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Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 408

VERY SUBSTANTIAL DISPOSAL IN RELATION TO PROPOSED DISPOSAL OF EQUITY INTEREST IN HANDSOME CHEMICAL DEVELOPMENT LIMITED AND RESUMPTION OF TRADING

THE DISPOSAL

The Board is pleased to announce that after trading hours of the Stock Exchange on 15 July 2022, the Purchaser, the Vendor (an indirect wholly-owned subsidiary of the Company), the Company and the Target entered into the Agreement, pursuant to which, among other things, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, which represent a 68% equity interest in the Target, for the Consideration of RMB2,295 million (equivalent to approximately HK\$2,688 million).

The Target directly owns an approximately 38.88% equity interest in, and indirectly through its 75%-owned subsidiary, Yip's Industrial, owns an approximately 48.17% equity interest in Handsome Chemical. Accordingly, the Target owns a 75% effective interest in Handsome Chemical and the Group shall dispose of a 51% effective interest in Handsome Chemical through the Disposal. The Target Group is principally engaged in the Solvents Business.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder. As at the date of this announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Agreement which is different from other existing Shareholders who shall otherwise be required to abstain from voting on the resolution in relation to the Disposal at the EGM.

The Circular containing, among other things, (i) details of the Agreement and the transactions contemplated thereunder; (ii) financial information of the Group; (iii) financial information of the Target Group; (iv) pro forma financial information of the Remaining Group; (v) a notice convening the EGM; and (vi) other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or before 30 September 2022, which has been determined after taking into account the estimated time required for the Company to prepare all relevant information for inclusion in the Circular.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on Monday, 18 July 2022, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:00 a.m. on Tuesday, 26 July 2022.

WARNING

Shareholders and potential investors of the Company should note that Completion is conditional upon the fulfilment (and/or waiver if applicable) of the terms and conditions of the Agreement, and the Disposal may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the securities of the Company.

The Board is pleased to announce that after trading hours of the Stock Exchange on 15 July 2022, the Purchaser, the Vendor (an indirect wholly-owned subsidiary of the Company), the Company and the Target entered into the Agreement, pursuant to which, among other things, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, which represent a 68% equity interest in the Target, for the Consideration of RMB2,295 million (equivalent to approximately HK\$2,688 million).

Details of the Agreement are set out below.

THE AGREEMENT

Date

15 July 2022

Parties

- (i) The Purchaser;
- (ii) the Vendor, an indirect wholly-owned subsidiary of the Company;
- (iii) the Company, as guarantor guaranteeing the performance of the obligations of the Vendor under the Agreement; and
- (iv) the Target.

Assets to be disposed

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, which represent a 68% equity interest in the Target, free of encumbrances and together with all rights attaching thereto from Completion.

The Target directly owns an approximately 38.88% equity interest in, and indirectly through its 75%-owned subsidiary, Yip's Industrial, owns an approximately 48.17% equity interest in Handsome Chemical. Accordingly, the Target owns a 75% effective interest in Handsome Chemical and the Group shall dispose of a 51% effective interest in Handsome Chemical through the Disposal.

The Target Group is principally engaged in the Solvents Business. Further details of the Target Group are set out in the section headed "Information of the Target Group" below.

Consideration and payment terms

The Consideration shall be the equivalent amount in US\$ of RMB2,295 million (equivalent to approximately HK\$2,688 million) and payable by the Purchaser in cash. The Purchaser shall pay the Consideration, after deducting the Withholding Tax Amount (being the equivalent amount in US\$ of RMB179 million (equivalent to approximately HK\$210 million)), to the Vendor on the date of Completion.

Upon the Vendor having completed in accordance with the Agreement the filing, assessment and payment of the PRC taxes incidental to the Disposal pursuant to Circular No. 7 headed 《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》(國家稅務總局公告2015年第7號) issued by the State Taxation Administration of the PRC and its related regulations, notices and circulars, the Purchaser shall, within ten Business Days, pay the Withholding Tax Amount to the Vendor. In the event that such PRC taxes may be paid by the Vendor in instalments, the Purchaser shall, within ten Business Days of the payment of each instalment, pay a pro-rated amount of the Withholding Tax Amount to the Vendor.

Conditions precedent to Completion

Completion is conditional upon the following conditions having been fulfilled and/or waived (as the case may be):

- (i) the representations and warranties of the Purchaser and the Vendor given under the Agreement remaining true, accurate and complete in all respects and not misleading as at the date of Completion, and having the same effect as if such representations and warranties were made as at Completion, unless any such representation or warranty is expressly stated to be made on a specific date, in which case such representation or warranty shall remain true and accurate as at that date;
- (ii) the Purchaser, the Vendor and the Target having duly performed and complied with, in all material respects, all obligations, undertakings and covenants under the Agreement which shall be performed or complied with by them prior to Completion;
- (iii) neither party having become aware of or having received any indication or possible indication that the Disposal is unlawful or subject to applicable laws, decisions pending, or judicial or administrative proceedings reasonably expected to be instituted, which prohibit or restrict equity transfers;
- (iv) no event, change or circumstance having occurred since 31 December 2021 which, alone or in combination with any other such event, change or circumstance, has had or could reasonably be expected to have a material adverse effect (as defined in the Agreement) on the Target Group (as a whole);

- (v) (1) other than stamp duty assessment and payment, all necessary registrations with the relevant PRC authorities having been completed; and (2) the review on concentration of undertakings by the State Anti-Monopoly Bureau of the PRC in connection with the Disposal (the “**Review**”) having been completed and been unconditionally approved;
- (vi) the Company having complied with all relevant requirements of the Stock Exchange and under the Listing Rules (including obtaining approval from the Shareholders) in respect of the Disposal;
- (vii) the Group and members of the Target Group having obtained written consent(s) in respect of the Disposal and for the relevant arrangements under the Purchaser Facility Agreement (as defined below) from their respective creditor(s) or having confirmed that the loan(s) or facility(ies) from such creditor(s) will remain following Completion or giving the necessary prior notice to the relevant creditor(s). However, if a loan or facility has been repaid in full or cancelled and there is no outstanding liability under such loan(s) or facility(ies) (or similar circumstances) prior to Completion and the Vendor has provided reasonable evidence thereof, then no consent from or no prior notice to the relevant creditor(s) will be required in respect of the Disposal and for the relevant arrangements under the Purchaser Facility Agreement (as defined below);
- (viii) relevant members of the Target Group and AirPower Technologies Limited (“**AirPower Technologies**”) or its associates having entered into a gas supply agreement (the “**Strategic Gas Supply Agreement**”) for the new acetic acid plant planned to be constructed (the “**New Solvents Plant**”), in the form and with content reasonably satisfactory to the Purchaser and the Vendor;
- (ix) relevant members of the Target Group having entered into an agreement with the relevant government authority in Jingmen City, Hubei Province, the PRC regarding the construction and operation of the New Solvents Plant to be located in Jingmen Chemical Recycling Industrial Park and such agreement having become effective in accordance with the terms thereof;
- (x) the Vendor having completed the tax filing in the PRC in respect of the Disposal within 30 days from the date of the Agreement in accordance with the manner as stipulated in the Agreement; and
- (xi) in respect of the financing to be obtained by the Purchaser from a banking institution (the “**Lending Bank**”) for the Consideration (the “**Purchaser Facility Agreement**”), the Parties having duly undertaken and completed all of the following as and if required by the Lending Bank: (1) for the purpose of pledging the shares of the Target to be held by the Purchaser from Completion, amending the articles of association of the Target, to the extent the same conform with customary market practice; (2) pledging the shares of Yip’s Industrial, representing 51% of its total issued share

capital, held by the Target; (3) pledging the shares of Handsome Chemical, representing approximately 38.88% of its equity interest, held by the Target; and (4) to the extent those are within the power of the Target, pledging and escrowing of in a specified account the dividends to be paid by the Target Group, after Completion, to the Purchaser in proportion to its shareholding in the Target (collectively, the “**Lending Bank Guarantees**”). For the avoidance of doubt, (a) if the Purchaser has not requested any of the other Parties to undertake the Lending Bank Guarantees, this condition precedent will be deemed to have been satisfied; and (b) if the Purchaser and the Lending Bank have negotiated or the Lending Bank has agreed that the Lending Bank Guarantees may be provided subsequent to Completion, the Vendor undertakes to continue to cooperate actively with the Purchaser and the Lending Bank to complete the Lending Bank Guarantees, notwithstanding the financing under the Purchaser Facility Agreement has been drawn.

Save for the Purchaser’s obligations under conditions (i), (ii) and (iii), condition (v) (in respect of the Review), and conditions (vi) and (viii) above which cannot be waived by the Purchaser, all other conditions are waivable by the Purchaser. In the event that the Purchaser intends to waive condition (vii), the Purchaser should negotiate with the Vendor reasonably and allow reasonable time for the Vendor to make any relevant arrangements, on the basis that such arrangements shall not prejudice the transactions contemplated under the Agreement and/or the interests of the Purchaser and the Target Group.

In respect of the Purchaser Facility Agreement, pursuant to the Agreement, the Parties have further agreed to use their reasonable commercial efforts to cooperate with the Purchaser to continuously comply with, if so required, giving of (1) a negative pledge of no less than 12.12% equity interest in Handsome Chemical which is held by Yip’s Industrial; and (2) any other negative pledge, which may be reasonably required by the Lending Bank (collectively, the “**Negative Pledges**”). For the avoidance of doubt, if the Negative Pledges have not been given before or at Completion, (a) it shall not be deemed a breach of the condition (ii) as mentioned above; and (b) it shall not affect Completion. As at the date of this announcement, as informed by the Purchaser, the terms and conditions of the Purchaser Facility Agreement and the guarantee(s) required by the Lending Bank to be given by the Parties, if any, have not yet been confirmed. If any such guarantee is required by the Lending Bank and is to be provided by the Vendor and/or the Company, such guarantee(s) may constitute financial assistance by the Group to the Purchaser under the Listing Rules. In such event, the Company will comply with the requirements under applicable Listing Rules as and when appropriate. Based on the information currently provided by the Purchaser, the Board is of the view that the scope of such guarantees and/or pledges potentially to be required under the Lending Bank Guarantees and/or the Negative Pledges aim to relate to and reflect the 51% effective interest in the Handsome Group as to be acquired by the Purchaser by way of its acquisition of the shares of the Target and thus the cooperation by the Vendor and/or the Target and/or provision of the aforesaid assistance in relation thereto (if needed) is fair and reasonable.

Save for conditions (i), (ii) and (iii) to the extent the same relate to the Purchaser's obligation which are waivable by the Vendor, the other conditions cannot be waived by the Vendor.

In the event the above conditions are not fulfilled and/or waived (as the case may be) within 12 months of the date of the Agreement (i.e. by 14 July 2023) (or such later date as to be agreed by the Vendor and the Purchaser in writing), the Agreement shall lapse and be of no further effect except certain surviving clauses, and all the obligations of the Parties under the Agreement shall be released save for antecedent breach.

Discharge of third party guarantees

As at the date of the Agreement, certain members of the Group are party(ies) to certain credit agreements and guarantee contracts providing guarantees in favour of the Target Group, including guarantees in respect of (i) seven banking facilities in the aggregate principal amount of approximately HK\$715 million provided by licensed banks in Hong Kong; (ii) three banking facilities in the aggregate principal amount of approximately RMB500 million (equivalent to approximately HK\$586 million) provided by licensed banks in the PRC; and (iii) purchases by the Target Group from a PRC supplier group for the outstanding payments and interest accrued thereon up to a maximum amount of RMB160 million (equivalent to approximately HK\$187 million) for which the outstanding balance as at 30 June 2022 was approximately RMB87.1 million with a credit term of 60 days (collectively, the "**Guarantee Contracts**"). Pursuant to the Agreement, the Vendor and its associates may, without the need for consent from the Purchaser, take any action to obtain the consent(s) from the counterparty(ies) of each of the Guarantee Contracts to discharge such guarantees prior to Completion (the "**Vendor Discharge**"). Where any member of the Target Group has (1) provided any guarantee(s) on behalf of; and/or (2) entered into joint borrowing arrangements as co-borrower with any non-member of the Target Group whereby such member of the Target Group may become liable for repayment of the said borrowings, the Vendor and its associates should take any action necessary to fully discharge such guarantees and/or joint borrowing arrangements prior to Completion (the "**Target Group Discharge**", together with the Vendor Discharge, the "**Guarantees Discharge**"). Should the Guarantees Discharge require the provision of alternative guarantee(s) by the Purchaser or its associates, all Parties shall use commercially reasonable efforts to provide such alternative guarantee(s) or seek for other alternatives. For the avoidance of doubt, if any of the Guarantee Contracts set out in the Agreement has not been discharged or substituted with alternative guarantee(s) from the Purchaser or its associates before Completion, (a) it shall not be deemed a breach of the terms and conditions of the Agreement; (b) it shall not affect Completion; and (c) the Vendor and its associates shall not be liable to the Purchaser and its associates for any loss or adverse impact arising from the discharge or substitution of the Guarantee Contracts and vice versa. The Vendor shall indemnify all costs, expenses, claims and taxes incurred by any member of the Target Group arising as a result of the failure of the Vendor or its associates to complete the Target Group Discharge prior to Completion.

The Group intends to discharge itself from the guarantees under all of the Guarantee Contracts before Completion and/or to arrange entities of the Target Group to take up the obligations under the Guarantee Contracts. As at the date of this announcement, none of the banking facilities in relation to the Guarantee Contracts have been drawn down by the Target Group. In addition, the Target Group itself has banking facilities which are not guaranteed by the Remaining Group of approximately RMB2.7 billion (equivalent to approximately HK\$3.1 billion), of which approximately RMB2.2 billion (equivalent to approximately HK\$2.6 billion) is undrawn as at the date of this announcement, which are sufficient to replace those banking facilities in relation to the Guarantee Contracts of approximately HK\$1.3 billion in aggregate. Accordingly, the Directors are of the view that there would not be practical difficulties to complete the Guarantees Discharge. In the event that all or some of the Guarantee Contracts cannot be discharged before Completion, the Company will, in respect of the relevant banking facility, cancel such facility or remove any member of the Target Group as a borrower. Should there be any Guarantee Contracts surviving subsequent to the date of Completion, the provision of guarantees under such Guarantee Contracts by the Remaining Group to the Target Group shall constitute provisions of financial assistance. The Company shall comply with applicable requirements under Chapter 14 of the Listing Rules including making necessary disclosure(s) of such guarantees in accordance with the Listing Rules as and when appropriate.

Non-competition

The Agreement provides that, without the prior written consent of the Purchaser, (i) within seven years of the date of Completion; or (ii) within five years of ceasing to become a direct or indirect shareholder of any member of the Target Group, whichever is the earlier, the Vendor shall not, and shall cause its associates not to, by itself or through any such associate (save for, in the case of Bauhinia Ink Company Limited, its subsidiaries and, where applicable, other entities used by it for listing on other stock exchanges (the “**Bauhinia Ink Group**”), the Vendor’s responsibility is limited to procuring its associates and directors appointed or nominated by its associates to vote at the relevant shareholders’ meeting or board meeting of the Bauhinia Ink Group), or in association with or on behalf of any other person, among others, directly or indirectly own, manage, conduct, operate, control any development, manufacturing or sales operations of various acetates and acrylate in various countries which are currently undertaken by the Target Group and as specified in the Agreement (the “**Competing Businesses**”), and providing work, consulting, services for, conducting business with, the aforesaid Competing Businesses, or retain any interest or commercial interest therein, save for certain exceptions provided for in the Agreement (including that the aforesaid restrictions shall not be applicable to the members of the Target Group) (the “**Non-Competition Restriction**”).

The Directors are of the view that the Non-Competition Restriction would not have any adverse impact on the operation and financial position of the Remaining Group having considered that (i) the Non-Competition Restriction does not preclude the Remaining Group from purchasing solvents from the Target Group or third party suppliers for use as raw materials in the manufacturing of the Remaining Group's downstream products; and (ii) despite the historical purchases of solvents by the Remaining Group from the Target Group on arm's length basis during the year ended 31 December 2021 amounted to approximately HK\$216 million, representing approximately 81% of the total purchases of solvents by the Remaining Group during the year, such purchases only accounted for approximately 7% of the total cost of materials of the Remaining Group and there are large number of third party suppliers of solvents available in the market and used by the Remaining Group who are able to supply the necessary amounts of solvents at market prices acceptable to the Remaining Group, over 20 of whom have a continuing business relationship with the Group to supply such solvents.

Completion

Completion shall take place on the 10th Business Day after the date on which the above conditions are fulfilled and/or waived (as the case may be) or such other date as to be agreed by the Purchaser and the Vendor in writing.

BASIS OF DETERMINING THE CONSIDERATION

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor having taken into account (i) the historical financial performance and financial position of the Target Group; and (ii) the business development and prospects of the Target Group. Based on the average unaudited earnings before interest, tax, depreciation and amortisation ("**EBITDA**") of the Handsome Group for the three years ended 31 December 2019, 2020 and 2021 of approximately HK\$598 million, the Consideration represents a multiple of about 8.8 times to EBITDA. The Directors, having considered the trading multiples of companies which are listed globally or in the PRC (the "**Trading Comparables**") as well as pricings of recent sale and purchase transactions (the "**Transaction Comparables**", together with the Trading Comparables, the "**Comparable Companies**") involving companies which are engaged in businesses similar to that of the Target Group in the range of 2.0 to 9.3 times to the respective EBITDA, are of the view that the Consideration is fair and reasonable. Details of the Comparable Companies and the key chemical products in respect of their commodity chemicals business which were collated from available public sources are set out below:

The Trading Comparables

<i>Comparable Companies</i>	<i>Key chemical product(s)</i>	<i>Approximate enterprise value as a multiple of EBITDA for 2021</i>
Huntsman Corporation	Polyurethanes and other chemical products	5.7x
The Chemours Company	Acid and other chemical products	7.2x
Methanex Corporation	Methanol	3.7x
Tronox Holdings plc	Pigments and other chemical products	5.8x
Kronos Worldwide, Inc.	Pigments	8.7x
Trinseo PLC	Plastic and other chemical products	4.8x
Satellite Chemical Co., Ltd.	Plastics and other chemical products	7.2x
Shanghai Huayi Group Corporation Limited	Acid and other chemical products	2.0x
Jiangsu SOPO Chemical Co., Ltd.	Acetic acid, ethyl acetate, and other chemical products	3.3x
	Maximum	8.7x
	Minimum	2.0x
	Mean	5.4x

Source: FactSet data as of 22 June 2022

The Transaction Comparables

<i>Date of transaction</i>	<i>Target</i>	<i>Acquirer</i>	<i>Key chemical product(s)</i>	<i>Approximate enterprise value as a multiple of EBITDA</i>
27 September 2021	Kraton Corporation	DL Chemical Co., Ltd.	Polymers and other chemical products	8.5x
28 August 2020	Venator Materials PLC	SK Capital Partners, L.P.	Pigments and other chemical products	8.5x
18 February 2020	Olin Corporation	Sachem Head Capital Management LP	Acid, alkaline and other chemical products	7.5x
21 October 2019	Innophos Holdings, Inc.	One Rock Capital Partners II, LP	Phosphates and other chemical products	9.3x
19 August 2019	PolyOne Corporation (Performance Products and Solutions business) <i>(Note)</i>	SK Echo Group Sàrl.	Plastics and other chemical products	9.1x
7 August 2019	Huntsman International LLC (Chemical Intermediates and Surfactants businesses) <i>(Note)</i>	Indorama Ventures Holdings L.P.	Alcohol and other chemical products	8.0x
1 November 2018	Lonza Group Ltd (Water Care business and operations) <i>(Note)</i>	Platinum Equity <i>(Note)</i>	Biocides and other chemical products	9.3x
23 July 2018	LCY Chemical Corp.	A consortium led by KKR & Co. Inc. <i>(Note)</i>	Solvent and other chemical products	7.6x
26 June 2018	Sid Richardson Carbon, Ltd.	Tokai Carbon Co., Ltd.	Pigments	8.2x
17 November 2017	Vale Cubatão Fertilizantes Ltda.	Yara International ASA	Fertilizer and other chemical products	8.5x

<i>Date of transaction</i>	<i>Target</i>	<i>Acquirer</i>	<i>Key chemical product(s)</i>	<i>Approximate enterprise value as a multiple of EBITDA</i>
19 September 2017	Solvay S.A. (Polyamides business) <i>(Note)</i>	BASF SE	Plastics and other chemical products	8.0x
25 May 2017	Tembec Inc.	Rayonier Advanced Materials Inc.	Cellulose products	6.4x
21 February 2017	The National Titanium Dioxide Company Limited (Titanium Dioxide business) <i>(Note)</i>	Tronox Limited	Pigments and other chemical products	9.3x
			<i>Maximum</i>	9.3x
			<i>Minimum</i>	6.4x
			<i>Mean</i>	8.3x

Source: Company filings, Dealogic, MergerMarket, news

Note: Full names of the target/acquirer are not available

The Directors consider that the Comparable Companies are engaged in similar industry as the Target Group, namely chemical products manufacturing, with similar scale of business and therefore comparable to the Target Group.

The Directors consider that the enterprise value as a multiple of EBITDA is a suitable benchmark as it excludes items related to accounting, financing and capital expenses that are not directly related to the business operations as well as the effect of different capital structures and different tax regimes to which the Comparable Companies operating in various jurisdictions may be subject to, as compared to other common trading multiples (such as price to sales, which will be subject to large fluctuation of commodity prices, and price to earnings, which will include the effects of the factors described above). In light of the above and given that the sample size of the Comparable Companies is extensive, the Directors consider that taking the EBITDA multiples as a reference for the basis of determining the Consideration is sufficient and no other valuation methodologies were considered.

THE SHAREHOLDERS' AGREEMENT

At Completion, the Purchaser, the Vendor, the Company and the Target will enter into the Shareholders' Agreement to regulate their respective rights and obligations in relation to the management, operation and affairs of the Target after the Purchaser becomes a shareholder of the Target. The principal terms of the Shareholders' Agreement are set out below.

Parties

- (i) The Purchaser;
- (ii) the Vendor;
- (iii) the Company; and
- (iv) the Target.

Term and termination

The Shareholders' Agreement will be effective from Completion and up to the date of its termination. The Shareholders' Agreement shall automatically terminate when all the issued shares of the Target are held by a single shareholder. The Shareholders' Agreement may also be terminated pursuant to the terms and conditions therein, including (i) by way of unanimous written consent of the shareholders; and (ii) by written notice of any shareholder under particular circumstances set out in the Shareholders' Agreement including, among others, if the Target is dissolved or liquidated.

Disposal of shares

The Shareholders' Agreement provides the Purchaser and the Vendor certain rights in respect of the disposal, sale or transfer of shares in the Target, as set out below.

Pre-emptive rights

Where disposal of interests, directly or indirectly, in the Target by the Vendor to a third-party buyer is contemplated (save for disposal of shares in the Company of which Mr. Ip Chi Shing (Chairman of the Board) and his associates will continue to be the single largest Shareholder), the Purchaser has the pre-emptive right to purchase, by itself or through its permitted associates, the entirety, and no less than the entirety, of the shares in the Target proposed to be sold at the same price and under materially equivalent terms and conditions as those proposed by the third-party buyer (the "**Purchaser's Pre-emptive Right**").

Where the Purchaser wishes to sell, directly or indirectly, all or part of its shares in the Target to a third-party buyer, the Purchaser must inform the Vendor in writing of such intention. The Vendor may, but is not obliged to, exercise its pre-emptive right to make an irrevocable cash offer to purchase, by itself or through its permitted associates, such shares from the Purchaser (the “**Vendor’s Pre-emptive Right**”, together with the Purchaser’s Pre-emptive Right, the “**Pre-emptive Rights**”). Where the principal terms and conditions offered by the third-party buyer are better than those offered by the Vendor (provided that the purchase price offered by the third-party buyer must not be less than the price offered by the Vendor), the Purchaser may choose to reject the Vendor’s offer and dispose of its shares in the Target to the third-party buyer.

Tag-along right

If the Purchaser intends to sell its shares in the Target to a third-party buyer, subject to (i) the Vendor not having exercised the Vendor’s Pre-emptive Right to offer to purchase the said shares; and (ii) where the Vendor has made an offer to purchase the said shares and the Purchaser having rejected such offer, the Vendor shall have the right to participate in such sale at the same price and on terms and conditions no less favourable than those offered by the third-party buyer to the Purchaser and in accordance with the terms of the Shareholders’ Agreement (the “**Tag-along Right**”).

Drag-along right

If the Purchaser intends to sell its interests in the Target to an independent bona fide third-party buyer which will constitute a change-of-control transaction under the Shareholders’ Agreement, the Purchaser shall have the right to require the Vendor to undertake, at the same price and materially equivalent terms and conditions, a direct or indirect disposal of the shares of the Target to effect a sale of the Target as a whole and in accordance with the terms of the Shareholders’ Agreement (the “**Drag-along Right**”).

Permissible transfers

The Purchaser may, with prior notice to the other shareholders, transfer all or part of the shares in the Target held by it (the “**Purchaser Permissible Transfer**”) to any direct or indirect wholly-owned subsidiary of the Purchaser or its holding company (which holds all the shares of the Purchaser), which does not have any business operations and does not have any direct or indirect investments in any business operations (the “**Purchaser Permissible Transferees**”). The Vendor may, with prior notice to the other shareholders, transfer all or part of the shares in the Target held by it (the “**Vendor Permissible Transfer**”, together with the Purchaser Permissible Transfer, the “**Permissible Transfers**”) to any wholly-owned subsidiary of (i) the Vendor; and (ii) the holding companies of the Vendor that are interested in all the equity interest in the Vendor (including the Company) and their

respective holding companies (the “**Vendor Permissible Transferees**”, together with the Purchaser Permissible Transferees, the “**Permissible Transferees**”). None of the Pre-emptive Rights, the Tag-along Right or the Drag-along Right may be exercised in respect of a Permissible Transfer. In the event that a Permissible Transferee holding shares in the Target is expected to no longer qualify to be a Permissible Transferee, the relevant shareholder must procure that such shares in the Target are transferred to it or its other Permissible Transferees on or before such occurrence.

Board composition

The board of directors of the Target shall consist of five directors, three of whom shall be appointed by the Purchaser (one of whom shall be the chairman of the board) and the remaining two directors shall be appointed by the Vendor.

Board resolutions

- (i) The quorum for directors’ meetings of the Target shall be at least three directors, including a director nominated by the Vendor unless it is an adjourned and reconvened meeting where the initial meeting was adjourned due to absence of a quorum and in such case, any director present shall constitute a quorum. Each director shall have one vote.
- (ii) In respect of certain reserved matters concerning the Target and the members of the Target Group including, among others, (1) increase or decrease in the Target’s share capital after obtaining the approval of each shareholder in accordance with the Hong Kong Companies Ordinance and increase or decrease in the share capital of any member of the Target Group after obtaining the relevant shareholders’ approval; (2) merger, division, change of corporate form, dissolution and liquidation of the Target and any member of the Target Group; (3) amendment of the articles of association of the Target after obtaining the approval of each shareholder in accordance with the Hong Kong Companies Ordinance and amendment of the articles of association of any member of the Target Group after obtaining relevant shareholders’ approval; (4) obtaining or incurring any loans, payments, debts or advances in excess of RMB1 billion in aggregate for a single project or investment by the Target or any member of the Target Group; (5) a sale or other disposal by the Target or any member of the Target Group of its material assets (i.e. more than 20% of the aggregate total assets of the Target and the members of the Target Group); (6) approving the Target or any member of the Target Group to issue shares or any securities or other rights which are convertible into shares or carry rights to subscribe for shares; and (7) approving the Target or any member of the Target Group to make a loan to its shareholders or third parties or provide any form of security or pledge over the assets of the Target or any member of the Target Group (including shares of any member of the Target Group), special board resolution of the Target passed by a majority of the

directors including at least one director appointed by the Purchaser and one director appointed by the Vendor will be required. All other matters not being a reserved matter under the Shareholders' Agreement in respect of the Target that need to be resolved by the relevant board of directors must be approved by more than half of the directors of the relevant board of directors before valid board resolutions can be passed.

Non-competition

The Shareholders' Agreement provides that, without the prior written consent of all the shareholders of the Target, (i) while the shareholder remains a shareholder of the Target, and (ii) within five years of ceasing to become a shareholder of the Target (collectively, the "**Restricted Period**"), the shareholders shall not, and shall cause their associates not to, by themselves or through any associate (for the purposes of the Purchaser, only a PAG portfolio company as defined in the Shareholders' Agreement), or in association with or on behalf of any other person, among others, directly or indirectly own, manage, conduct, operate, control any of the Competing Businesses currently or intended to be undertaken by the Target Group, and providing work, consulting, services for, conducting business with the Competing Businesses, or retain any interest or commercial interest therein, save for certain exceptions provided for in the Shareholders' Agreement (including that the aforesaid restrictions shall not be applicable to the members of the Target Group from time to time).

During the Restricted Period, should the Purchaser or the Vendor become aware of, or obtain any investment project or greenfield project, or acquire any mature existing project involving the business opportunity to develop, manufacture or sale of acetic acid or acrylic acid products, they must inform the Target as soon as possible in writing of the details of such business opportunity (the "**New Business Opportunities**"). Should the Target wish to be involved in, invest in or develop one or more of the New Business Opportunities, the Purchaser or the Vendor should use its reasonable commercial endeavour to assist the Target to have priority to negotiate for and invest in the development of the relevant New Business Opportunities. For the avoidance of doubt, the New Business Opportunities do not include investments or projects (i) which are already in discussion by the Purchaser or the Vendor or any of their respective associates prior to the date of the Shareholders' Agreement; (ii) of which the sales or profit generated by acetic acid or acrylic acid products represent or are expected to represent (based on feasibility studies) less than 50% of the total sales or profit, respectively; and (iii) which the Purchaser or the Vendor is restricted from disclosing the details of or assisting with the New Business Opportunities pursuant to applicable laws and regulations (including securities market rules and regulations applicable to connected transactions and/or information disclosure).

INFORMATION OF THE TARGET GROUP

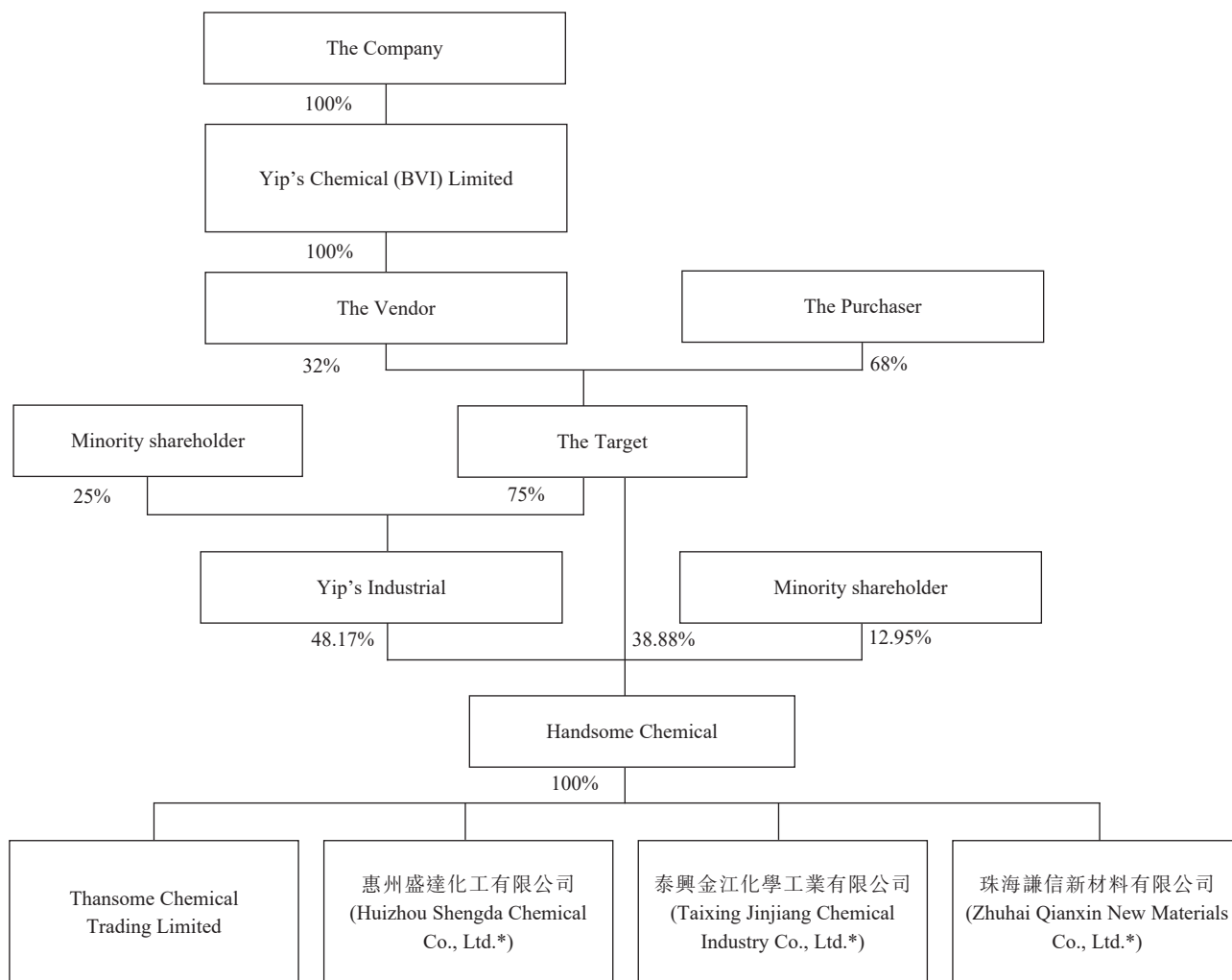
Corporate information

The Target was incorporated in Hong Kong with limited liability in 1985 and is an investment holding company. As at the date of this announcement, the Target directly owns an approximately 38.88% equity interest in Handsome Chemical and a 75% equity interest in Yip's Industrial.

Yip's Industrial was incorporated in Hong Kong with limited liability in 2002 and is an investment holding company. As at the date of this announcement, Yip's Industrial directly owns an approximately 48.17% equity interest in Handsome Chemical.

Handsome Chemical was established in the PRC with limited liability in 1993 and is, together with its subsidiaries, principally engaged in the Solvents Business. The Target Group shall, as at Completion, only comprise all those entities within the Group which are engaged in the Solvents Business.

The following chart depicts the shareholding structure of the Target Group as at Completion (assuming that no further subsidiaries will be established by the Target Group on or before Completion):



The Solvents Business

The Solvents Business refers to the manufacturing and trading of solvents products. As at the date of this announcement, the Target Group operates one solvent production plant in Jiangsu and two solvent production plants in Guangdong, the PRC. The principal products of the Solvents Business are eco-friendly industrial organic solvents, including ethyl acetate, normal butyl acetate, normal propyl acetate, mixed butyl acetate and butyl acrylate which are extensively used in coatings, tannery, medicine and adhesives industries. Products are sold in both the PRC and overseas markets, mainly via a direct-sale model.

Financial information

The following table summarises the unaudited financial information of the Target Group extracted from the audited consolidated financial statements of the Group for the two financial years ended 31 December 2020 and 2021:

	Year ended 31 December	
	2020	2021
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Profit before tax	471,365	813,871
Profit after tax attributable to owner of the Target	275,889	490,975

The profit recorded by the Target Group for the year ended 31 December 2021 increased mainly due to successful capturing of market opportunity by the management team of the Target Group with its leading market position and expertise from an upsurge in solvents raw materials prices as well as strong growth in export volume to a historical high of nearly 400,000 metric tons.

As at 31 December 2021, the unaudited consolidated net asset value of the Target Group attributable to its owner was approximately HK\$2,528 million.

INFORMATION OF THE PURCHASER

The Purchaser is a company incorporated in the Cayman Islands with limited liability on 17 December 2021. As at the date of this announcement, the Purchaser is an indirect wholly-owned subsidiary of PAG Asia III LP, which is a discretionary investment partnership ultimately controlled by PAG. PAG is a leading alternative investment firm focused on APAC with three core strategies: credit and markets, private equity, and real assets. PAG manages capital on behalf of nearly 300 institutional fund investors, including some of the most sophisticated global asset allocators. As of 30 June 2022, PAG had 300 investment professionals in 12 key offices globally and more than US\$50 billion in assets under management.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF THE DISPOSAL

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

The need for establishment of the New Solvents Plant

The Company is committed to the growth and expansion of each of its core businesses, particularly the Solvents Business. Despite that the Target Group is the world's largest acetates producer, the further development of the Solvents Business is affected by the price fluctuation of raw material of producing acetates, namely acetic acid. Acetic acid is a critical raw material used in the production of acetate solvents, which accounted for approximately 40% of the cost of materials of the Solvents Business for the year ended 31 December 2021. The volatility in raw materials prices have been particularly egregious over the last three years, fluctuating anywhere up to 3.5 times as compared to the lowest price during the period. To the best of the Directors' knowledge, the major competitors of the Target Group are vertically integrated with the production of acetic acid to capitalise on the synergies, including increased control over raw material costs and supply. These competitors of the Target Group can achieve better margins for their products, making their solvents products more competitive. In the face of pricing pressure from its major competitors, the Target Group is disadvantaged without vertical integration of its own Solvents Business and may cause it to lose market share in the foreseeable future. As such, the Directors consider that the construction and operation of the New Solvents Plant is a key to the continuous growth of the Solvents Business.

As at the date of this announcement, the Target Group is in advanced discussions with the local government regarding the construction and operation of the New Solvents Plant at the Jingmen Chemical Recycling Industrial Park in Jingmen City, Hubei Province, the PRC. The New Solvents Plant will have a designed manufacturing capacity of 600,000 tonnes per annum of acetic acid, 90% of which is expected to be utilised by the Target Group in the production of acetates. Upon commencement of operations of the New Solvents Plant, the Target Group will have an upward integration of the Solvents Business and a secured source of and better cost control over its acetic acid raw material, thereby improving production efficiency and enhancing margin and competitiveness of the Solvents Business.

The strategic cooperation with the Purchaser and PAG

PAG has been looking for suitable investment targets. It was attracted by the Solvents Business and its growth potential with the plan of the establishment of the New Solvents Plant. It is precisely because of, among others, the Group's breadth and depth of experience in the chemicals industry including the Solvents Business that PAG has chosen to cooperate with the Group and invest in the Solvents Business including providing support to establish the New Solvents Plant. The Solvents Business has been continually operating by its existing experienced management for almost 30 years. After performing its due diligence

and research on the Solvents Business and its management, PAG chose to invest a substantial amount of the Consideration of RMB2,295 million (approximately HK\$2,688 million) in the Solvents Business in part due to its confidence in the current operation managed by the existing management of the Solvents Business, particularly PAG itself is not an operator of the solvents manufacturing business. As informed by the Purchaser, PAG Asia III LP, the discretionary investment partnership ultimately controlled by PAG and which controls the Purchaser, is focused on making control investments in the Asia Pacific region. After evaluating the Target and negotiations among the Parties, it is the Purchaser's preference to invest in the Target as a controlling shareholder. As PAG could bring benefits and operational synergies for the Solvents Business, in particular to secure the supply of carbon monoxide from AirPower Technologies as discussed below, and that the Company wishes to take the opportunity to partner with PAG to grow the Solvents Business, the Directors consider that, on balance, the sale of a controlling stake in the Solvents Business to PAG is desirable and commercially justifiable taking into account various factors as a whole.

PAG holds investments in a wide range of portfolio companies in various industries. One of these companies is AirPower Technologies, which is ultimately controlled by PAG through a number of investment partnerships as at the date of this announcement, and is one of the largest independent industrial gases suppliers in the PRC by revenue, formed through the merger of Yingde Gases and Baosteel Gases in July 2021. Through its network of 135 production facilities located in 24 provinces in the PRC, especially within the highly developed economic corridors along the coastal areas, AirPower Technologies supplies a wide range of gases products and solutions to leading industrial customers. Through the connection of the Purchaser as a member of the PAG group of companies, the Target Group has been able to discuss with AirPower Technologies to enter into the Strategic Gas Supply Agreement for the supply of carbon monoxide in sufficient volume and at competitive price to be utilised in the New Solvents Plant for the production of acetic acid.

The current technology for manufacturing acetic acid requires the input of carbon monoxide gas as a raw material. The Target Group has been searching for a suitable production location with sufficient carbon monoxide supply for several years. Carbon monoxide gas in the volume required by the New Solvents Plant is only commercially viable to be transported through pipelines over a short distance. In order to maximise transport efficiency by pipeline and reduce infrastructure costs, the New Solvents Plant should be constructed nearby to the facilities of its carbon monoxide supplier. In this regard, the gas plant of AirPower Technologies which operates in the Jingmen Chemical Recycling Industrial Park, being the proposed site of the New Solvents Plant, would largely facilitate the commercial feasibility of and is essential to the operation of the New Solvents Plant. Pursuant to the Agreement, the entering into of the Strategic Gas Supply Agreement by the Target Group and AirPower Technologies is one of the conditions precedent to Completion.

Financing for the continuous development of the Solvents Business

In the course of planning for the expansion of the Solvents Business, including the establishment of the New Solvents Plant, it was apparent to the Company that substantial additional capital would be required. For instance, the capital expenditures involved in the construction of the New Solvents Plant are estimated to be in the amount of approximately RMB1,740 million (equivalent to approximately HK\$2,038 million). As mentioned above, the Target Group itself has unutilised facilities which are not guaranteed by the Remaining Group of approximately RMB2.2 billion (equivalent to approximately HK\$2.6 billion). These facilities however primarily relate to letters of credit, banker's acceptances and revolving loans granted by PRC banks, which are short terms loans and mismatched to the purposes of funding the construction of the New Solvents Plant, which is expected to take at least two years. In light of the challenging macro-economic environment due to, among others, the on-going COVID-19 pandemic, the Company considered it would be beneficial to introduce a strategic investor for the Solvents Business. The Company eventually secured the involvement of PAG as a majority investor in the Solvents Business, whose expertise in fund raising and capital markets will help the Target Group to obtain sufficient funding for the construction and operation of the New Solvents Plant and for its other development plans.

The Company and PAG have come to an understanding that the Remaining Group will not be obliged or expected to provide, and the Shareholders' Agreement does not contain any provisions which impose obligation on the part of the Remaining Group to provide, any funding or financial support to the construction and operation of the New Solvents Plant, which instead will be funded with debt financing to be obtained by the Target Group. Certain covenants given by the Group in respect of certain of its existing banking facilities, among others, require the Group to maintain at all times a gearing ratio of less than 90% or 100%, as applicable. As at 30 June 2022, the Group's gearing ratio for bank covenants purposes was approximately 49%. If further debt financing were to be sought by the Target Group for the New Solvents Plant, the Group's gearing ratio would increase to over 100% in maximum. As such, any debt financing to be raised by the Target Group would be limited by the Group's financial covenants. The terms and conditions of certain of the Group's existing banking facilities also restrict the Group's ability to provide pledges of its assets in support of any substantial debt financing to be sought by the Target Group, which further limits the Target Group's ability to obtain financing for the New Solvents Plant. With the introduction of the Purchaser as a new majority shareholder of the Target, the Target Group may also be able to tap into financing avenues other than traditional bank borrowings to finance its needs for continuous development including but not limited to the establishment of the New Solvents Plant, and the Remaining Group and the Target Group would both have more flexibility in managing their respective capital structure.

The Company will continue to participate in managing and share in the results of the Target Group

Upon Completion, the Purchaser and the Vendor will own a 68% and a 32% equity interest in the Target respectively and will, through the Target, effectively own a 51% and a 24% equity interest in Handsome Chemical respectively. The Target will cease to be a subsidiary of the Company and the financial results of the Target Group will no longer be consolidated into the consolidated financial statements of the Group following Completion. The financial results of the retained interest in the Target Group will be reported in the Group's consolidated financial statements using the equity method.

Despite that the Target will become an associate of the Company, the Group will continue to be interested in the performance of the Solvents Business and its expansion including the construction and operation of the New Solvents Plant. Both the Group and PAG (and the Purchaser) have the same goal in the continuous development of the Target Group and increasing the market share of the Solvents Business through the vertical integration with the establishment of the New Solvents Plant as mentioned above. PAG, being an investment firm, will rely on the existing experienced management of the Target Group in managing the Solvents Business as well as the Group's expertise in the Solvents Business to oversee the Target Group subsequent to Completion.

The Directors consider that, while the Company will no longer have control of the board of the Target Group following Completion, it will continue to have board representation in the Target and it has been given certain rights to protect its interests and benefits in the Target Group. Upon Completion, the Parties will enter into the Shareholders' Agreement which sets out certain rights and obligations of the shareholders of the Target, including what is effectively a veto right by the Vendor over, among others, the (i) creation or issue of new equity in the Target and members of the Target Group; (ii) creation of indebtedness in excess of RMB1 billion by the Target and members of the Target Group; and (iii) sale or disposal of assets of the Target Group in excess of 20% of the aggregate total assets of the Target Group, as elaborated above in the subsection headed "The Shareholders' Agreement – Board resolutions" in this announcement. Where necessary, the Remaining Group can act accordingly to prevent the dilution of its interests in the Target Group caused by the issue of new shares by the Target or any member of the Target Group and prevent the Target Group from becoming over-leveraged.

Gain on disposal and intended use of proceeds

For illustrative purposes, the Group is expected to record an unaudited gain on the Disposal of approximately HK\$1,188 million, which is calculated by subtracting (i) the aggregate of (1) the Consideration of RMB2,295 million (equivalent to approximately HK\$2,688 million), and (2) the fair value of 24% residual effective interest in the Target Group subsequent to Completion of approximately HK\$1,265 million; by (ii) the aggregate of (a)

the estimated expenses and tax expenses in respect of the Disposal of approximately HK\$237 million, and (b) the net asset value of the Target Group attributable to its owner of approximately HK\$2,528 million as at 31 December 2021. Shareholders should note that the gain on the Disposal will be calculated based on the relevant figures as at the date of Completion and subject to audit and therefore might be different from the aforementioned amount.

The net proceeds from the Disposal after deducting the relevant expenses and tax are estimated to be approximately HK\$2,451 million (the “**Net Proceeds**”). The Company intends, subject to the deliberation and final decision of the Board, to apply the Net Proceeds towards reserves for future investments, repayment of bank loans and meeting the general working capital needs of the Remaining Group.

In respect of future investments, other than investment opportunities arising from time to time to further develop the existing businesses of the Group, the Company also has a view to make strategic investments in projects involving new materials and technology business beyond the field of traditional chemical products, in order to accelerate the Group’s vision of becoming more “environmentally-friendly, end-user oriented and service-oriented” and increase Shareholders’ value. In this regard, the Company has invested approximately HK\$170 million in certain investment funds principally or solely engaged in new materials and technology projects. The Company will continue to look for investment opportunities in the area of new materials in the future with a view to generating return to the Group through, among other things, investing in investment funds with strong track record and/or partnering with financial/industry players if suitable projects are identified.

As at 30 June 2022, the Remaining Group has bank loans of approximately HK\$1,990 million, of which approximately HK\$1,364 million is repayable within one year. In deciding which and how much of the bank loans are to be repaid with the Net Proceeds, the Company will consider the circumstances at the appropriate time including, among others, the prevailing interest rates, the remaining term or maturity of the bank loans, the Company’s financial position and the economic environment.

The Company may also utilise a portion of the Net Proceeds to support the payment of dividends that may be declared in future. The Company has a defined dividend policy and has, over the last five years, regularly declared and paid interim and final dividends. In respect of the latest financial year ended 31 December 2021, the Company declared approximately HK\$224 million total dividends in aggregate.

Further details of the proposed use of the Net Proceeds will be disclosed in the Circular to be despatched to the Shareholders.

Directors' view

Having considered that (i) the construction and operation of the New Solvents Plant is an important component in the upward integration and continuous development of the Solvents Business, which is expected to bring synergies to and increase the competitiveness of the Solvents Business, and thereby enhancing the Target Group's margins and leading to better profitability; (ii) the introduction of PAG as a strategic partner and investor in the Solvents Business would create benefits and operational synergies, including but not limited to assisting the Target Group to obtaining necessary financing for its continuous development and future expansion plan; (iii) through the connections of PAG, the Target Group would be able to negotiate with AirPower Technologies for the supply of carbon monoxide for the operation of the New Solvents Plant; (iv) despite the Company's effective interest in Handsome Chemical will be reduced to 24% from 75% upon Completion, the Group would continue to enjoy the results of the Solvents Business, which is expected to continually improve following the establishment of the New Solvents Plant and the strategic investment of PAG for its future expansion, and represents stable and solid profit contribution to the Group in the future; and (v) the Group could realise part of its investment in the Solvents Business at a substantial gain and receive a substantial amount of cash proceeds which could be used for the Group's future developments, the Directors are of the view that terms of the Agreement are on normal commercial terms and are fair and reasonable, and the transactions contemplated under the Agreement are in the interests of the Company and the Shareholders as a whole.

BUSINESSES OF THE REMAINING GROUP

After Completion, in addition to the investment in the Target Group, the Remaining Group will continue to operate the coatings, inks, lubricants, property investment and other businesses via the subsidiaries of the Group.

Coatings business

The Group's coatings business refers to the manufacturing and trading of architectural coatings, industrial coatings and resins which was started in 1982 and has been operating for over 40 years. Architectural coating products include inner and outer emulsion wall paints and wood paints, including the coating brands "Bauhinia", "Camel", "Aquapro" and "VIVA" which are well-known in the PRC, Hong Kong and Macau markets. The Group has sales outlets covering large and medium-sized cities in the PRC as well as the majority of townships, and strives to be the leader in the PRC's household paints market. Industrial coating products under the coating brands "Hang Cheung" and "Bauhinia" include coatings for furniture and plastic, as well as anti-corrosive coatings. The Group's industrial coatings laboratory is accredited by the China National Accreditation Service for Conformity Assessment and can offer corresponding testing services based on customer's requests, substantially expanding the opportunities for cooperation between the Group and end-users of a host of international brands. Resins products under the brand "Da Chang" are vertically

integrated with finished coating products to offer a more competitive raw material prices and further enhance product quality. Products range from acrylic resins, water-based resins and alkyd resins, to polyester resins and polyurethane curing agents. Bespoke resins may also be developed to meet specific needs of the customers. The Group operates three coatings production plants in Shanghai, Sichuan and Guangdong, the PRC. The coatings business recorded segment revenue of approximately HK\$2,036.9 million for the year ended 31 December 2021 and segment assets of approximately HK\$1,591.9 million as at 31 December 2021.

Inks business

The Group's inks business refers to the manufacturing and trading of inks and related products, which was started in 1998 and has been in operation for over 20 years. The Group is currently the largest supplier of inks in the PRC under the brand "Bauhinia Variegata" and one of the top 20 ink enterprises globally. The main ink products include plastic printing inks and paper printing inks for use in food, drinks and gift packaging and paper printing, sold through a country-wide sales network. The inks business is carried out at two inks production plants in Guangdong and Zhejiang, the PRC. The inks business recorded segment revenue of approximately HK\$1,498.4 million for the year ended 31 December 2021 and segment assets of approximately HK\$1,643.8 million as at 31 December 2021.

As disclosed in the announcements of the Company dated 28 May 2020, 21 July 2020, 4 February 2021 and 5 February 2021 and the circular of the Company dated 16 August 2020, the Company is seeking for a separate listing of the inks business (the "**Proposed Listing**") on the Shenzhen Stock Exchange (the "**SZSE**"). The listing application in respect of the Proposed Listing was made to the SZSE on 27 January 2021. As at the date of this announcement, listing approval has not yet been received in respect of the Proposed Listing.

Lubricants business

The Group's lubricants business refers to the manufacturing and trading of lubricants and related products under the brands "Hercules" and "Pacoil". Started in 1992, the business now encompasses a wide array of lubricant products for use in automobiles and related industries, including engine oils, antifreeze fluids, system coolants, brake oils, and lubricating greases. The Group also produces high-performance industrial and special lubricants used in various industries, including electronics, manufacturing, engineering, steel and cement works, and textiles. The Group operates one lubricants production plant in Guangdong, the PRC. The lubricants business recorded segment revenue of approximately HK\$333.2 million for the year ended 31 December 2021 and segment assets of approximately HK\$250.7 million as at 31 December 2021.

Properties investment business

The Group's current portfolio of investment properties include certain portion of the 27th floor of Fortis Tower in Hong Kong, as well as certain commercial properties in Jiangmen City, an industrial property in Pudong District, Shanghai and an industrial property in Hebei in the PRC. As at the date of this announcement, most of the properties are rented to third parties independent of the Company and its connected persons. The properties investment business recorded segment revenue of approximately HK\$10.2 million for the year ended 31 December 2021 and segment assets of approximately HK\$194.9 million as at 31 December 2021.

Other businesses

The Group's other businesses include its chemical products business and car maintenance chain business under the brand name of "Damai". As of 31 December 2021, the Damai car maintenance chain business was carried out via 62 self-operated stores and 62 franchise stores primarily in the eastern and southern provinces of the PRC. The other businesses recorded segment revenue of approximately HK\$139.3 million for the year ended 31 December 2021 and segment assets of approximately HK\$119.7 million as at 31 December 2021.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder. As at the date of this announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Agreement which is different from the other existing Shareholders who shall otherwise be required to abstain from voting on the resolution in relation to the Disposal at the EGM.

The Circular containing, among other things, (i) details of the Agreement and the transactions contemplated thereunder; (ii) financial information of the Group; (iii) financial information of the Target Group; (iv) pro forma financial information of the Remaining Group; (v) a notice convening the EGM; and (vi) other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or before 30 September 2022, which has been determined after taking into account of the estimated time required for the Company to prepare all relevant information for inclusion in the Circular.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on Monday, 18 July 2022, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:00 a.m. on Tuesday, 26 July 2022.

WARNING

Shareholders and potential investors of the Company should note that Completion is conditional upon the fulfilment (and/or waiver if applicable) of the terms and conditions of the Agreement, and the Disposal may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless otherwise defined, terms used herein shall have the following meanings:

“Agreement”	the conditional sale and purchase agreement dated 15 July 2022 entered into among the Purchaser, the Vendor, the Company and the Target in relation to the Disposal
“Board”	the board of Directors
“Business Day(s)”	a day(s) on which licensed banks in the PRC, Hong Kong and the Cayman Islands are open to conduct business generally throughout their normal business hours, excluding Saturdays, Sundays and statutory holidays
“Circular”	the circular in connection with the Disposal to be despatched by the Company to the Shareholders in compliance with the Listing Rules
“Company”	Yip’s Chemical Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares are listed on the Main Board of the Stock Exchange (stock code: 408)
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Agreement

“Consideration”	the consideration for the Disposal in the equivalent amount in US\$ of RMB2,295 million (equivalent to approximately HK\$2,688 million)
“Director(s)”	director(s) of the Company
“Disposal”	the proposed sale of the Sale Shares by the Vendor to the Purchaser in accordance with the terms of the Agreement
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Handsome Chemical ”	謙信化工集團有限公司 (Handsome Chemical Group Limited*), a company established in the PRC and an indirectly owned subsidiary of the Company in which the Company has an approximately 75% effective interest as at the date of the Agreement
“Handsome Group”	Handsome Chemical and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	parties to the Agreement, being the Purchaser, the Vendor, the Company and the Target
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macao Special Administrative Region and Taiwan for the purposes of this announcement
“Purchaser”	PAGAC Heisenberg Holding II Limited, a company incorporated in the Cayman Islands
“Remaining Group”	the Group excluding the Target Group upon Completion
“Sale Shares”	4,080 issued shares of the Target, representing 68% of the total issued share capital of the Target as at the date of the Agreement

“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into among the Parties in relation to the Target
“Solvents Business”	the business being operated by the Target Group involving the manufacturing and trading of solvent products
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Handsome Chemical Development Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company as at the date of the Agreement
“Target Group”	the Target and its subsidiaries at Completion
“Vendor”	Yip’s H.C. (Holding) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company as at the date of the Agreement
“Withholding Tax Amount”	a portion of the Consideration in an equivalent amount in US\$ of RMB179 million, being an amount withheld by the Purchaser for potential tax liability to be borne by the Vendor in relation to the Disposal
“Yip’s Industrial”	Yip’s Industrial Holdings Limited, a company incorporated in Hong Kong and a 75%-owned subsidiary of the Target as at the date of the Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

Unless otherwise specified in this announcement, amounts denominated in RMB have been converted into HK\$ at the rate of RMB1 to HK\$1.1714 for illustration purpose only. No representation has been made by the Company that any amount has been, could have been or could be converted at the above rate or at any other rates or at all.

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

Hong Kong, 25 July 2022

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

Non-executive Directors:

Mr. Ip Chi Shing (*Chairman*)
Mr. Wong Yuk**
Mr. Ho Pak Chuen, Patrick**
Mr. Ku Yee Dao, Lawrence**

Executive Directors:

Mr. Yip Tsz Hin
(*Deputy Chairman and Chief Executive Officer*)
Mr. Ip Kwan
(*Deputy Chief Executive Officer*)
Mr. Ho Sai Hou (*Chief Financial Officer*)

* *For identification purposes only*

** *Independent Non-executive Directors*