration of the transfer of ownership of the said marks pursuant to the IP Rights Assignment Deed.

## **Consideration:**

### ***Amount***

The total Consideration which shall be paid by the Purchasers for the Assets and Business pursuant to the Agreement for Sale of Assets comprises the following:

- 1) the headline purchase price of RMB95,000,000 (which is equivalent to HK\$113,895,500);
- 2) the Completion Date Receivables of RMB12,000,000 (which is equivalent to HK\$14,386,800), subject to the adjustments set out below; and
- 3) the net book value of the Inventory.

### ***Payment Date***

The headline purchase price, after deducting the Holdback Amount, together with the Completion Date Receivables of RMB12,000,000 (which is equivalent to HK\$14,386,800) (i.e. a total of RMB97,500,000, which is equivalent to HK\$116,892,750) will be paid by the Purchasers to the Vendors on the Completion Date.

The Inventory payment will be made by the Purchasers to the Vendors on the completion of the Inventory Valuation or within 10 Business Days thereafter.

The Holdback Amount will only be paid by the Purchasers to the Vendors after Completion and within 10 Business Days after satisfaction of the conditions. 50% of the Holdback Amount will be paid if the net sales attributable to the Hong Kong decorative business is greater than the specified amount for the 12-month period from 1 January to 31 December 2018, and another 50% of the Holdback Amount will be paid if the Vendors have fulfilled their outstanding contractual obligations to customers accrued prior to the Completion Date.

### ***Adjustments for the Completion Date Receivables***

The basis and adjustments for the Completion Date Receivables are as follows:

- 1) Assuming the amount of Completion Date Receivables as reflected in the Completion Accounts are at least RMB30,000,000 (which is equivalent to HK\$35,967,000), the Purchasers will pay RMB12,000,000 (which is equivalent to HK\$14,386,800) on the Completion Date for the Completion Date Receivables.
- 2) If the Completion Date Receivables as reflected in the Completion Accounts are less than RMB30,000,000 (which is equivalent to HK\$35,967,000), the amount payable by the Purchasers for the Completion Date Receivables will be adjusted downwards.

In any event, the total amount payable by the Purchasers to the Vendors under the Agreement for Sale of Assets, the IP Rights Assignment Deed, the Trademark Licence Agreement and the Transition Services Agreement shall not exceed HK\$280,000,000.

The Consideration was determined after arm's length negotiations between the Vendors and the Purchasers and was determined after taking into account the synergies with the Purchasers' current business portfolio, the earning potential of the Business and Assets, in particular the brands, formulas, technology, customer lists and goodwill of the Business. The Consideration is to be paid in cash and funded by the working capital of the Group.

### **Guarantee:**

By executing the Agreement for Sale of Assets, the Vendors' Guarantors jointly and severally unconditionally guarantee to the Purchasers the due performance and observance by the Vendors of each and every of the obligations of the Vendors as set out in the Agreement for Sale of Assets, including the due and punctual payment to the Purchasers of all money due or which may become due from the Vendors under the Agreement for Sale of Assets or arising out of any breach by the Vendors or any one of them of the terms, covenants, conditions, and warranties contained in the Agreement for Sale of Assets.

## **THE TRANSITION SERVICES AND THE TRANSITION SERVICES AGREEMENT**

On the same date of execution of the Agreement for Sale of Assets, the Vendors and the Purchasers have also entered into the Transition Services Agreement, pursuant to which the Vendors will provide the Purchasers with, or cause to be provided to the Purchasers, the Transition Services in order for the Purchasers to carry on the Business and to be able to manufacture the Products as soon as possible after Completion.

## **REASONS FOR AND BENEFITS OF THE TRANSACTIONS**

The Group is currently one of the leading architectural and industrial coatings manufacturers, marketers and sellers in the PRC with the brands “Bauhinia” and “Hang Cheung”. The coatings business is an integral part of the Group’s overall business portfolio.

The Group has been developing its coatings business in the PRC for over 30 years, and the Group believes in the long-term prospects of the coatings market in Hong Kong and the PRC and will continue to invest in the coatings segment.

While the current competitive nature of the market and high operating standards and costs are challenges for the Group, they also provide the Group with a good opportunity to increase market share through acquisition.

With this acquisition, the Group will be able to acquire the “Camel” brand, one of the oldest brands in the coatings industry with a 85-year history and a strong brand presence in Hong Kong and Southern China. The Group believes the acquisition will strengthen its position in the architectural and industrial coatings segment in Hong Kong and the PRC, and support the Group’s development plans in the Guangdong – Hong Kong – Macao Bay Area.

The Group will be able to gain a significant foothold in the architectural coatings market in Hong Kong and Macau as “Camel” is one of the market leaders in architectural coatings market in Hong Kong and Macau. The Group will be able to utilize the distribution network for products under the Group’s other brands..

In addition, as part of the acquisition, the Group will also acquire the “Aquapro” brand, which already has a presence in the high-end architectural coatings market in Hong Kong.



In the PRC, the Group will operate the “Camel” and “Aquapro” brands together with “Bauhinia” and “Hang Cheung” brands in the architectural and industrial coatings segment to create synergies in manufacturing, technology, distribution and marketing.

Despite the fact that the Business generated losses in the two financial years before the acquisition, the Group believes with its strong presence and experience in the PRC, the Assets will generate positive contributions to the Group after considering the synergies with the Group’s current manufacturing sites and distribution network.

Finally, with this acquisition, the Group believes it will be able to establish a long-term cooperative relationship with the parent group of the Vendors, with potential future initiatives such as importing high quality coatings for consumers in the PRC and Hong Kong and cooperative arrangements in building materials segment in the PRC.

The Directors believe that the terms of the Transfer are fair and reasonable and in the interests of the Shareholders as a whole.

## **INFORMATION OF THE PARTIES**

### **The Group**

The Group is principally engaged in the manufacture of and trading in solvents, coatings, inks and lubricants.

The Company is a company incorporated in the Cayman Islands whose issued shares are listed on the Main Board of the Stock Exchange (stock code: 408). The Company is an investment holding company.

## **The Vendors, Vendors' Guarantors**

DCI is a company incorporated in Hong Kong. It is the principal trade mark owner and ultimate holding company for the “DGL Camel” business, which is a joint venture between DGI (51% holding) and NLPP (49% holding).

DCHK is a company incorporated in Hong Kong and a wholly owned subsidiary of DCI. Its principal business activities are the sale, distribution and marketing of decorative coatings, architectural coatings, industrial coatings, wood coatings and adhesives in Hong Kong.

DCC is a company established in the PRC and a wholly owned subsidiary of DCI. Its principal business activities are the manufacture, sale, distribution and marketing of decorative coatings, architectural coatings, industrial coatings, wood coatings, fluoropolymer coatings and adhesives in the PRC.

DCS is a company established in the PRC and a wholly owned subsidiary of DCI. Its principal business activities include the sale of architectural coatings to specialist projects in the PRC.

DGI is a company incorporated in Australia and is a wholly owned subsidiary of DuluxGroup Limited, a publicly listed company on the Australian Securities Exchange. DGI's principal business activities include being a holding company for DuluxGroup Limited's businesses across China, Hong Kong, South East Asia, the United Kingdom and Papua New Guinea.

NLPP is a company incorporated in Hong Kong. Its principal business activities cover a wide range of industries, including property investment, investment management and sale and manufacture of paint, powder coatings and adhesive products through share investment in associates in coatings industry.

## **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Transfer exceed 5% but are less than 25%, the Transfer constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Transition Services are of a revenue nature in the ordinary and usual course of business of the Group, the entering into of the Transition Services Agreement does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules pursuant to Rule 14.04(1)(g).

## **DEFINITIONS**

“Agreement for Sale of Assets”	the agreement for sale of assets dated 2 January 2018 entered into by the Vendors, the Vendors Guarantors and the Purchasers in respect of the sale of the Assets and the Business by the Vendors to the Purchasers
“Assets”	have the meaning under “Information of the Assets and the Business” in the section “ACQUISITION OF THE ASSETS AND THE BUSINESS AND THE AGREEMENT FOR SALE OF ASSETS” of this announcement
“Australia”	the Commonwealth of Australia
“Board”	the board of Directors of the Company
“Brand Names”	the brand names Camel, Aquapro, Viva, Steriguard, Precision, O’nis, Metalshield, and DryErase
“Business”	has the meaning under “Information of the Assets and the Business” in the section “ACQUISITION OF THE ASSETS AND THE BUSINESS AND THE AGREEMENT FOR SALE OF ASSETS” of this announcement
“Business Day(s)”	a day other than a Saturday or Sunday or public holiday in Hong Kong
“Business Records”	the print copies and electronic copies of all of the documents, records, and materials that relate to the Business or any of the Assets and that are owned or controlled by the Vendors and within the Vendors’ possession as at the Completion Date

“Company”	Yip’s Chemical Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the sale and purchase of the Assets and the Business on the Completion Date in accordance with the terms of the Agreement for Sale of Assets
“Completion Accounts”	the accounting information in respect of the Business for the period from 1 October 2016 (inclusive) to the Completion Date (exclusive) to be delivered to the Purchasers on the Completion Date
“Completion Date”	1 February 2018 or such other date as the Vendors and the Purchasers may agree in writing
“Completion Date Receivables”	all trade debts and other trade-related sums due to the Vendors in connection with the operation of the Business which have not been paid to the Vendors as of the date before the Completion Date and as shown in the Completion Accounts
“Consideration”	the consideration to be paid by the Purchasers to the Vendors for the acquisition of the Business and the Assets pursuant to the Agreement for Sale of Assets
“Customer Lists”	the customer lists and contact details for the wholesalers, distributors, dealers, and retailers who have directly purchased Products from the Vendors in the 36 months prior to the date of the Agreement for Sale of Assets, including terms of trade, discount, rebate plans, and other special terms
“DCC”	德家朗駱駝塗料(東莞)有限公司 (DGL Camel Coatings (Dongguan) Limited <sup>#</sup> ), a company established in the PRC

“DCHK”	DGL Camel (Hong Kong) Limited, a company incorporated in Hong Kong
“DCI”	DGL Camel International Limited, a company incorporated in Hong Kong
“DCS”	德家朗駱駝塗料(上海)有限公司 (DGL Camel Coatings (Shanghai) Limited <sup>#</sup> ), a company established in the PRC
“DGI”	DuluxGroup (Investments) Pty Limited, a company incorporated in Australia
“Directors”	the directors of the Company
“Domain Names”	the Internet domain names of the Vendors to be assigned to the Purchasers pursuant to the Agreement for Sale of Assets
“Formulas”	the components and processes used by the Vendors to create the Products
“Group”	the Company and its subsidiaries
“Hang Cheung”	恒昌塗料(惠陽)有限公司 (Hang Cheung Coatings (Hui Yang) Limited <sup>#</sup> ), a wholly owned foreign enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Holdback Amount”	RMB9,500,000 (which is equivalent to HK\$11,389,550), being 10% of the headline purchase price of RMB95,000,000 (which is equivalent to HK\$113,895,500), which shall only be paid by the Purchasers to the Vendors after Completion on satisfaction of certain conditions
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Hong Kong Assets”	Assets which, in the case of chattels, are located in Hong Kong, or if in the case of choses in action, owned by companies which are incorporated in Hong Kong
“Hong Kong Business”	the business of manufacturing, distributing, and selling of the Products as carried on by the Vendors in Hong Kong as at the Completion Date
“Intellectual Property”	all intellectual property rights owned or used by the Vendors in respect of the Business in the Territory and includes the Brand Names, the Domain Name, the Formulas and the Trademarks
“Inventory”	includes finished goods, raw materials, work in progress, and packaging
“Inventory Valuation”	means the inventory valuation arrived at by the Vendors and the Purchasers based on the results of the joint stocktake of the inventories and the related accounts of the Vendors
“IP Rights Assignment Deed”	the deed of assignment of intellectual property rights in the agreed form to be entered into between the Vendors and Yip’s Coatings on the Completion Date
“Licensed Trademarks”	the Trademarks registered with 國家工商行政管理總局商標局 (the Trademark Office of the State Administration for Industry and commerce of the PRC <sup>#</sup> ) the Macau Intellectual Property Office of the Economic Bureau
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as promulgated and amended by the Stock Exchange from time to time
“Macau”	the Macao Special Administrative Region of the PRC

“Macau Assets”	Assets which, in the case of chattels, are located in Macau, or if in the case of choses in action, owned by companies which are incorporated in Macau
“Macau Business”	the business of manufacturing, distributing, and selling of the Products as carried on by the Vendors in Macau as at the Completion Date
“NLPP”	The National Lacquer and Paint Products Company Limited, a company incorporated in Hong Kong
“PRC”	The People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan
“PRC Assets”	Assets which, in the case of chattels, are located in the PRC, or if in the case of choses in action, owned by companies which are established in the PRC
“PRC Business”	the business of manufacturing, distributing, and selling of the Products as carried on by the Vendors in the PRC as at the Completion Date
“Products”	the decorative paints, industrial paints, wood-care, and coatings products sold by the Vendors in Hong Kong, Macau, and the PRC at any time during the 12-month period immediately prior to the date of the Agreement for Sale of Assets as specified therein
“Purchasers”	Yip’s Coatings and Hang Cheung
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Technology”	the Facebook page, Web site design and WeChat platform in relation to the Business
“Territory”	means Hong Kong, Macau and the PRC
“Tinting Materials”	any tinting machines and any associated software and information used or owned by the Vendors in respect of the Business as at the Completion Date
“Trademarks”	the trademarks registered with the Hong Kong Trade Marks Registry, Macau Intellectual Property Office of the Economic Bureau and 國家工商行政管理總局商標局 (the Trademark Office of the State Administration for Industry and Commerce of the PRC <sup>#</sup> ) and trademark applications, together with any and all of the rights, title and interest (including but not limited to copyrights and designs, if any, associated therewith) in and to such trademarks together with goodwill
“Trademark Licence Agreement”	the trademark licence agreement in the agreed form to be entered into between the Vendors and Yip’s Coatings on the Completion Date pursuant to the terms of the Agreement for Sale of Assets
“Transfer”	the transfer of Assets and Business under the Agreement for Sale of Asset
“Transition Services”	the transition services in relation to the Business comprising human resources, customers information and support, warehouse, inventory, formula and ancillary services to be provided by the Vendors to the Purchasers pursuant to the Transition Services Agreement
“Transition Services Agreement”	the transition services agreement dated 2 January 2018 entered into by the Vendors and the Purchasers
“Vendors”	DCI, DCHK, DCC and DCS



“Vendors’ Guarantors” DGI and NLPP

“Yip’s Coatings” Yip’s Coatings (Hong Kong) Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company

By Order of the Board  
**Yip’s Chemical Holdings Limited**  
**Ip Chi Shing**  
*Chairman*

Hong Kong, 2 January 2018

*For the purpose of this announcement, unless otherwise indicated, the exchange rate of RMB1 = HK\$1.1989 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such a rate or at any other rates.*

As at the date of this announcement, the Board comprises the following:

*Non-executive Directors:*

Mr. Ip Chi Shing (*Chairman*)  
Mr. Tong Wui Tung  
Mr. Wong Kong Chi\*  
Mr. Ku Yuen Fun\*  
Mr. Ng Siu Ping\*

*Executive Directors:*

Mr. Yip Tsz Hin (*Deputy Chairman and  
Co-Chief Executive Officer*)  
Mr. Wong Yuk (*Co-Chief Executive Officer*)  
Mr. Ho Sai Hou (*Chief Financial Officer*)

\* *Independent Non-executive Directors*

# *For identification purposes only*