THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Yip's Chemical Holdings Limited**, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

葉氏化工
YIP'S CHEMICAL

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
NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to Yip's Chemical Holdings Limited

OPTIMA CAPITAL
Optima Capital Limited

Capitalised terms used on this cover shall have the same meanings as defined in this circular unless otherwise requires.

A notice convening the EGM to be held at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong at 3:00 p.m. on Thursday, 6 October 2022, is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to (i) the head office and principal place of business in Hong Kong of the Company at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong; or (ii) the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

To ensure the safety and health of the EGM attendees and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM. These measures include, but are not limited to:

(i) limiting the number of the EGM attendees to avoid over-crowding;

(ii) conducting compulsory body temperature checks;

(iii) wearing of surgical face mask at all times;

(iv) completing a travel and health declaration;

(v) arranging venue seating to allow for appropriate social distancing; and

(vi) not providing food or beverages.

Any attendee who (a) refuses to comply with the precautionary measures; (b) is subject to compulsory quarantine or medical surveillance order by the Department of Health of the Government or has close contact with any person under quarantine; (c) is subject to the Government's prescribed testing requirement or direction and has not been tested negative; or (d) has any flu-like symptoms or is otherwise unwell, will be denied entry into or be requested to leave the venue of the EGM at the absolute discretion of the Company as permitted by law.

Shareholders are strongly encouraged to appoint the chairman of the EGM as their proxy, to vote on the resolution according to the instructions as indicated on the form of proxy, instead of attending the EGM in person in consideration of health and safety reasons.

Subject to the development of the COVID-19 pandemic and the requirements or guidelines of the Government and/or regulatory authorities, the Company may announce further updates on the EGM arrangement as and when appropriate.

20 September 2022

To ensure the safety and health of the EGM attendees and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the venue of the EGM (the "**Venue**").

LIMITING ATTENDANCE IN PERSON AT THE VENUE

The Company will limit the number of attendees at the Venue in accordance with prevailing requirements or guidelines published by the Government and/or regulatory authorities at the time of the EGM. Given the limited capacity of the Venue and the requirements for social distancing to ensure attendees' safety and health, only Shareholders and/or their representatives and relevant EGM staff will be admitted to the Venue. Admission to the Venue will not be granted in excess of the capacity of the Venue.

HEALTH AND SAFETY MEASURES AT THE EGM

In addition to limiting the number of attendees at the Venue, the following measures will also be implemented at the EGM:

(i) Compulsory body temperature screening/checks will be conducted on every attendee at the main entrance of the Venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the Venue;

(ii) Every attendee is required to wear a surgical face mask at all time within the Venue;

(iii) Every attendee is required to complete a travel and health declaration;

(iv) Seating at the Venue will be arranged so as to allow for appropriate social distancing;

(v) No food or beverages will be provided at the EGM; and

(vi) Any other additional precautionary measures in accordance with the prevailing requirements or guidelines of the Government and/or regulatory authorities, or as considered appropriate in response to the development of the COVID-19 pandemic.

Any attendee who (a) refuses to comply with the precautionary measures; (b) is subject to compulsory quarantine or medical surveillance order by the Department of Health of the Government or has close contact with any person under quarantine; (c) is subject to the Government's prescribed testing requirement or direction and has not been tested negative; or (d) has any flu-like symptoms or is otherwise unwell, will be denied entry into or be requested to leave the Venue at the absolute discretion of the Company as permitted by law.

Shareholders are requested (a) to consider carefully the risk of attending the EGM, which will be held in an enclosed environment; (b) to follow any prevailing requirements or guidelines of the Government relating to COVID-19 in deciding whether or not to attend the EGM; and (c) not to attend the EGM if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

It is possible that Shareholders and/or their representatives may not be able to attend in person at the Venue depending on prevailing Government regulations. Shareholders are strongly encouraged to appoint the chairman of the EGM as their proxy to vote on the resolution according to the instructions as indicated on the form of proxy, instead of attending the EGM in person. Subject to the development of the COVID-19 pandemic and the requirements or guidelines of the Government and/or regulatory authorities, the Company may announce further updates on the EGM arrangement as and when appropriate. If Shareholders have any questions relating to the EGM, please contact the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, as follows:

Tricor Secretaries Limited
17/F, Far East Finance Centre
16 Harcourt Road, Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185
Email: is-enquiries@hk.tricorglobal.com

CONTENTS

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions 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
"Announcement"	the announcement of the Company dated 25 July 2022 in relation to, among other things, 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
"Company"	Yip's Chemical Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the issued Shares of which 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$2,701 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
"Government"	the government of Hong Kong
"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 had 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
"Latest Practicable Date"	14 September 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"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 circular
"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
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the 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 (equivalent to approximately HK$210 million), being an amount withheld by the Purchaser for potential tax liability to be borne by the Vendor in relation to the Disposal
"Yip's Industrial"	Yip's Industrial Holdings Limited, a company incorporated in Hong Kong and a 75%-owned subsidiary of the Target as at the date of the Agreement
"HK$"	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

* *In this circular, the English translation/transliteration of the Chinese names denoted is for illustration purposes only. In the event of any inconsistency, the Chinese names shall prevail.*

Unless otherwise specified in this circular, amounts denominated in RMB are converted into HK$ at the rate of RMB1=HK$1.1771 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 rates at all.

叶氏化工
YIP'S CHEMICAL

Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 408

Non-executive Director:
Mr. Ip Chi Shing *(Chairman)*

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)*

Independent non-executive Directors:
Mr. Wong Yuk
Mr. Ho Pak Chuen, Patrick
Mr. Ku Yee Dao, Lawrence

Registered office:
P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head office and principal place of business in Hong Kong:
27/F., Fortis Tower
Nos. 77-79 Gloucester Road
Wanchai
Hong Kong

20 September 2022

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO
PROPOSED DISPOSAL OF EQUITY INTEREST IN
HANDSOME CHEMICAL DEVELOPMENT LIMITED**

INTRODUCTION

Reference is made to the Announcement dated 25 July 2022 in relation to, among other things, the Disposal. 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, for the Consideration, being the equivalent amount in US$ of RMB2,295 million (equivalent to approximately HK$2,701 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 an approximately 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.

The Disposal constitutes a very substantial disposal of the Company and is subject to the 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 Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder had 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 purpose of this circular is to provide you with, among others 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.

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 an approximately 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$2,701 million) and payable by the Purchaser in cash. The Purchaser shall pay the Consideration, after deducting the Withholding Tax Amount (being the equivalent amount in US$ 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; and/or (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 Latest Practicable Date, the Purchaser has confirmed with the Company that, based on the latest negotiations between the Purchaser and several potential lenders which negotiations were still continuing and not yet finalised, (i) no corporate guarantee will be required from any member of the Target Group for the Purchaser Facility Agreement; (ii) all share charges/pledges concerning the equity of the Target, Yip's Industrial and/or Handsome Chemical (if required) will in any event only need to be provided after Completion; and (iii) the effective interest of Handsome Chemical to be pledged under the Lending Bank Guarantees pursuant to the Purchaser Facility Agreement shall not be more than 51.00% in aggregate. As members of the Target Group will cease to be subsidiaries of the Company and will become associated companies of the Company after Completion, any Lending Bank Guarantees provided by the Target Group after Completion to the Lending Bank will not constitute a financial assistance of the Company under Chapter 14 of the Listing Rules. In order to protect the interests of the Company and safeguard the Remaining Group's assets against the default risk, the Company and the Vendor are currently undergoing negotiations to enter into an agreement which provides for the arrangements for the Purchaser, in the event that the Lending Bank is entitled to enforce the share charges/pledges and dispose of the pledged shares of Yip's Industrial and Handsome Chemical under the Lending Bank Guarantees pursuant to the Purchaser Facility Agreement, to compensate the Vendor by transferring (or procuring the relevant member(s) of the Target Group to transfer) (i) shares of the Target held by the Purchaser, (ii) shares of Yip's Industrial held by the Target and/or (iii) shares of Handsome Chemical held by the Target and Yip's Industrial which are not subject to the share charges/pledges to the Vendor in order to restore the effective interest of the Vendor in the Target Group and each of its members to the levels prior to the enforcement of the aforementioned share charges/pledges and disposal of the aforementioned pledged shares (the "**Arrangement**"), thus preventing the dilution of the effective interest of the Vendor in the Target Group and each of its members and safeguarding the assets of the Company against the default risk by maintaining the level of control of the Vendor over the Target Group and each of its members. On the basis that an aggregate of not more than 51.00% of effective interest in Handsome Chemical is to be pledged, there shall be sufficient shares of Yip's Industrial and Handsome Chemical held by the Target and/or Yip's Industrial respectively which are not subject to the share charges/pledges for transferring to the Vendor to restore the effective interest of the Vendor in the Target Group and each of its members to the levels prior to the enforcement of the aforementioned share charges/pledges and disposal of the aforementioned pledged shares. The Directors confirm that the details of the Arrangement will be negotiated and finalised and the relevant agreement in relation to the Arrangement will be executed prior to Completion. The Directors further confirm that, before the finalisation of the details of the Arrangement and the due execution of the relevant agreement in relation to the Arrangement to safeguard the interests of the Remaining Group, the Company and the Vendor shall not agree and facilitate the Target Group to provide the Lending Bank Guarantees.

In the event that the Lending Bank Guarantees are enforced by the Lending Bank thereafter due to the default of terms of the Purchaser Facility Agreement by the Purchaser, subject to the terms of Lending Bank Guarantees and the number of shares in Yip's Industrial and/or Handsome Chemical actually pledged, as well as any arrangement to protect the effective equity interest of the Remaining Group in the relevant members of the Target Group as may be agreed with the Purchaser, the Company, as an indirect 32% shareholder of the Target, may potentially lose up to an effective equity interest of approximately (a) 16.32% in Yip's Industrial; and/or (b) 20.29% in Handsome Chemical. In view of the background and reputation of the parent company of the Purchaser (i.e. PAG) as more particularly described in the section headed "Information of the Purchaser" and taking into account the Arrangement as aforementioned, as well as the Company's views on the long term prospects and business potential of the Target Group and the benefits of the Disposal as detailed in the section headed "Reasons for and benefits of the Disposal", the Directors are of the view that (i) the Company has taken appropriate steps to protect the interest of the Remaining Group from the possible provision of the Lending Bank Guarantees; (ii) the risk of default by the Purchaser is low; and (iii) the whole arrangement for the Lending Bank Guarantees is merely for the purpose of facilitating the Disposal in order for the Remaining Group to enjoy the benefits thereof and is therefore in the interests of the Company and the Shareholders as a whole.

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.

As at the Latest Practicable Date, conditions (v)(2) and (x) of the above conditions had been fulfilled.

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$589 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$188 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.

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.

As at the Latest Practicable Date, the Vendor had already discharged from, cancelled or removed members of the Target Group as borrowers for the Guarantee Contracts in respect of eight banking facilities and the trade payment of the PRC supplier group. The Vendor is also arranging for confirmation from the relevant banks for removal of members of the Target Group as borrowers for the Guarantee Contracts in respect of the remaining two banking facilities. The Directors expect that such Guarantees Discharge will also be completed in the near future and in any event before the date of Completion. In view that the Target Group itself has banking facilities which are not guaranteed by the Remaining Group of approximately RMB2.6 billion (equivalent to approximately HK$3.0 billion), of which approximately RMB2.2 billion (equivalent to approximately HK$2.6 billion) was undrawn as at the Latest Practicable Date, the Directors are of the view that there would not be practical difficulties to complete the remaining Guarantees Discharge.

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 sales, operations 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; (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; and (iii) the Remaining Group utilises solvents (including raw solvents, i.e. acetates) as raw material in the manufacturing of its downstream chemical products only and is not engaged in the sale and manufacturing of upstream raw solvent products.

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 the above averaged EBITDA. The Directors, having considered the trading multiples of companies, which are listed on the New York Stock Exchange ("**NYSE**"), NASDAQ Stock Market ("**NASDAQ**"), Toronto Stock Exchange ("**TSX**"), Shenzhen Stock Exchange ("**SZSE**") or Shanghai Stock Exchange ("**SSE**") (the "**Trading Comparables**") as well as pricings of recent sale and purchase transactions involving companies which are engaged in businesses similar to that of the Target Group (the "**Transaction Comparables**", together with the Trading Comparables, the "**Comparable Companies**") 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

Comparable Companies	*Key chemical product(s)*	**Exchange(s)**	***Approximate enterprise value as a multiple of EBITDA for 2021***	**Market capitalisation as at 22 June 2022** *(US$ millions)*
Huntsman Corporation	Polyurethanes and other chemical products	NYSE	5.7x	5,991
The Chemours Company	Acid and other chemical products	NYSE	7.2x	4,952
Methanex Corporation	Methanol	NASDAQ, TSX	3.7x	2,859
Tronox Holdings plc	Pigments and other chemical products	NYSE	5.8x	2,599
Kronos Worldwide, Inc.	Pigments	NYSE	8.7x	2,123
Trinseo PLC	Plastic and other chemical products	NYSE	4.8x	1,371
Satellite Chemical Co., Ltd.	Plastics and other chemical products	SZSE	7.2x	9,192
Shanghai Huayi Group Corporation Limited	Acid and other chemical products	SSE	2.0x	2,592
Jiangsu SOPO Chemical Co., Ltd.	Acetic acid, ethyl acetate, and other chemical products	SSE	3.3x	2,019
		Maximum	**8.7x**	
		Minimum	**2.0x**	
		Mean	**5.4x**	

Source: FactSet data as at 22 June 2022

The Transaction Comparables

Date of transaction	*Target*	*Acquirer*	*Key chemical product(s)*	*Total consideration (US$ millions)*	*Method of settlement*	*% Acquired*	*Approximate enterprise value as a multiple of EBITDA*
27 September 2021	Kraton Corporation	DL Chemical Co., Ltd.	Polymers and other chemical products	2,500	Cash and shares	100.0%	8.5x
28 August 2020	Venator Materials PLC	SK Capital Partners, L.P.	Pigments and other chemical products	91	Cash and shares	39.8%	8.5x
18 February 2020	Olin Corporation	Sachem Head Capital Management LP	Acid, alkaline and other chemical products	260	Cash and shares	9.4%	7.5x
21 October 2019	Innophos Holdings, Inc.	One Rock Capital Partners II, LP	Phosphates and other chemical products	932	Cash and shares	100.0%	9.3x
19 August 2019	PolyOne Corporation (Performance Products and Solutions business) *(Note)*	SK Echo Group Sàrl.	Plastics and other chemical products	775	Cash and shares	100.0%	9.1x
7 August 2019	Huntsman International LLC (Chemical Intermediates and Surfactants businesses) *(Note)*	Indorama Ventures Holdings L.P.	Alcohol and other chemical products	2,076	Cash and shares	100.0%	8.0x
1 November 2018	Lonza Group Ltd (Water Care business and operations) *(Note)*	Platinum Equity *(Note)*	Biocides and other chemical products	630	Cash and shares	100.0%	9.3x
23 July 2018	LCY Chemical Corp.	A consortium led by KKR & Co. Inc. *(Note)*	Solvent and other chemical products	1,560	Cash and shares	100.0%	7.6x
26 June 2018	Sid Richardson Carbon, Ltd.	Tokai Carbon Co., Ltd.	Pigments	310	Cash and shares	100.0%	8.2x
17 November 2017	Vale Cubatão Fertilizantes Ltda.	Yara International ASA	Fertilizer and other chemical products	255	Cash and shares	100.0%	8.5x
19 September 2017	Solvay S.A. (Polyamides business) *(Note)*	BASF SE	Plastics and other chemical products	1,917	Cash and shares	100.0%	8.0x
25 May 2017	Tembec Inc.	Rayonier Advanced Materials Inc.	Cellulose products	870	Cash only	100.0%	6.4x
21 February 2017	The National Titanium Dioxide Company Limited (Titanium Dioxide business) *(Note)*	Tronox Limited	Pigments and other chemical products	2,199	Cash only	100.0%	9.3x
						Maximum	**9.3x**
						Minimum	**6.4x**
						Mean	**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. Both the Trading Comparables and the Transaction Comparables have primarily been selected based on whether the subject companies are engaged in the commodity chemicals business, as the Solvents Business operated by the Target Group is a subset of the commodity chemicals business. Commodity chemicals refer to the chemicals that are made on a large scale and widely available. Commodity chemicals also have matured manufacturing processes, where equipment and processes are readily available. They are differentiated from the specialty chemicals that are not available from many suppliers, have special applications and/or manufacturing processes, and sometimes specialty chemicals products or processes are subject to intellectual property or trade secrets protection in respect of their formulations. In addition, the Trading Comparables only include deals announced in the last five years and exclude relatively small companies with market capitalisations less than US$1 billion as at 22 June 2022. The Company is of the view that, in general, listed companies with market capitalisations less than US$1 billion do not have sufficient trading liquidity in their shares, therefore the share prices and thus the trading multiples do not necessarily reflect the intrinsic value of the companies or their businesses. Furthermore, the Transaction Comparables were selected based on the their market-leading positions in their respective core business(es), product(s) and/or addressable market(s), and that are similar to the Solvents Business.

The Directors consider that the enterprise value as a multiple of EBITDA is a suitable benchmark for assessing the Consideration 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, 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 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

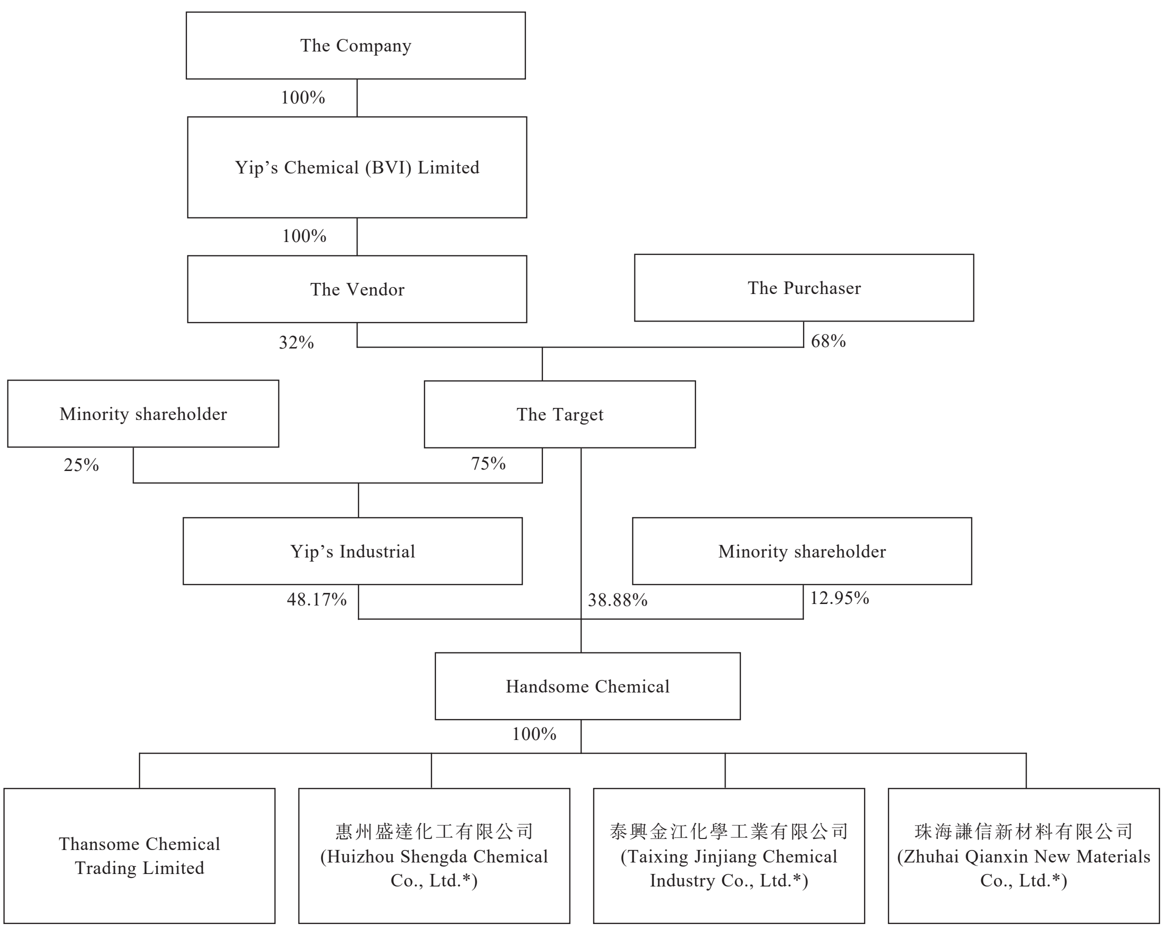
Corporate information

The Target was incorporated in Hong Kong with limited liability in 1985 and is an investment holding company. As at the Latest Practicable Date, 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 Latest Practicable Date, 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 Latest Practicable Date, 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**
	HK$'000	*HK$'000*
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 30 June 2022, the unaudited consolidated net asset value of the Target Group attributable to its owner was approximately HK$1,847 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 Latest Practicable Date, 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 circular, 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 operated 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 (equivalent to approximately HK$2,701 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 Latest Practicable Date, 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$2,048 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-term 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 50%. 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 as high as over 100%. 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 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. The Company intends to retain its 32% equity interest in the Target subsequent to Completion.

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 directors 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 letter from the Board contained in this circular. 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 the Disposal and intended use of proceeds

For illustrative purposes, assuming Completion had taken place on 30 June 2022, the Group is expected to record an unaudited gain on the Disposal of approximately HK$1,285 million, which is calculated by subtracting (i) the aggregate of (1) the Consideration of RMB2,295 million (equivalent to approximately HK$2,668 million based on the exchange rate of RMB6.7503/US$1 as at the date of the Agreement and the exchange rate of HK$7.8475/US$1 as at 30 June 2022 for the purpose of calculating the accounting gain on the Disposal), and (2) the fair value of 24% residual effective interest in the Target Group subsequent to Completion of approximately HK$1,271 million; by (ii) the aggregate of (a) the estimated expenses and tax expenses in respect of the Disposal of approximately HK$238 million, (b) the net asset value of the Target Group attributable to its owner of approximately HK$1,847 million as at 30 June 2022, (c) certain non-trade receivables due from Target Group attributable to its owner of approximately HK$565 million as at 30 June 2022 to be waived, and (d) the release of exchange reserve attributable to its owner of approximately HK$4 million. The non-trade receivables as mentioned in (c) above were indeed investments in the Target Group by the Group for its capital expenditures and business development in the form of current accounts. Therefore, such amounts were considered to be equity capital contribution in the Target Group made by the Group. By waiving such non-trade receivables, the Vendor technically has "capitalized" such balances as part of its investment in the Target Group, and this has been taken into account when the Parties agreed the Consideration. 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$2,463 million (the "**Net Proceeds**"). The Company intends to apply approximately (i) HK$1,100 million, or approximately 44.7% of the Net Proceeds, towards reserves for future potential business developments, acquisitions and investments; (ii) HK$670 million, or approximately 27.2% of the Net Proceeds, towards repayment of bank loans; and (iii) HK$693 million, or approximately 28.1% of the Net Proceeds, towards meeting the general working capital needs of the Remaining Group. Details of the intended use of proceeds are set out as follows:

In respect of future potential business developments and acquisitions, the Company intends to apply approximately HK$800 million of the Net Proceeds for opportunities to further develop and improve the existing businesses of the Remaining Group, namely, the Inks Business and the Coatings Business over the next three years. The current macro-economic environment conditions in mainland China have created more opportunities for consolidation in the inks and coatings markets. The Company is therefore actively looking for opportunities to acquire smaller, technologically driven niche players in the coatings market and the inks market that can be horizontally integrated with the Coatings Business and the Inks Business respectively. Out of the abovementioned HK$800 million, the Company intends to apply over the next three years approximately (i) HK$500 million for merger and acquisitions opportunities in the coatings and inks spaces; (ii) HK$300 million for the building of water-based and ultra-violet inks manufacturing lines, testing centre and automation upgrade of production facilities for the Inks Business, which are the purposes contemplated in the listing application of Bauhinia Ink Group, the withdrawal of which was announced by the Company on 5 August 2022. These projects were planned before when considering a listing on the SZSE with initial investments of approximately HK$70 million already having been made to purchase land and equipment. The said HK$300 million would be used for the construction, purchase and installation of equipment and facilities as well as related expenses required to complete and operate these projects. As at the Latest Practicable Date, the Group had not yet identified any acquisition target or entered into any agreement in respect of the above potential developments or acquisitions.

Apart from the above intended uses of the Net Proceeds on the existing businesses, the Company also intends to apply approximately HK$300 million of the Net Proceeds over the next three years towards making new strategic investments in projects involving new materials and technology business beyond the field of the Company's current product portfolio, in order to accelerate the Group's vision of becoming more "environmentally-friendly, end-user oriented and service-oriented" and to increase Shareholders' value. For instance, the Company has already invested approximately HK$170 million in certain investment funds principally or solely engaged in new materials and technology projects. Such investment funds invested in a variety of industries including but not limited to industrial technology, new materials (special polymer and resins), environmental and sustainable development (water and waste treatment, degradable materials), new energy materials and storage, semiconductor materials, and medical and consumer services. The Company also intends to continue to look for minority stake investment opportunities in the area of new materials, construction materials, electronic semi-conductor, sustainable development, clean energy and industry and consumption upgrade, as well as projects involving new materials that are used in the upstream of the existing Coatings Business and Inks Business of the Remaining Group. By investing in these new materials and technology projects of which most, if not all, are environmentally-friendly in nature, the Company could potentially incorporate such environmentally-friendly applications into the production of current products or development of new business lines with synergies with the customer base and manufacturing platform of its existing core businesses. As a result, the Group's vision of becoming more environmentally-friendly could be accomplished through these new strategic investments. These investments will also be made with a view to generating return to the Group and will also provide strategic views on new and high potential industries that can contribute to the growth of the Company's chemical products sales and manufacturing platform in the PRC. As at the Latest Practicable Date, the Group had not yet identified any new suitable projects in respect of the above strategic investments.

As at 30 June 2022, the Remaining Group had bank loans of approximately HK$1,990 million, of which approximately HK$1,364 million is repayable within one year. The Company intends to apply approximately HK$670 million of the Net Proceeds in repaying part of the bank borrowings payable within one year. In deciding which bank loans are to be repaid with the Net Proceeds, the Company will consider the circumstances and various factors as a whole at the appropriate time including, among others, the prevailing interest rates, the remaining term or maturity date of the bank loans, availability of unutilised banking facilities for loan refinancing, the Company's financial position and the macro-economic environment.

The Company intends to apply the remaining Net Proceeds of approximately HK$693 million towards general working capital of the Remaining Group over the next three years and to support the payment of dividends that may be declared in future. Out of the HK$693 million, approximately (i) HK$230 million will be utilised for staff costs and administrative expenses for the Group's supporting functions in both Hong Kong and the PRC for the three years ending 31 December 2025; (ii) HK$122 million will be utilised for the payment of bank interest expenses in Hong Kong for the three years ending 31 December 2025; (iii) HK$313 million will be utilised to fund part of the expected dividend payments to be paid to Shareholders during the three years ending 31 December 2025; and (iv) the remaining HK$28 million will be utilised for other general working capital purpose. Such expected dividend payments will be subject to the actual profit and dividends to be declared in the respective years. 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 (including special dividend of approximately HK$55 million) in aggregate, of which approximately HK$152 million was paid as cash dividend and approximately HK$72 million was paid as scrip dividend.

The Net Proceeds not yet utilised for the aforesaid purposes shall be placed with financial institutions as fixed deposits and other principal-protected investments for return enhancement.

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 the 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.

FINANCIAL EFFECTS OF THE DISPOSAL

Earnings

As elaborated above in the sub-paragraph headed "Reasons for and benefits of the Disposal – Gain on Disposal and intended use of proceeds", the Disposal is expected to result in a one-off accounting gain with an estimated amount of approximately HK$1,285 million, which will be recorded in the financial year ending 31 December 2022.

For the six months ended 30 June 2022, the Group recorded an unaudited profit for the period of approximately HK$164.4 million. Based on the "unaudited pro forma financial information of the Remaining Group" as set out in Appendix III to this circular, assuming Completion had taken place on 1 January 2022, the unaudited pro forma consolidated profit of the Remaining Group for the period ended 30 June 2022 would have been approximately HK$1,147 million.

Assets and liabilities

Upon Completion, the Target Group will cease to be subsidiaries of the Company and the financial results, assets and liabilities of the Target Group will no longer be included in the consolidated financial statements of the Company.

According to the interim report of the Company for the six months ended 30 June 2022, the unaudited consolidated total assets and total liabilities of the Group as at 30 June 2022 were approximately HK$9,505 million and HK$5,066 million respectively. Based on the "unaudited pro forma financial information of the Remaining Group" as set out in Appendix III to this circular, assuming Completion had taken place on 30 June 2022, the unaudited pro forma consolidated total assets and total liabilities of the Remaining Group as at 30 June 2022 would have been approximately HK$8,271 million and HK$3,351 million respectively.

General

Shareholders and potential investors should note that the financial impact set out above is for illustrative purposes only, which will have to be ascertained at the time of preparation of the Company's consolidated financial statements with reference to, among other things, the actual costs and expenses associated with the Disposal, and is subject to audit.

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 (the "**Coatings Business**"). 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 "**Inks Business**"). 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 had been seeking for a separate listing of the Inks Business (the "**Proposed Listing**") on the SZSE. As further disclosed in the Company's announcement dated 5 August 2022, the application has been withdrawn on 5 August 2022 as the Board resolved to adjust the Company's strategy for the Inks Business due to changes in economic and market environment and the possible receipt of new and substantial funds from the Disposal.

Lubricants business

The Group's lubricants business refers to the manufacturing and trading of lubricants and related products under the brands "Hercules" and "Pacoil" (the "**Lubricants Business**"). 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 business

The Group's 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 Latest Practicable Date, most of the properties are rented to third parties independent of the Company and its connected persons. The properties 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 manufacturing and trading of other chemical products business and car maintenance chain business under the brand name of "Damai". As at 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 Latest Practicable Date, 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.

EGM

The EGM will be held at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong at 3:00 p.m. on Thursday, 6 October 2022 for the Shareholders to consider and, if thought fit, to approve, among other things, the Agreement and the transactions contemplated thereunder.

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to (i) the head office and principal place of business of the Company at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong; or (ii) the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM (or any adjourned meeting thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) should you so wish.

Register of members of the Company will be closed from Friday, 30 September 2022 to Thursday, 6 October 2022 (both dates inclusive) for the purpose of ascertaining Shareholders' entitlement to attend and vote at the EGM. No transfer of Shares will be registered during those dates. In order to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, 29 September 2022.

RECOMMENDATION

The Directors consider that the terms of the Agreement are fair and reasonable so far as the Company and the Shareholders are concerned, and that the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Disposal.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

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.

Yours faithfully,
For and on behalf of the Board
Yip's Chemical Holdings Limited
Ip Chi Shing
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for the three years ended 31 December 2019 ("**FY2019**"), 2020 ("**FY2020**") and 2021 ("**FY2021**") and the unaudited consolidated financial information of the Group for the six months ended 30 June 2022 ("**1H2022**") have been published in the annual reports and the interim report of the Company respectively, which are available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.yipschemical.com). The hyperlinks to the aforesaid annual reports and the interim report are set out below:

(i) Annual report of the Company for FY2019 published on 20 April 2020 (pages 93 to 268): **https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0420/2020042000840.pdf**

(ii) Annual report of the Company for FY2020 published on 15 April 2021 (pages 101 to 304): **https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0415/2021041500461.pdf**

(iii) Annual report of the Company for FY2021 published on 27 April 2022 (pages 97 to 300): **https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700740.pdf**

(iv) Interim report of the Company for 1H2022 published on 8 September 2022 (the "**Interim Report**") (pages 28 to 68): **https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0908/2022090800380.pdf**

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 July 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following indebtedness:

(a) bank loans of approximately HK$2,444,094,000 in total, of which HK$1,854,770,000 were unsecured and guaranteed by the Company, bank loans of HK$343,645,000 were unsecured and guaranteed by non-wholly owned subsidiaries of the Company and bank loans of HK$96,677,000 was secured by bills with full recourse and unguaranteed. The remaining bank loans of HK$149,002,000 were unsecured and unguaranteed; and

(b) lease liabilities of approximately HK$121,244,000 in total, of which HK$86,673,000 were secured by rental deposits and unguaranteed, a lease liability amounting to approximately HK$5,875,000 was secured by a rental deposit and guaranteed by a bank, and lease liabilities amounting to approximately HK$28,696,000 were unsecured and unguaranteed.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 31 July 2022, the Group did not have any outstanding borrowings, debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, bank overdrafts, other borrowings or similar indebtedness, liabilities under acceptances (other than normal trade bills), or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, having regard to the financial resources available to the Group, including internally generated funds, available banking facilities and the Consideration to be received, as contemplated under the Agreement, the Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As disclosed in the Interim Report the net profit of the Group attributable to the Shareholders was lower for 1H2022 as compared to the corresponding period of the previous year by over 60% which was mainly attributable to the following:

1) Profit of the Group's Solvents Business for the corresponding period of the previous year was unusually high due to a temporary imbalance of supply and demand of solvent products. Yet the net profit for the 1H2022 was still in line with the historical average profit level excluding the exceptional circumstances last year.

2) Non-recurring increases in fair value of the Group's investment property in Fanling and listed securities in the amount of approximately HK$88 million were recorded in the six months ended 30 June 2021.

Save as disclosed above, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in the Solvents Business, the Coatings Business, the Inks Business and the Lubricants Business as well as property investments.

The Company is cautious about the business outlook for the second half of 2022. Domestically, economic activities in the PRC are expected to return to normal as the pandemic has gradually come under control and receded. In addition, the central government of the PRC has continued its policy of maintaining stable economic growth and running the economy in a dual circulation, which is based primarily on the domestic economic cycle driving the international economic cycle. These measures embody a stronger impetus for the economy to achieve the economic growth target for the year. The Company believes that, apart from vigorously promoting "cars going to the countryside" (汽車下鄉) and encouraging citizens to buy properties, it is believed that relevant complementary policies and measures will be rolled out in the coming year. It is therefore expected that the PRC's economy will eventually recover from the downturn to an upward trajectory, but the implementation of the policies will take time and the effects remain to be seen.

Internationally, however, there are more uncertainties. Firstly, a worldwide cycle of interest rate hikes has begun, but inflation remains on an upward trajectory at the moment and the risk of the global economy falling into recession has increased sharply. Moreover, on a less optimistic note, the war between Russia and Ukraine has now turned into a “war of attrition” which is unlikely to end in the near future. It may bring about global geopolitical, energy, food, humanitarian and supply chain crises, and the severity of its impacts and extent are difficult to predict. In the face of the volatile and complex domestic and international situation, the Group will keep a clear head at all times and make full use of the PRC’s unique economic development model and development potential to formulate a number of contingency measures quickly and flexibly. All of the Group’s core businesses have been firmly established in the PRC for many years. During 1H2022, the Group continued to focus on “reducing costs and expenses” with a view to capturing more opportunities for growth while fostering stronger competitiveness, so as to maximise Shareholder value.

Set out below are the unaudited consolidated financial information of the Target Group which comprises the unaudited consolidated statements of financial position of the Target Group as at the end of FY2019, FY2020, FY2021 and 1H2022, the unaudited consolidated statements of profit or loss and other comprehensive income, the unaudited consolidated statements of changes in equity and the unaudited consolidated statements of cash flows of the Target Group for each of the periods then ended and certain explanatory notes (collectively, the "**Unaudited Consolidated Financial Information**").

The Unaudited Consolidated Financial Information has been prepared and presented in accordance with the basis of preparation set out in note 2 to the Unaudited Consolidated Financial Information on page II-11 of this circular together with Rule 14.68(2)(a)(i) of the Listing Rules and has been prepared by the Directors solely for the purpose of inclusion in this circular in connection with the Disposal.

Deloitte Touche Tohmatsu, the auditor of the Company, was engaged to review the Unaudited Consolidated Financial Information set out on pages II-2 to II-10 of this circular in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("**HKSRE 2410**") and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditor to obtain assurance that they would become aware of all significant matters that might be identified in an audit. Accordingly, the auditor does not express an audit opinion.

Based on the review on the Unaudited Consolidated Financial Information, nothing has come to the auditor's attention that causes them to believe the Unaudited Consolidated Financial Information is not prepared, in all material respects, in accordance with the basis of preparation and presentation as set out in note 2 to the Unaudited Consolidated Financial Information.

A. THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

The following is the text extracted from a report we received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, regarding the Unaudited Consolidated Financial Information for the purpose of inclusion in this circular.

a. UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December			For the six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	7,403,098	7,867,390	14,027,222	6,630,233	6,014,495
Cost of sales	(6,797,516)	(6,960,316)	(12,698,626)	(5,940,358)	(5,429,353)
Gross profit	605,582	907,074	1,328,596	689,875	585,142
Other income	18,387	12,639	13,948	8,732	13,528
Other gains and losses	(7,097)	(27,645)	10,570	(6,387)	17,308
Selling and distribution expenses	(209,799)	(248,402)	(329,588)	(147,228)	(204,549)
General administrative expenses	(119,364)	(163,267)	(191,045)	(102,109)	(98,327)
Finance costs	(16,364)	(9,034)	(18,610)	(6,611)	(8,940)
Profit before taxation	271,345	471,365	813,871	436,272	304,162
Taxation	(56,957)	(91,571)	(144,420)	(76,323)	(71,320)
Profit for the year/period	214,388	379,794	669,451	359,949	232,842
Other comprehensive (expense) income for the year/period:					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(41,658)	167,907	84,101	24,962	(165,348)
Total comprehensive income for the year/period	172,730	547,701	753,552	384,911	67,494
Profit for the year/period attributed to:					
Owners of the Company	153,519	275,889	490,975	266,153	170,361
Non-controlling interests	60,869	103,905	178,476	93,796	62,481
	214,388	379,794	669,451	359,949	232,842
Total comprehensive income for the year/period attributable to:					
Owners of the Company	122,276	401,817	554,051	284,875	46,350
Non-controlling interests	50,454	145,884	199,501	100,036	21,144
	172,730	547,701	753,552	384,911	67,494

b. UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	736,065	764,723	1,200,952	1,127,018
Goodwill	57,671	57,671	57,671	57,671
Deposit paid for acquisition of property, plant and equipment	13,848	23,409	7,072	267
	807,584	845,803	1,265,695	1,184,956
CURRENT ASSETS				
Inventories	661,578	808,793	791,018	1,211,074
Trade receivables	1,551,523	2,130,796	3,085,889	2,118,246
Other debtors and prepayments	241,430	313,627	464,080	381,377
Amount due from a fellow subsidiary	–	–	18,351	–
Derivative financial instruments	–	–	8,197	–
Short-term bank deposit – with original maturity within three months	30,369	–	–	–
Bank balances and cash	274,402	135,228	333,120	219,911
	2,759,302	3,388,444	4,700,655	3,930,608
CURRENT LIABILITIES				
Creditors and accrued charges	1,200,848	1,437,957	2,049,412	1,287,908
Contract liabilities	29,382	26,770	40,364	50,484
Taxation payable	32,315	53,026	66,295	76,244
Lease liabilities	5,524	3,786	5,316	11,717
Derivative financial instruments	–	285	–	11,977
Amounts due to fellow subsidiaries	847,365	728,661	748,492	778,568
Bank borrowings – amount due within one year	–	–	318,084	361,963
	2,115,434	2,250,485	3,227,963	2,578,861
NET CURRENT ASSETS	643,868	1,137,959	1,472,692	1,351,747
TOTAL ASSETS LESS CURRENT LIABILITIES	1,451,452	1,983,762	2,738,387	2,536,703

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES				
Lease liabilities	3,907	9,796	65,034	60,133
Deferred tax liabilities	6,356	9,524	12,212	8,252
	10,263	19,320	77,246	68,385
	1,441,189	1,964,442	2,661,141	2,468,318
CAPITAL AND RESERVE				
Share capital	600	600	600	600
Reserves	1,052,968	1,454,785	2,008,836	1,846,563
Equity attributable to owners of the Company	1,053,568	1,455,385	2,009,436	1,847,163
Non-controlling interests	387,621	509,057	651,705	621,155
	1,441,189	1,964,442	2,661,141	2,468,318

c. UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Non-distributable reserve	Translation reserve	Legal reserve	Retained profits	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2019	600	41,958	(33,619)	93,280	829,073	931,292	358,395	1,289,687
Profit for the year	–	–	–	–	153,519	153,519	60,869	214,388
Exchange differences arising on translation of foreign operations that may be reclassified to profit or loss	–	–	(31,243)	–	–	(31,243)	(10,415)	(41,658)
Total comprehensive (expense) income for the year	–	–	(31,243)	–	153,519	122,276	50,454	172,730
Sub-total	600	41,958	(64,862)	93,280	982,592	1,053,568	408,849	1,462,417
Transfer	–	–	–	8,981	(8,981)	–	–	–
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(21,228)	(21,228)
At 31 December 2019	600	41,958	(64,862)	102,261	973,611	1,053,568	387,621	1,441,189
Profit for the year	–	–	–	–	275,889	275,889	103,905	379,794
Exchange differences arising on translation of foreign operations that may be reclassified to profit or loss	–	–	125,928	–	–	125,928	41,979	167,907
Total comprehensive income for the year	–	–	125,928	–	275,889	401,817	145,884	547,701
Sub-total	600	41,958	61,066	102,261	1,249,500	1,455,385	533,505	1,988,890
Transfer	–	–	–	11,092	(11,092)	–	–	–
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(24,448)	(24,448)
At 31 December 2020	600	41,958	61,066	113,353	1,238,408	1,455,385	509,057	1,964,442

	Share capital	Non-distributable reserve	Translation reserve	Legal reserve	Retained profits	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit for the year	–	–	–	–	490,975	490,975	178,476	669,451
Exchange differences arising on translation of foreign operations that may be reclassified to profit or loss	–	–	63,076	–	–	63,076	21,025	84,101
Total comprehensive income for the year	–	–	63,076	–	490,975	554,051	199,501	753,552
Sub-total	600	41,958	124,142	113,353	1,729,383	2,009,436	708,558	2,717,994
Transfer	–	–	–	26,320	(26,320)	–	–	–
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(56,853)	(56,853)
At 31 December 2021	600	41,958	124,142	139,673	1,703,063	2,009,436	651,705	2,661,141
Profit for the period	–	–	–	–	170,361	170,361	62,481	232,842
Exchange differences arising on translation of foreign operations that may be reclassified to profit or loss	–	–	(124,011)	–	–	(124,011)	(41,337)	(165,348)
Total comprehensive (expense) income for the period	–	–	(124,011)	–	170,361	46,350	21,144	67,494
Sub-total	600	41,958	131	139,673	1,873,424	2,055,786	672,849	2,728,635
Transfer	–	–	–	23,542	(23,542)	–	–	–
Dividends paid to owners of the Company	–	–	–	–	(208,623)	(208,623)	–	(208,623)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(51,694)	(51,694)
At 30 June 2022	600	41,958	131	163,215	1,641,259	1,847,163	621,155	2,468,318

	Share capital	Non-distributable reserve	Translation reserve	Legal reserve	Retained profits	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2021	600	41,958	61,066	113,353	1,238,408	1,455,385	509,057	1,964,442
Profit for the period	–	–	–	–	266,153	266,153	93,796	359,949
Exchange differences arising on translation of foreign operations that may be reclassified to profit or loss	–	–	18,722	–	–	18,722	6,240	24,962
Total comprehensive income for the period	–	–	18,722	–	266,153	284,875	100,036	384,911
Sub-total	600	41,958	79,788	113,353	1,504,561	1,740,260	609,093	2,349,353
Transfer	–	–	–	12,933	(12,933)	–	–	–
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(27,469)	(27,469)
At 30 June 2021	600	41,958	79,788	126,286	1,491,628	1,740,260	581,624	2,321,884

d. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows used in operating activities					
Profit before taxation	271,345	471,365	813,871	436,272	304,162
Adjustments for:					
Depreciation of property, plant and equipment	50,182	84,876	77,851	44,179	49,465
Finance costs	16,364	9,034	18,610	6,611	8,940
Interest income	(8,481)	(6,305)	(2,818)	(1,184)	(1,590)
Loss (gain) on fair value change of derivative financial instruments	–	282	(7,899)	(1,648)	21,469
Net loss (gain) on disposals/ written-off of property, plant and equipment	4,611	10,884	1,388	(750)	(9,748)
Net (reversal of impairment loss) impairment loss under expected credit loss model recognised on trade receivables, net	(1,435)	2,194	(3,307)	7,303	2,027
Written off on deposit on property, plant and equipment	–	5,513	–	–	–
Allowance for (reversal of allowance for) slow-moving inventories	188	(3,498)	6,997	8,783	34,764
Written off of inventories	5,040	3,803	6,445	2,248	1,948
Effect of foreign exchange rate changes on intra-group balances	(1,380)	6,060	(5,135)	(526)	(11,388)
Operating cash flows before movements in working capital	336,434	584,208	906,003	501,288	400,049
(Increase) decrease in inventories	(196,796)	(104,263)	22,696	(280,546)	(507,929)
Decrease (increase) in trade receivables	202,259	(466,526)	(873,511)	(615,037)	880,211
Decrease (increase) in other debtors and prepayments	17,088	(54,380)	(134,984)	(277,143)	59,680
(Decrease) increase in creditors and accrued charges	(159,631)	198,635	525,089	519,449	(665,466)
Increase (decrease) in contract liabilities	7,854	(4,556)	13,088	9,127	11,836
Cash generated from (used in) operations	207,208	153,118	458,381	(142,862)	178,381
People's Republic of China income tax paid	(51,931)	(70,354)	(129,140)	(70,649)	(62,685)
Net cash from (used in) operating activities	155,277	82,764	329,241	(213,511)	115,696

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows used in investing activities					
Purchase of property, plant and equipment	(182,846)	(103,609)	(378,734)	(95,054)	(47,464)
Refund of deposits paid for acquisition of property, plant and equipment	–	5,359	–	–	–
Deposits paid for acquisition of property, plant and equipment	(2,678)	(23,002)	–	(52,398)	–
Interest received	8,481	6,305	2,818	1,184	1,590
Advance to a fellow subsidiary	–	–	(18,351)	–	–
Repayment from a fellow subsidiary	–	–	–	–	18,351
Proceeds from disposal of property, plant and equipment	16	10,149	3,291	811	13,492
Net cash used in investing activities	(177,027)	(104,798)	(390,976)	(145,457)	(14,031)
Cash flows (used in) from financing activities					
Dividends paid	–	–	–	–	(150,963)
Borrowings raised	–	–	462,168	420,245	320,183
Repayment of borrowings	(136,620)	–	(144,084)	–	(276,304)
Interest paid	(15,501)	(7,915)	(17,351)	(6,170)	(7,224)
Dividends paid to non-controlling shareholders of subsidiaries	(21,228)	(24,448)	(56,853)	(27,469)	(51,694)
Payment of lease liabilities	(10,749)	(14,037)	(10,970)	(5,192)	(9,130)
Repayment to fellow subsidiaries	(711,944)	(144,495)	(279,368)	(104,559)	(806,545)
Advance from fellow subsidiaries	665,521	25,791	299,198	80,897	778,961
Net cash (used in) from financing activities	(230,521)	(165,104)	252,740	357,752	(202,716)
Net (decrease) increase in cash and cash equivalents	(252,271)	(187,138)	191,005	(1,216)	(101,051)
Cash and cash equivalents at beginning of the year/period	560,900	304,771	135,228	135,228	333,120
Effect of foreign exchange rate changes	(3,858)	17,595	6,887	1,675	(12,158)
Cash and cash equivalents at end of the year/period	304,771	135,228	333,120	135,687	219,911
Analysis of balances of cash and cash equivalents					
Short-term bank deposits with original maturity within three months	30,369	–	–	–	–
Bank balances and cash	274,402	135,228	333,120	135,687	219,911
	304,771	135,228	333,120	135,687	219,911

e. NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Handsome Chemical Development Limited ("The Target") is a private limited company incorporated in Hong Kong and is an investment holding company. Its ultimate holding company is Yip's Chemical Holdings Limited (the "Company"), was incorporated in the Cayman Islands with its Shares listed on The Stock Exchange of Hong Kong Limited. The address of the registered office and principal place of business of the Company is 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong. The Target and its subsidiaries (collectively referred to as the "Target Group") are principally engaged in the manufacturing of and trading in raw solvents and related products.

The Unaudited Consolidated Financial Information are presented in Hong Kong dollars, which is the same as the functional currency of the Target.

2. BASIS OF PREPARATION OF THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

The unaudited consolidated financial information comprises the unaudited consolidated statements of financial position of the Target Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 and the unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows of the Target Group for each of the periods then ended and certain explanatory notes (the "Unaudited Consolidated Financial Information"). The Unaudited Consolidated Financial Information has been prepared in accordance with Rule 14.68(2)(a)(i) of the Listing Rules, and solely for the purpose of inclusion in the circular to be issued by the Company in connection with the Disposal (as defined in the circular). Accordingly, the comparative figures for the year ended 31 December 2019 have not been presented.

The Unaudited Consolidated Financial Information has been prepared using the same accounting policies as those adopted by the Yip's Chemical Holdings Limited and its subsidiaries (collectively referred to the "Group") in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2021, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The Unaudited Consolidated Financial Information neither contains sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) "Presentation of Financial Statements" nor a set of financial statements as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA. It should be read in connection with the Group's relevant published annual consolidated financial statements.

B. THE ACCOUNTANTS' REVIEW REPORT ON THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

The following is the text extracted from a report we received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, regarding the Unaudited Consolidated Financial Information for the purpose of inclusion in this circular.

Deloitte. 德勤

To the Board of Directors of Yip's Chemical Holdings Limited

Introduction

We have reviewed the unaudited consolidated financial information set out on pages II-2 to II-10, which comprises the consolidated statements of financial position of Handsome Chemical Development Limited (the "Target") and its subsidiaries (collectively referred to as the "Target Group") as of 31 December 2019, 2020 and 2021 and 30 June 2022 and the unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows for each of the periods then ended (the "Relevant Periods") and explanatory notes (the "Consolidated Financial Information"). The unaudited Consolidated Financial Information has been prepared solely for the purpose of inclusion in the circular to be issued by Yip's Chemical Holdings Limited (the "Company") in connection with the proposed disposal of equity interest in the Target (the "Disposal") in accordance with Rule 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The directors of the Company are responsible for the preparation and presentation of the unaudited Consolidated Financial Information in accordance with the basis of preparation set out in note 2 to the unaudited Consolidated Financial Information and Rule 14.68(2)(a)(i) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The directors of the Company are also responsible for such internal control as management determines is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error. The unaudited Consolidated Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 "Presentation of Financial Statements" or an interim financial report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this unaudited Consolidated Financial Information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants. A review of the unaudited Consolidated Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited Consolidated Financial Information of the Target Group for the Relevant Periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Consolidated Financial Information.

Other Matter

The comparative unaudited consolidated statement of profit or loss and other comprehensive income, unaudited consolidated statement of changes in equity and unaudited consolidated statement of cash flows for the six months ended 30 June 2021 and the relevant explanatory notes disclosed in the unaudited Consolidated Financial Information have not been reviewed in accordance with HKSRE 2410.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 September 2022

In connection with the Disposal, the unaudited pro forma financial information of the Remaining Group, which comprised the unaudited pro forma condensed consolidated statement of financial position of the Remaining Group as at 30 June 2022, the unaudited pro forma condensed consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma condensed consolidated statement of cash flows of the Remaining Group for the six months ended 30 June 2022 and certain explanatory notes (collectively, the "**Unaudited Pro Forma Financial Information**") have been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Disposal on the Group's financial position as at 30 June 2022 and on the Group's financial performance and cash flows for the six months ended 30 June 2022 as if the Disposal had taken place at 30 June 2022 and 1 January 2022 respectively.

The Unaudited Pro Forma Financial Information was prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2022, the unaudited condensed consolidated statement of profit or loss and other comprehensive income and the unaudited condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2022 as extracted from the Interim Report of the Company for the six months ended 30 June 2022.

The Unaudited Pro Forma Financial Information was prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. Narrative description of the pro forma adjustments of the Disposal that are (i) directly attributable to the Target; and (ii) factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information was also prepared by the Directors based on certain assumptions, estimates and uncertainties for illustrative purposes only. Due to its hypothetical nature, the Unaudited Pro Forma Financial Information may not purport to predict what the financial performance and cash flows, or financial position of the Remaining Group would have been if the Disposal had been completed on either 1 January 2022, or 30 June 2022 nor in any future period or on any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with, among others, the financial information of the Group as set out in Appendix I to this circular and the unaudited financial information of the Target Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

A. THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

a. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	The Group	Pro forma adjustments				The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Revenue	7,716,739	(6,014,495)	68,629			1,770,873
Cost of sales	(6,758,153)	5,429,353	(68,629)			(1,397,429)
Gross profit	958,586					373,444
Other income	27,010	(13,528)	16,179			29,661
Other gains and losses	24,437	(17,308)				7,129
Gain on disposal of subsidiaries	–			1,377,926		1,377,926
Selling and distribution expenses	(336,307)	204,549				(131,758)
General and administrative expenses	(400,314)	98,327	(16,083)			(318,070)
Interest expense	(26,191)	8,940	(96)			(17,347)
Share of results of associates	(194)				55,882	55,688
Profit before taxation	247,027					1,376,673
Taxation	(82,653)	71,320		(218,694)		(230,027)
Profit for the period	164,374					1,146,646
Other comprehensive expense:						
Items that will not be reclassified to profit or loss:						
Exchange differences arising on translation to presentation currency	(191,654)	161,978			(38,875)	(68,551)
Fair value changes on financial assets at fair value through other comprehensive income and debt instruments at fair value through other comprehensive income	(8,321)					(8,321)
	(199,975)					(76,872)

	The Group	Pro forma adjustments				The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Items that may be reclassified subsequently to profit or loss:						
Net adjustment arising from hedging instruments	5,752					5,752
Reclassification of cumulative reserve upon disposal of a foreign operation	–			7,583		7,583
Exchange differences arising on translation of foreign operations	(88,655)	3,370			(809)	(86,094)
	(82,903)					(72,759)
Other comprehensive expense for the period	(282,878)					(149,631)
Total comprehensive expense for the period	(118,504)					997,015
Profit for the period attributable to:						
Owners of the Company	108,322	(170,361)		1,159,232	55,882	1,153,075
Non-controlling interests	56,052	(62,481)				(6,429)
	164,374					1,146,646
Total comprehensive (expense) income attributable to:						
Owners of the Company	(127,806)	(46,350)		1,166,815	16,198	1,008,857
Non-controlling interests	9,302	(21,144)				(11,842)
	(118,504)					997,015

b. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2022

	The Group	Pro forma adjustments			The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 2	*Note 8*	*Note 9*	*Note 10*	
Non-current assets					
Property, plant and equipment	2,334,116	(1,127,018)			1,207,098
Investment properties	130,282				130,282
Interest in associates	4,802		1,271,268		1,276,070
Financial assets at fair value through profit or loss	172,188				172,188
Financial assets at fair value through other comprehensive income	6,714				6,714
Goodwill	154,716	(57,671)			97,045
Intangible assets	84,475				84,475
Deposits paid for acquisition of property, plant and equipment	22,940	(267)			22,673
Derivative financial instruments	1,235				1,235
Deferred tax assets	7,125				7,125
	2,918,593				3,004,905
Current assets					
Inventories	1,740,385	(1,211,074)			529,311
Trade receivables	3,561,975	(2,118,246)		153,515	1,597,244
Other debtors and prepayments	573,837	(381,377)			192,460
Amount due from associates	–		26,590		26,590
Derivative financial instruments	2,311				2,311
Financial assets at fair value through profit or loss	3,576				3,576
Debt instrument at fair value through other comprehensive income	17,571				17,571
Short-term bank deposits – with original maturity within three months	101,998				101,998
Bank balances and cash	584,866	(219,911)	2,430,071		2,795,026
	6,586,519				5,266,087

	The Group	Pro forma adjustments			The Remaining Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Note 2	Note 8	Note 9	Note 10	
Current liabilities					
Creditors and accrued charges	2,257,128	(1,287,908)		153,515	1,122,735
Contract liabilities	59,213	(50,484)			8,729
Taxation payables	113,387	(76,244)			37,143
Dividend payables	119,101				119,101
Lease liabilities	29,983	(11,717)			18,266
Amount due to fellow subsidiaries	–	(778,568)	778,568		–
Derivative financial instruments	11,977	(11,977)			–
Bank borrowings – amount due within one year	1,725,734	(361,963)			1,363,771
	4,316,523				2,669,745
Net current assets	2,269,996				2,596,342
Total assets less current liabilities	5,188,589				5,601,247
Non-current liabilities					
Lease liabilities	93,824	(60,133)			33,691
Bank borrowings – amount due after one year	626,000				626,000
Deferred tax liabilities	29,902	(8,252)			21,650
	749,726				681,341
	4,438,863				4,919,906
Capital and reserves					
Share capital	56,848				56,848
Reserves	3,515,392	(1,846,563)	3,135,712		4,804,541
Equity attributable to owners of the Company	3,572,240				4,861,389
Non-controlling interests	866,623	(621,155)	(186,951)		58,517
	4,438,863				4,919,906

c. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	The Group	Pro forma adjustments			The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 3	*Note 11*	*Note 12*	*Note 13*	
Net cash used in operating activities	(31,337)	(115,696)	(218,694)		(365,727)
Net cash used in investing activities					
Purchases of property, plant and equipment	(71,079)	47,464			(23,615)
Deposits paid for acquisition of property, plant and equipment	(27,057)				(27,057)
Acquisition of financial assets at fair value through profit or loss	(35,810)				(35,810)
Interest received	4,667	(1,590)			3,077
Proceeds from disposal of property, plant and equipment	15,412	(13,492)			1,920
Proceeds from disposal of subsidiaries	–		2,623,404		2,623,404
Net cash outflow on acquisition of subsidiaries	(8,469)				(8,469)
Repayment from a fellow subsidiary	–	(18,351)		18,351	–
Advance from associates	–			806,545	806,545
Repayment to associates	–			(778,961)	(778,961)
Dividend received	–			150,963	150,963
Net cash (used in) from investing activities	(122,336)				2,711,997
Net cash from financing activities					
Borrowings raised	1,130,245	(320,183)			810,062
Repayment of borrowings	(928,386)	276,304			(652,082)
Interest paid	(23,760)	7,224			(16,536)
Dividends paid	–	150,963		(150,963)	–
Dividends paid to non-controlling shareholders of subsidiaries	(51,694)	51,694			–
Payment of lease liabilities	(20,142)	9,130			(11,012)
Repayment to fellow subsidiaries	–	806,545		(806,545)	–
Advance from fellow subsidiaries	–	(778,961)		778,961	–
Repayment to an associate	–			(18,351)	(18,351)
Cash paid for settlement of the derivative financial instruments used to hedge interest rate risk	(1,459)				(1,459)
Net cash from financing activities	104,804				110,622

	The Group	Pro forma adjustments			The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 3	*Note 11*	*Note 12*	*Note 13*	
Net (decrease) increase in cash and cash equivalents	(48,869)	101,051	2,404,710		2,456,892
Cash and cash equivalents at beginning of the period	758,317	(333,120)			425,197
Effect of foreign exchange rate changes	(22,584)	12,158			(10,426)
Cash and cash equivalents at end of the period	686,864				2,871,663
Analysis of balances of cash and cash equivalents					
Short-term bank deposits with original maturity within three months	101,998				101,998
Bank balances and cash	584,866	(219,911)	2,404,710		2,769,665
	686,864				2,871,663

d. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION *FOR THE SIX MONTHS ENDED 30 JUNE 2022*

1. The amounts are extracted from the unaudited condensed consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2022 as set out in the interim report of the Company for the six months ended 30 June 2022 issued on 18 August 2022.

2. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2022 as set out in the interim report of the Company for the six months ended 30 June 2022 issued on 18 August 2022.

3. The amounts are extracted from the unaudited condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2022 as set out in the interim report of the Company for the six months ended 30 June 2022 issued on 18 August 2022.

4. The adjustment represents (1) the exclusion of the financial performance of the Target Group for the six months ended 30 June 2022, (2) the exclusion of the allocation of profit and total comprehensive income of the Target Group for the six months ended 30 June 2022 to the owners of the Company which hold effective interest of 75% and (3) reversal of translation reserves movement during the six months ended 30 June 2022, as if the Disposal had been completed on 1 January 2022. The financial information of the Target Group is extracted from the Unaudited Consolidated Financial Information as set out in Appendix II to this circular.

5. The adjustment represents (1) the reinstatement of intragroup transactions between the Target Group and the Remaining Group and (2) the elimination of interest amounted to HK$96,000 for the six months ended 30 June 2022 on the amount due from the Target Group to the Remaining Group.

6. The adjustment represents the estimated net gain on the Disposal as if the Disposal had taken place on 1 January 2022, which is calculated as follows:

	HK$'000
Consideration *(Note a)*	2,650,794
Fair value of interest in associates at disposal date *(Note b)*	1,321,272
Non-controlling interests disposal of *(Note d)*	830,442
Less: Net assets of the Target Group as at 31 December 2021 *(Note c)*	(2,661,141)
Translation reserve arising on translation of foreign operations reclassified to profit or loss *(Note c)*	(7,583)
Waiver of current accounts *(Note d)*	(728,468)
Estimated costs and expenses of the Disposal *(Note e)*	(27,390)
Estimated gain on disposal	1,377,926
Less: Estimated withholding tax *(Note f)*	(218,694)
	1,159,232

Notes:

(a) Pursuant to the Agreement, the cash consideration payable by the Purchaser is the equivalent amount in US$ of RMB2,295 million (equivalent to approximately HK$2,650,794,000) which is based on the specific exchange rate stated in the Agreement.

(b) For simplicity and for the purpose of this Unaudited Pro Forma Financial Information, the fair value of interest in associates at disposal date is assessed as approximately reference to the proportionate share of the notional consideration of RMB2,295 million as set out in the Agreement.

(c) The amount represents the net assets of the Target Group as at 31 December 2021 as extracted from the unaudited consolidated statement of financial position of the Target Group as set out in Appendix II to this circular. There is a release of accumulated translation reserve amounting to HK$7,583,000 from the Target Group.

(d) Pursuant to the Agreement, the Remaining Group agreed to waive certain non-trade receivables due from the Target Group (the "Waiver") before Completion. The amount represents the non-trade receivables due from the Target Group as at 31 December 2021 amounting to approximately HK$728 million which will be waived. Income attribute to non-controlling interests of the Target Group in relation to the Waiver amounting HK$179 million and loss attributed to non-controlling interests of the Remaining Group in relation to the Waiver amounting HK$179 million. The non-controlling interest disposal of amounting to HK$830 million included HK$179 million income attributable to non-controlling interests of the Target Group in relation to the waiver of non-trade receivables due from the Target Group.

(e) The amount includes the estimated expenses in respect of the Disposal amounting to approximately HK$27 million which will be borne by the Remaining Group and is assumed to be settled in cash.

(f) The amount represents the estimated withholding tax expenses in respect of the Disposal amounting to approximately HK$219 million which will be borne by the Remaining Group and is assumed to be settled in cash.

(g) The conversion of RMB into HK$ and US$ into HK$ are based on the exchange rate of approximately RMB1.00 = HK$1.2234 and US$1.00 = HK$7.7968, respectively as of 31 December 2021.

The actual financial effects of the Disposal are to be determined based on the Consideration and the carrying amount of net assets of the Target Group at the completion date, which may be substantially different from the estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information.

7. The adjustment represents the share of result of the Target Group using equity method, as if the Disposal had been completed on 1 January 2022. For the purpose of this Unaudited Pro Forma Financial Information, it is assumed that there is no fair value adjustment on the identifiable assets of the Target Group which may affect the share of results of the Target Group.

8. The adjustment represents the de-recognition of the assets and liabilities of the Target Group as at 30 June 2022 assuming the Disposal had taken place on 30 June 2022. The assets and liabilities of the Target Group are extracted from the Unaudited Consolidated Financial Information as set out in Appendix II to this circular.

9. The adjustment represents the estimated net gain on the Disposal as if the Disposal had taken place on 30 June 2022, which is calculated as follows:

	HK$'000
Consideration *(Note a)*	2,668,031
Fair value of interest in associates at disposal date *(Note b)*	1,271,268
Non-controlling interests at disposal date	808,106
Less: Net assets of the Target Group as at 30 June 2022 *(Note c)*	(2,468,318)
Translation reserve arising on translation of foreign operations reclassified to profit or loss *(Note c)*	(4,028)
Waiver of current accounts *(Note d)*	(751,978)
Estimated costs and expenses of the Disposal *(Note e)*	(27,542)
Estimated gain on disposal	1,495,539
Less: Estimated withholding tax *(Note f)*	(210,418)
	1,285,121

Notes:

(a) Pursuant to the Agreement, the cash consideration payable by the Purchaser is the equivalent amount in US$ of RMB2,295 million (equivalent to approximately HK$2,668,031,000) which is based on the specific exchange rate stated in the Agreement.

(b) For simplicity and for the purpose of this Unaudited Pro Forma Financial Information, the fair value of interest in associates at disposal date is assessed as approximately reference to the proportionate share of the notional consideration of RMB2,295 million as set out in the Agreement.

(c) The amount represents the net assets of the Target Group as at 30 June 2022 as extracted from the unaudited consolidated statement of financial position of the Target Group set out in Appendix II to this circular. There is a release of accumulated translation reserve amounting to HK$4,028,000 from the Target Group.

(d) Pursuant to the Agreement, the Remaining Group agreed to the Waiver before Completion. The amount represents the non-trade receivables due from the Target Group as at 30 June 2022 amounting to approximately HK$752 million which will be waived. Income attribute to non-controlling interests of the Target Group in relation to the Waiver amounting HK$187 million and loss attributed to non-controlling interests of the Remaining Group in relation to the Waiver amounting HK$187 million. The non-controlling interest disposal of amounting to HK$808 million included HK$187 million income attributable to non-controlling interests of the Target Group in relation to the waiver of non-trade receivables due from the Target Group.

(e) The amount includes the estimated expenses in respect of the Disposal amounting to approximately HK$28 million which will be borne by the Remaining Group and is assumed to be settled in cash.

(f) The amount represents the estimated withholding tax expenses in respect of the Disposal amounting to approximately HK$210 million which will be borne by the Remaining Group and is assumed to be settled in cash.

(g) The conversion of RMB into HK$ and US$ into HK$ are based on the exchange rate of approximately RMB1.00 = HK$1.1771 and US$1.00 = HK$7.8415 respectively as of 30 June 2022.

The actual financial effects of the Disposal are to be determined based on the Consideration and the carrying amount of net assets of the Target Group at the completion date, which may be substantially different from the estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information.

10. The adjustment represents the reinstatement of trade-nature balance between the Target Group and the Remaining Group as of 30 June 2022.

11. The adjustments are to exclude the cash flows of the Target Group incorporated in the unaudited condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2022 as if the Disposal had been taken place on 1 January 2022. The cash flows of the Target Group are extracted from the Unaudited Consolidated Financial Information of the Target Group for the six months ended 30 June 2022 set out in Appendix II to this circular.

12. For the purpose of the unaudited pro forma condensed consolidated statement of cash flows of the Remaining Group, the adjustment represents the net cash inflow from the Disposal as if the Disposal have taken place on 1 January 2022. Calculation of the cash inflow from the Disposal as at 1 January 2022 was as follows:

	Notes	*HK$'000*
Gross proceeds from the Disposal	(a)	2,650,794
Less: Estimated transaction costs directly attributable to the Disposal	(b)	(27,390)
Estimated withholding tax	(c)	(218,694)
Net cash inflow from the Disposal		2,404,710

Notes:

(a) The calculation of gross proceeds to be received from the Disposal as cash consideration is included in Note 6(a).

(b) The amount includes the estimated expenses in respect of the Disposal amounting to approximately HK$27 million which will be borne by the Remaining Group and is assumed to be settled in cash.

(c) The amount represents the estimated withholding tax expenses in respect of the Disposal amounting to approximately HK$219 million which will be borne by the Remaining Group and is assumed to be settled in cash.

13. The adjustment represents (1) the reclassification of dividend received by the Remaining Group from the Target Group and (2) the reclassification of cash flow between the Target Group and the Remaining Group.

14. The adjustments, except for the adjustment explained in Note 7, to the unaudited pro forma condensed consolidated statement of profit or loss and other comprehensive income, unaudited pro forma condensed consolidated statement of financial position and the unaudited pro forma condensed consolidated statement of cash flows of the Remaining Group are not expected to have a continuing effect on the Remaining Group.

15. Except for the Disposal, no other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Remaining Group entered into subsequent to 30 June 2022.

B. ACCOUNTANT'S REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text extracted from the independent reporting accountants' assurance report in respect of the Unaudited Pro Forma Financial Information prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF YIP'S CHEMICAL HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yip's Chemical Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") prepared by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position as at 30 June 2022, the unaudited pro forma statement of profit or loss and other comprehensive income for the period ended 30 June 2022, the unaudited pro forma statement of cash flows for the period ended 30 June 2022 and related notes as set out on pages III-1 to III-11 of the circular issued by the Company dated 20 September 2022 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-1 to III-11 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed disposal of equity interest in Handsome Chemical Development Limited ("the **Disposal**") on the Group's financial position as at 30 June 2022 and the Group's financial performance and cash flows for the period ended 30 June 2022 as if the Disposal had taken place at 30 June 2022 and 1 January 2022 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2022, on which a review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2022 or 1 January 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 September 2022

The Remaining Group is principally engaged in the Coatings Business, the Inks Business and the Lubricants Business as well as property investment business. Set out below is the management discussion and analysis of the Remaining Group for each of 1H2022, FY2021, FY2020 and FY2019. The financial information in respect of the Remaining Group, for the purpose of inclusion in this circular, is derived from the unaudited consolidated financial information of the Group for 1H2022 and the audited consolidated financial information of the Group for each of FY2021, FY2020 and FY2019.

(i) For 1H2022

For 1H2022, the Remaining Group's consolidated turnover from continuing operations amounted to approximately HK$1,770.9 million, decreased by 8% when compared to that of the corresponding period of the preceding year ("**1H2021**"). The loss attributable to owners of the Company amounted to approximately HK$62 million, representing a decline when compared to 1H2021, mainly because the non-recurring fair value increases of approximately HK$88 million in Yip's Chemical Building and listed securities were recorded in 1H2021, the coatings business showed a turn from profit to loss, and the profit of the Inks Business improved, etc.. The Remaining Group's financial position is expected to improve in the second half of the financial year 2022.

(a) Segment results

The Coatings Business

In 1H2022, the sales revenue of the Coatings Business reached HK$880 million, decreasing by 10% when compared to 1H2021. In 1H2022, the overall demand for coatings products declined due to the impact of the pandemic throughout the PRC. Moreover, the supply of the Remaining Group's plant in Jinshan, Shanghai was unstable during April and May, which affected the supply efficiency. Furthermore, the weak demand in the real estate market affected the Remaining Group's sales of architectural and furniture coatings for construction and housing uses.

Although there were certain challenges in expansion, the Coatings Business also strived to improve product structure, and reduce costs and expenses during 1H2022. Compared to that of 1H2021, the gross profit margin dropped slightly by 0.6 percentage point to 22.9%. Ultimately, the loss in 1H2022 reached HK$26.5 million, representing a decline when compared to that of 1H2021.

It is expected that the expansion of the Coatings Business in the second half of the year will still face enormous challenges. The management team will endeavour to improve the gross profit margin in order to lay a solid foundation for the healthy development of the Coatings Business in the long run.

The Inks Business

The sales revenue of the Inks Business in 1H2022 was approximately HK$680 million, representing a slight decrease of 1% year-on-year. In 1H2022, the serious pandemic condition resulted in more operational difficulties. It was a challenge for sales to be maintained at the same level. During 1H2022, the Inks Business made efforts to promote water-based environment-friendly products and the hard work was paying off. We also worked hard to keep costs down and our effort has been rewarded. The operating profit was approximately HK$17.8 million, demonstrating marked improvement when compared to that of 1H2021.

During 1H2022, under the stringent management and control in East China, there were difficulties in inks production and logistics, but the inks team showed strong team spirit and commitment to overcome the hardships. In particular, the production lines of the two plants in South China and East China were synergised, achieving complementation and mutual benefits, by virtue of which no customers were lost and no orders were delayed. We were able to meet customers' needs and won their trust. This laid a strong foundation for the Inks Business to consolidate and prepare for post-pandemic growth.

The Remaining Group announced in early August 2022 that due to changes in the economy and market environment coupled with the receipt of substantial proceeds from the disposal of a part of the Group's interests in the Solvents Business, the Remaining Group has decided, after deliberate considerations, not to proceed with the spin-off and to withdraw the separate listing application of Bauhinia Ink Company Limited on the ChiNext Board of the Shenzhen Stock Exchange. The Remaining Group will continue to explore further business development opportunities and alternative fund-raising avenues for the Inks Business as and when appropriate.

The Lubricants Business

During 1H2022, the sales revenue of the Lubricants Business reached HK$170 million, and the operating loss was HK$2.9 million. Due to the slowdown in the demand for automotive lubricants, and the surge in oil prices caused by the conflict between Russia and Ukraine, which led to the increase in raw material prices of the Lubricants Business, the Lubricant Business witnessed a turn from profit to loss.

Looking ahead to the second half of 2022, the Remaining Group will continue to explore opportunities in the Lubricant Business, including OEM and cooperation with other brands, and will continue to reduce operating costs, in order to turn the business around.

Other businesses

The Remaining Group continuously seeks "environmentally friendly", "end-user-oriented" and "service-oriented" development and is actively pursuing business opportunities related to "household" and "automobile". During 1H2022, the Remaining Group continued to promote Damai as the top self-operated car maintenance chain in the automobile aftermarket to provide the PRC's countless end-user car owners with professional, convenient and highly cost-effective car maintenance services. As of 30 June 2022, the outlet network of Damai has reached 143 stores, covering Shandong, Guangdong, Hebei, Shanxi, Guizhou, Jiangsu and Hunan, altogether serving more than 350,000 cars. During 1H2022, the pandemic in the PRC had three main impacts on Damai: (1) the pandemic affected the overall number of commuters and associated car maintenance service needs of them; (2) the outlets in certain regions could not operate as usual, affecting the demands of consumers; and (3) the pace of outlet network expansion was unable to meet expectations. The management team believes that the self-operated chain model of Damai can provide car owners with highly cost-effective car maintenance services, fully satisfying the consumption habits and service requirements of the middle class. In the short term, Damai will continue to focus on expanding its network to 200 outlets, especially in the regions where it is currently operating, to strengthen its brand.

Properties businesses

For the properties segment, the revenue during 1H2022 increased by 9% to HK$5.4 million, mainly attributable to the rental income from properties in Shanghai. The operating profit decreased to HK$2.2 million as the significant increase in the fair value of Yip's Chemical Building recorded in the corresponding period of the preceding year was non-recurring.

(b) Liquidity and financial resources

As at the end of 1H2022, the Remaining Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was about 88.2% (1H2021: approximately 83.9%), representing an increase of about 4.3 percentage points.

As at the end of 1H2022, gross bank borrowings of the Remaining Group amounted to approximately HK$1,989,771,000 (FY2021: approximately HK$1,831,791,000) . After the deduction of short-term bank deposits, bank balances and cash amounting to approximately HK$466,953,000 (FY2021: approximately HK$425,197,000), net bank borrowings amounted to approximately HK$1,522,818,000 (FY2021: approximately HK$1,406,594,000). Of the gross bank borrowings, approximately HK$1,363,771,000 (FY2021: approximately HK$928,958,000) were short-term loans repayable within one year. Such loans were denominated in two currencies, approximately HK$1,118,717,000 in HK$ and approximately HK$245,054,000 in RMB (FY2021: approximately HK$704,767,000 in HK$ and approximately HK$224,191,000 in RMB). Long-term loans repayable after one year amounted to approximately HK$626,000,000 (FY2021: approximately HK$902,833,000), and they were all denominated in HK$ (FY2021: all in HK$).

As at the end of the 1H2022, the Remaining Group's mid-to-long-term loans (including portions repayable within one year of approximately HK$487,717,000) accounted for about 56% of the total bank loans of the Remaining Group and the Remaining Group's loan under fixed rate arrangement made up about 44% of it's mid-to-long-term loans.

Currency risk

Several subsidiaries of the Remaining Group had foreign currency sales and purchases, bank balances, bank borrowings, trade receivables and payables as well as amounts due from/to group entities which expose the Remaining Group to foreign currency risk. The Remaining Group was mainly exposed to currency risk of US$, RMB and HK$. The Remaining Group did not enter into any hedging arrangement, however, the Board and management would continue to monitor the foreign currency exchange exposure and would consider adopting certain hedging measures against the currency risk when necessary.

Interest rate risk

The Remaining Group was exposed to fair value interest rate risk in relation to fixed-rate bank deposits, bank borrowings and lease liabilities. However, since the bank deposits and the majority of the fixed-rate bank loans would mature within one year, the management considered the risk is insignificant to the Remaining Group.

The Remaining Group was also exposed to cash flow interest rate risk in relation to bank deposits carried interest at prevailing market deposit rate and floating-rate bank loans. The risk was managed by the Remaining Group by maintaining an appropriate mix between fixed and floating rate for bank loans with initial maturity period of two years or more. The Remaining Group used interest rate swap contracts to hedge interest rate risk for certain bank loans carrying interest rate at floating rate in order to achieve the appropriate mix in accordance with the Remaining Group's risk management policy. Hedging activities were evaluated regularly to align with interest rate views and defined risk appetite; ensuring the most cost-effective hedging strategies are applied.

Human resources

As at the end of 1H2022, the Remaining Group had a total number of 2,850 employees, among which 76 and 11 of them were from Hong Kong and other countries while the remaining 2,763 were from different provinces in the PRC.

The Remaining Group places great emphasis on the management and development of human capital. The employees are encouraged to strive for improvement through internal and external training programs, job rotations and participation in the Remaining Group's educational subsidy programs, facilitating self-development in knowledge and skills and to maximize their potential in their work. The Remaining Group offers suitable platform for development of highly committed and capable employees, regardless of their background, geographical location or educational level. The Remaining Group regularly identifies talented employees and tailors career plans to support their continuous development. With versatile experience in challenging roles in different areas, the current management team of the Remaining Group has risen through the ranks to positions of management. In addition to the focus of developing employees internally, the Remaining Group also seeks to attract external talents.

The Remaining Group offers a challenging work environment, sets up different programs for motivating employees to strive for improvement and to advance their skills in order to drive the development of business. From time to time, the Remaining Group will make reference to market trends for reviewing its remuneration and reward policy so as to ensure reasonable and competitive compensation and benefits for its employees. These include basic salary as well as results and individual performance-based bonus to attract and retain talents.

Future plans for material investments and acquisition of capital assets

As at the end of 1H2022, the Remaining Group did not have any significant investment, pledged asset and significant contingent liabilities. Save as disclosed above, the Remaining Group did not have any concrete plans for material investments or capital assets for the second half of 2022.

(ii) For FY2021

For FY2021, the Remaining Group's consolidated turnover from continuing operations amounted to approximately HK$3,994.2 million (FY2020: approximately HK$3,017.6 million), which mainly comprised revenue from the Coatings Business of approximately HK$2,036.9 million (FY2020: approximately HK$1,442.7 million); revenue from the Inks Business of approximately HK$1,498.4 million (FY2020: approximately HK$1,244.5 million); and revenue from the Lubricants Business of approximately HK$333.2 million (FY2020: approximately HK$220.0 million). The increase in turnover of the Remaining Group for FY2021 compared to FY2020 was mainly due to the expansion strategy of the Coatings Business and a new production lines in Inks Business which provided sufficient production capacity to cope with its sales growth. In year 2021, facing the escalating Sino-US conflicts and impacts of COVID-19 on the globe, it was the unforgettable and challenging year. In addition, the imbalance of the global supply chain led to the sharp rise in prices of raw materials; the debt crisis in China real estate market has posed a major threat to the Remaining Group's operating environment. As a result, the financial performance of the Remaining Group changed from a profit attributable to owners of the Company of HK$26.7 million for FY2020 to a loss of approximately HK$84.7 million for FY2021.

(a) Segment results

The Coatings Business

In FY2021, the expansion strategy of the Coatings Business was bearing fruits. Its sales revenue rose by about 41% from approximately HK$1,442.7 million in FY2020 to approximately HK$2,036.9 million in FY2021. Unfortunately, as the hefty rise in raw material prices could not be passed on to downstream customers, gross profit margin slipped by about 8.1 percentage points from about 29.4% in FY2020 to about 21.3% in FY2021.

Furthermore, since the middle of FY2021, hampered by the tightening regulatory policies, the PRC real estate developers who cooperated with the Coatings Business for long time have experienced operational and financial problems. In response, the management team immediately adjusted their strategies to safeguard as much receivables as possible. Nevertheless, because of the substantial increase in risk for overall receivables and related bond investment, the Coatings Business made a one-time special provision and impairment of approximately HK$110 million in FY2021.

FY2021 was challenging for the Coatings Business. Although there was growth in sales revenue, the surge in raw material prices and the successive debt crises of the PRC real estate developers had led to an overall loss of approximately HK$123.5 million for the Coatings Business in FY2021.

The management team will strive as much as possible to reverse the tide in 2022. Considering the challenging environment in the PRC real estate market, the management team will take extra cautions on the management and control on business projects involving real estate developers. The management team will focus more on expanding the retail network revolving around our core Bauhinia and Camel brands to improve the outlet coverage and sales of our water-based products in various provinces and cities in the PRC. We will also step up our efforts in promoting the Remaining Group's industrial coatings and Da Chang resins business, which strengthen the barrier of entry with the presence of advanced technologies and services, especially the market-leading coating products for plastics under the Hang Cheung brand. The management team has also put extra efforts into optimising operations and reducing expenses in supply chain and sales, showing its endeavour to raise operating profit.

The Inks Business

In FY2021, operations ran smoothly for most of the time. As raw material prices surged and customers could hardly bear the rising prices, the Remaining Group has taken a "customer-centric approach" and had detailed dialogues in relation to price adjustments with customers. This approach lowered profitability in the short run, but could have a beneficial effect of building rapport with customers in the long run. In FY2021, the Tongxiang plant completed the automation of its new production lines as well as accelerated its digitisation. The new production lines could provide sufficient production capacity to cope with the sales growth and encouraged the plants in Zhongshan and Tongxiang to further renovate and upgrade their production lines.

In response to the global trend on environmental protection and to comply with the national energy conservation and emission reduction policies, the technical team ramped up the research and development of water-based inks while the sales team also committed to raise the sales of water-based products by two-fold in FY2022. At the end of FY2021, elite personnel were transferred from other teams of the Remaining Group to the Inks Business and the Inks Business also recruited foreign experts to join its team. These arrangements were to ensure sales growth in FY2022, particularly for water-based products and other eco-friendly products.

The Lubricants Business

The Lubricants Business achieved a marked growth of about 51% in sales revenue from approximately HK$220.0 million in FY2020 to over HK$333.2 million in FY2021. Although raw materials prices including oil and additives were rising throughout FY2021, management team succeeded in boosting sales volume, stocking up an appropriate amount of raw materials and raising production efficiency. As a result, the gross profit margin was about 24.4% while operating profit was approximately HK$20 million, down by about 2.1 percentage points and up by about 160% respectively in FY2021 as compared to FY2020.

The Lubricants Business was steadily developing in FY2021. In FY2022, the management team will continue to put effort and focus on promoting the automobile engine oils and industrial lubricants under the Hercules brand. It will seek profit growth by expanding its own sales channels and by suitable OEM business.

Other businesses

The Remaining Group is continuously seeking environmentally friendly, end-user-oriented and service-oriented development and is actively pursuing business opportunities related to "household" and "automobile" in FY2021. During FY2021, the Remaining Group has been promoting Damai as the top self-operated car maintenance chain in the automobile aftermarket who is offering services to millions of end-users in the PRC, being car owners, with Damai's professional, convenient and highly cost-effective car maintenance services. For FY2021, although its schedule of opening new outlets was delayed by the pandemic, Damai continued with its expansion plan. In addition to the existing presence in Shandong, Guangdong, Hebei, Hunan and Jiangsu, Damai managed to open eight outlets in Guizhou by the end of 2021. In FY2021, the number of outlets reached 124, altogether serving more than 266,000 cars.

The management team believes that standardised and highly cost-effective car maintenance services are in line with the consumption habits of PRC's middle class. In the short term, Damai will keep focusing on expanding its service network to become a platform with 200 outlets.

Properties businesses

For the properties segment, the rental income from leasing the research and development centre in Shanghai has boosted the revenue by about 14% to approximately HK$10 million. In FY2021, the sale of Yip's Chemical Building in Fanling has propelled operating profit to approximately HK$68 million.

(b) Liquidity and financial resources

As at the end of FY2021, the Remaining Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was about 78.4% (FY2020: approximately 61.2%), representing an increase of about 17.2 percentage points.

As at the end of FY2021, gross bank borrowings of the Remaining Group amounted to approximately HK$1,831,791,000 (FY2020: approximately HK$1,624,487,000). After the deduction of short-term bank deposits, bank balances and cash amounting to approximately HK$425,197,000 (FY2020: approximately HK$430,074,000), net bank borrowings amounted to approximately HK$1,406,594,000 (FY2020: approximately HK$1,194,413,000). Of the gross bank borrowings, approximately HK$928,958,000 (FY2020: approximately HK$706,887,000) were short-term loans repayable within one year. Such loans were denominated in two currencies, approximately HK$704,767,000 in HK$ and approximately HK$224,191,000 in RMB (FY2020: approximately HK$671,100,000 in HK$ and approximately HK$35,787,000 in RMB). Long-term loans repayable after one year amounted to approximately HK$902,833,000 (FY2020: approximately HK$917,600,000), and they were all denominated in HK$ (FY2020: all in HK$).

As at the end of FY2021, the Remaining Group's mid- to-long-term loans (including portions repayable within one year of approximately HK$479,767,000) accounted for about 75% of the total bank loans of the Remaining Group and the Remaining Group's loans under fixed rate arrangement made up about 47% of its mid- to-long-term loans.

Currency risk

Several subsidiaries of the Remaining Group had foreign currency sales and purchases, bank balances, bank borrowings, trade receivables and payables as well as amounts due from/to group entities which expose the Remaining Group to foreign currency risk. The Remaining Group was mainly exposed to currency risk of US$, RMB and HK$. The Remaining Group did not enter into any hedging arrangement, however, the Board and management would continue to monitor the foreign currency exchange exposure and would consider adopting certain hedging measures against the currency risk when necessary.

Interest rate risk

The Remaining Group was exposed to fair value interest rate risk in relation to fixed-rate bank deposits, bank borrowings and lease liabilities. However, since the bank deposits and the majority of the fixed-rate bank loans would mature within one year, the management considered the risk is insignificant to the Remaining Group.

The Remaining Group was also exposed to cash flow interest rate risk in relation to bank deposits carried interest at prevailing market deposit rate and floating-rate bank loans. The risk was managed by the Remaining Group by maintaining an appropriate mix between fixed and floating rate for bank loans with initial maturity period of two years or more. The Remaining Group used interest rate swap contracts to hedge interest rate risk for certain bank loans carrying interest rate at floating rate in order to achieve the appropriate mix in accordance with the Remaining Group's risk management policy. Hedging activities were evaluated regularly to align with interest rate views and defined risk appetite; ensuring the most cost-effective hedging strategies are applied.

Human resources

As at the end of FY2021, the Remaining Group had a total number of 3,541 employees, among which 79 and 12 of them were from Hong Kong and other countries while the remaining 3,450 were from different provinces in the PRC.

(iii) For FY2020

For FY2020, the Remaining Group's consolidated turnover from continuing operations amounted to approximately HK$3,017.6 million (FY2019: approximately HK$3,171.0 million), which mainly comprised revenue from the Coatings Business of approximately HK$1,442.7 million (FY2019: approximately HK$1,610.2 million), revenue from the Inks Business of approximately HK$1,244.5 million (FY2019: approximately HK$1,286.4 million), revenue from the Lubricants Business of approximately HK$220.0 million (FY2019: approximately HK$203.7 million). In 2020, the outbreak of Coronavirus Disease 2019 (COVID-19) which spread around the world together with the sweeping escalation of the Sino-US trade conflict brought challenges and uncertainties to the operating environment. Fortunately, economic activities in Mainland China have resumed gradually since the second quarter. The profit of the Remaining Group attributable to owners of the Company decreased from approximately HK$119.4 million for FY2019 to approximately HK$26.7 million for FY2020. Excluding the one-off items such as the gain from the sale of the Qingpu plant in Shanghai of approximately HK$156.4 million, the performance for FY2020 was improved.

(a) Segment results

The Coatings Business

During the pandemic in the first half of the year, all scales of construction projects, as small as home renovation to as large as industrial production, were seriously disrupted, leading to a sales decline for the business. As the COVID-19 pandemic in the PRC was becoming less severe, the revival of economic activities has driven up sales of the business in the second half of the year. Though efforts made on sales have been redoubled, the shortfall in sales has not been fully recovered.

In FY2020, the architectural coatings business signed up more distributors across the country through its "Bauhinia" and "Camel" brands, thereby building up a more robust sales network. Simultaneously, the Remaining Group fostered strategic partnerships with renowned property developers to expand the sales of coatings for construction projects. Regarding the furniture coatings, industrial coatings and resins businesses, the Remaining Group continued with its strategy of focusing on quality customers and deals to maintain a steadier profit.

In operations, benefitted by the stable raw material prices and the ongoing optimisation of its internal supply chain during FY2020, gross profit margin of the Remaining Group edged up by about 0.6 percentage point from 28.8% in FY2019 to about 29.4% in FY2020. The operating profit fell about 9.6% year-on-year to approximately HK$51.2 million.

The Inks Business

Sales performance of food packaging inks (gravure printing inks) was satisfactory as the Chinese domestic market soared. However, sales of offset printing inks, which is another major product, were negatively affected by a drastic reduction in export of printed products to the US and Europe. Under these two factors, the Inks Business still registered a growth of about 0.7% in sales volume while sales revenue slightly slipped by about 3.3% to approximately HK$1,244.5 million due to a decline in unit selling price. Operating profit was approximately HK$60.8 million, down by about 22.7% as compared to FY2019.

The Remaining Group is one of the industry leaders in the gravure printing inks market. In FY2020, to further strengthen the current market-leading position, the Remaining Group recruited experienced management, sales and technical personnel. The Inks Business team would continue to cultivate the domestic market with concentration on household products with strong demand and fast growth.

As the approval for production capacity expansion for the Tongxiang plant had been granted, the expansion project would be completed by the first half of FY2021 so that more products would be available to the frontline sales team. In the fourth quarter of FY2020, land acquisition, permit applications and the designs for the testing centre and the new plant were all completed.

The Lubricants Business

In FY2020, the Lubricants Business managed to steadily expand the market for its automotive lubricants. This was achieved on the one hand by rolling out mid- to high-end products to replace existing ones through current distribution channels. On the other hand, the Remaining Group enhanced automation to raise production efficiency while lowering operation costs. This enabled the Remaining Group to increase market shares for its low- to mid-end products while developing the OEM business. Compared to FY2019, sales revenue grew by about 8.0% to approximately HK$220 million. Meanwhile, though the price of base oil rose relentlessly in the year, by improving operating efficiency, gross profit margin only dipped slightly by about 1.8 percentage points to about 26.5% while operating profit grew by about 17.9% to approximately HK$7.6 million.

The management team had managed to turn around the loss-making position of the Lubricants Business by building a more robust development platform in the past two years.

Properties business

For the properties segment, the revenue dropped by about 37% to approximately HK$8.9 million, which was the revenue from leasing the former R&D building in Zhangjiang, Shanghai. In FY2020, the Remaining Group's former headquarters in Fanling, Hong Kong were left vacant and application has been made to the relevant government department for renovating several floors for the Remaining Group's own use. It is expected that approval will be obtained within FY2021 in order to facilitate the development of our Coatings Business in Hong Kong. As the fair value of properties was reduced by approximately HK$6.8 million and there was no major income such as the sale of the Qingpu plant in Shanghai as in the preceding year, operating profit for the properties division was only approximately HK$980,000.

Other businesses

The Remaining Group had been consistently striving to become more environmentally-friendly, end-user oriented and service-oriented, and is actively pursuing "household" and "automobile" related business opportunities in FY2020. In early FY2020, the Remaining Group made an additional investment in Damai, a car maintenance chain, increasing its shareholding to 61%, to support Damai in offering professional, convenient and cost-effective car maintenance services to the huge population of automobile owners in China.

In FY2020, Damai has slowed down its new store opening due to the pandemic. The number of its service points in Shandong, Guangdong, Hebei, Hunan and Jiangsu still increased by 21 to reach 107, altogether serving more than 210,000 cars since its establishment.

In response to the COVID-19 pandemic, the Remaining Group established its own sanitizing brand, "EUCA", during FY2020 to offer sanitizing products to meet the demand for personal care and disinfection in Hong Kong. The Remaining Group would carry on the R&D related to personal and environment sanitization products with an aim to safeguard the health and enhance the quality of life of the public.

(b) Liquidity and financial resources

As at the end of FY2020, the Remaining Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was about 61.2% (FY2019: approximately 67.5%), representing an improvement of about 6.3 percentage points.

As at the end of FY2020, gross bank borrowings of the Remaining Group amounted to approximately HK$1,624,487,000 (FY2019: approximately HK$1,979,400,000). After the deduction of short-term bank deposits, bank balances and cash amounting to approximately HK$430,074,000 (FY2019: approximately HK$704,771,000), net bank borrowings amounted to approximately HK$1,194,413,000 (FY2019: approximately HK$1,274,629,000). Of the gross bank borrowings, approximately HK$706,887,000 (FY2019: approximately HK$805,700,000) were short-term loans repayable within one year. Such loans were denominated in two currencies, approximately HK$671,100,000 in HK$ and approximately HK$35,787,000 in RMB (FY2019: all in HK$). Long-term loans repayable after one year amounted to approximately HK$917,600,000 (FY2019: approximately HK$1,173,700,000), and they were all denominated in HK$ (FY2019: all in HK$).

As at the end of FY2020, the Remaining Group's mid-to-long-term loans (including portions repayable within one year of approximately HK$556,100,000) accounted for about 91% of the total bank loans of the Remaining Group and the Remaining Group's loans under fixed rate arrangement made up about 46% of its mid-to-long-term loans.

(c) Human resources

As at the end of FY2020, the Remaining Group had a total number of 3,018 employees, among which 82 of them were from Hong Kong while the remaining 2,936 were from different provinces in the PRC.

(d) Material acquisitions or disposals of subsidiaries and associated companies

In early 2020, we completed an additional investment in Damai, a car maintenance chain, increasing our shareholding to 61%, to support Damai in offering professional, convenient and cost-effective car maintenance services to the huge population of car owners in the PRC.

(iv) For FY2019

For FY2019, the Remaining Group's consolidated turnover from continuing operations amounted to approximately HK$3,171.0 million (For the year ended 31 December 2018 ("**FY2018**"): approximately HK$3,581.3 million), which mainly comprised revenue from the Coatings Business of approximately HK$1,610.2 million (FY2018: approximately HK$1,826.2 million), revenue from the Inks Business of approximately HK$1,286.4 million (FY2018: approximately HK$1,474.7 million), revenue from the Lubricants Business of approximately HK$203.7 million (FY2018: approximately HK$270.6 million) The overall operating environment in 2019 was still full of challenges. Trade protectionism rekindled globally. There were escalating geopolitical shocks and economic slowdown. PRC's economy was impacted by the Sino-US trade tension, and saw increasing downward pressure on economic growth. The profit of the Remaining Group attributable to owners of the Company increased from approximately HK$25.3 million for FY2018 to approximately HK$119.4 million for FY2019. The Remaining Group continued to consolidate its core businesses, and achieved satisfying progress in cost control, customer quality, and assets revitalization. As a result, the performance of remaining group's businesses have greatly improved as the business segments that recorded a loss in the preceding year had turned around and become profitable.

(a) Segment results

The Coatings Business

For FY2019, management of the Coatings Business implemented a number of performance-improving reforms. In the area of sales, resources and efforts were directed to enhance overall sales quality. While the number of customers which had generated relatively lower profitability in the past were being pared down, substantive efforts were devoted into cultivating new and large customers. Initial success of this strategy became evident. In the area of cost control, the Remaining Group managed to reduce cost in procuring from the volatile raw material market by facilitating inter-departmental information sharing. Simultaneously, the Remaining Group reduced operating expenses through the integration of supply chains. Consequently, though sales revenue slipped by about 12% in FY2019 to approximately HK$1,610.2 million, gross profit margin was up by about 5 percentage points which, together with expense savings, had resulted in a turnaround from loss of approximately HK$6.5 million in FY2018 to profit of approximately HK$56.6 million in FY2019.

The Inks Business

For FY2019, in setting quality sales as its top priority, the Inks Business carried out systematic improvements in its customer structure and product lines. Though sales revenue was down by about 9% in the year under review, gross profit margin rose sharply by about 4 percentage points. Operating expenses were greatly squeezed down during the year, particularly by running two plants instead of three. Consequently, a reduction of about HK$26 million in various expenses was achieved, leading to a sharp increase in operating profit to close to HK$94 million or a growth of close to 1.4 times year-on-year.

The Lubricants Business

In FY2019, management of the Lubricants Business focused their attention on automotive lubricants and, by cooperating closely with distributors in existing sales channels, the proportion of medium-to-high end products sold was raised. Meanwhile, management managed to reduce procurement costs for base oil and other raw materials in times of price fluctuations. Lastly, by supporting substantial reorganization of the lubricants department, efficiency was raised while expenses were reduced. Therefore, though sales revenue fell by about 25% to close to HK$204 million in FY2019, gross profit margin increased markedly by about 6 percentage points. With a drop in operating expenses, operating profit reached approximately HK$6.4 million in the year under review from an approximately HK$38.7 million loss in the preceding year, turning around the loss-making situation of many previous years.

Properties business

Revenue from the properties segment rose by about 28% to approximately HK$14 million during FY2019. The increase in rental revenue was propelled by the successive letting of the Remaining Group's R&D Centre in Zhangjiang, Shanghai to two tenants during the year, and the increase in rents of the former headquarters building in Fanling early in the year. Other income stemmed mainly from the successful completion of the sale of the Qingpu property in Shanghai that generated a gain before tax of approximately HK$156 million, a level comparable to the increase in the fair value of properties combined with the earnings from the sale of a Huizhou plant site in the preceding year. Overall, operating profit of the properties segment was up by about 1% year-on-year to approximately HK$140 million.

New Business

While striving to become more environmentally-friendly, end-user oriented and service-oriented, the Remaining Group was actively pursuing "household" and "automobile" related business opportunities in FY2019. Since investing strategically in Damai, a car maintenance chain in China in 2018, the Remaining Group had generated desirable synergies with Damai's founding team in capturing pre-emptive opportunities in the car maintenance market. In FY2019, Damai boasted an additional 29 shops, reaching a total of 85 in its nationwide network that covers Shandong, Guangdong, Jiangsu, Hunan and Hebei, serving close to 200,000 cars.

In the first quarter of FY2020, the Remaining Group further invested RMB22 million in Damai, increasing its shareholding in Damai to 61% and becoming its largest single controlling shareholder. The Remaining Group had full confidence in Damai's founding team and would continue to support the team in expanding shop network with the aim of providing professional, quick and value-for-money car maintenance experience to the huge number of car owners in the PRC.

(b) Liquidity and financial resources

As at the end of FY2019, the Remaining Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was about 67.5%.

As at the end of FY2019, gross bank borrowings of the Remaining Group amounted to approximately HK$1,979,400,000. After the deduction of short-term bank deposits, bank balances and cash amounted to approximately HK$704,771,000, net bank borrowings amounted to approximately HK$1,274,629,000. Of the gross bank borrowings, approximately HK$805,700,000 were short-term loans repayable within one year. Such loans were all denominated in HK$. Long-term loans repayable after one year amounted to approximately HK$1,173,700,000, and they were all denominated in HK$.

As at the end of FY2019, the Remaining Group's mid-to-long-term loans (including portions repayable within one year of approximately HK$625,700,000) accounted for about 91% of the total bank loans of the Remaining Group and the Remaining Group's loans under fixed rate arrangement made up about 40% of its mid- to-long-term loans.

(c) Human resources

As at the end of FY2019, the Remaining Group had a total number of 2,965 employees, among which 77 of them were from Hong Kong while the remaining 2,888 were from different provinces in the PRC.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(i) Directors' and chief executives' interests and short positions in securities

As at the Latest Practicable Date, to the best of the Company's knowledge, save for the interest of the Directors and chief executives in the Shares and share options of the Company set out below, none of the Directors and chief executives had interest or short position in the Shares, debentures or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provision of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

(a) Directors' interests and short positions in Shares, underlying Shares and debentures of the Company

	Number of Shares and underlying shares held					
	Interests in Shares	Interests in Shares	Interests in Shares	Interests in share options[1]		Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
Name of Director	*Personal*	*Family*	*Corporate*	*Personal*	**Total**	
Mr. Ip Chi Shing	161,304,532	9,192,000 [(a)]	26,504,000 [(b)]	–	197,000,532	34.65%
Mr. Yip Tsz Hin	31,116,248	14,000,000 [(c)]	–	–	45,116,248	7.94%
Mr. Ip Kwan	11,576,000	–	–	200,000	11,776,000	2.07%
Mr. Ho Sai Hou	–	–	–	200,000	200,000	0.04%
Mr. Wong Yuk	–	–	–	–	–	–
Mr. Ho Pak Chuen, Patrick	–	–	–	–	–	–
Mr. Ku Yee Dao, Lawrence	–	–	–	–	–	–

Notes:

(a) Out of these Shares, 7,098,000 Shares are jointly held by Mr. Ip Chi Shing with his spouse and 2,094,000 Shares are held by his spouse.

(b) These Shares are held respectively by Ip Chi Shing Charitable Foundation Limited, a charitable organisation (21,200,000 Shares) and Yip's Care Extension Foundation Limited, a limited company (5,304,000 Shares). Mr. Ip Chi Shing controls 50% (together with his spouse control 100%) and 60% (together with his younger sister and brother control 100%) of the voting power at the general meetings of Ip Chi Shing Charitable Foundation Limited and Yip's Care Extension Foundation Limited respectively. He is therefore deemed to be interested in these Shares held by these two corporations under the SFO.

(c) These Shares are held by Madam Yip Tso Ka Lai, Brenda, the spouse of Mr. Yip Tsz Hin.

1 All the share options are unlisted physically settled equity derivatives.

(b) Interests and short positions in shares, underlying shares and debentures of the associated corporations of the Company

*Bauhinia Ink Company Limited ("**Bauhinia Ink**")*

	Number of shares held				
Name of Director	**Interests in shares** *Personal*	**Interests in shares** *Family*	**Interests in shares** *Corporate*	**Total**	**Approximate percentage of the issued share capital of Bauhinia Ink as at the Latest Practicable Date**
Mr. Yip Tsz Hin	–	–	1,593,000	1,593,000	0.53% [(a)]

Note:

(a) By virtue of the SFO, Mr. Yip Tsz Hin was deemed to be interested in 1,593,000 shares in Bauhinia Ink (representing approximately 0.53% of the issued share capital of Bauhinia Ink) held by Zhongshan Yumao Investment Advisory Partnership (Limited Partnership)*(中山市裕貿投資諮詢合夥企業(有限合夥)), in which Mr. Yip Tsz Hin held approximately 54.49% economic interest as a limited partner thereof.

* *For identification purposes only*

(c) Directors' and chief executives' interest in share options schemes

	Date of grant	Exercise price per Share *HK$*	Exercise period of share options	Number of share options outstanding as at the Latest Practicable Date
Directors				
Mr. Ip Kwan	11 January 2013	5.942	11 January 2015 to 10 January 2023	200,000
Mr. Ho Sai Hou	11 January 2013	5.942	11 January 2015 to 10 January 2023	200,000
				400,000
Eligible persons				
Employees	11 January 2013	5.942	11 January 2015 to 10 January 2023	3,200,000

(ii) Substantial Shareholders' interests and short positions in Shares, underlying Shares and debentures

As at the Latest Practicable Date, to the best of the Company's knowledge, the following Shareholders (other than the Directors or chief executives of the Company disclosed above) had an interest or long position or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered in the register referred therein:

Name of Shareholder	Capacity	*Notes*	Number of Shares held	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
Ms. Ip Fung Kuen	Beneficial Owner		49,381,913(L)	8.69%
FMR LLC	Corporate Interest	1	41,203,300(L)	7.25%
FIDELITY PURITAN TRUST	Beneficial Owner	2	29,571,120(L)	5.20%

(L) denotes long positions

Notes:

1. Based on information provided by FMR LLC, FMR LLC was beneficially interested in 41,203,300 Shares as of the Latest Practicable Date, of which 36,871,120 Shares were directly held and managed by Fidelity Management & Research Company LLC, 4,332,180 Shares were directly held and managed by Fidelity Management Trust Company respectively. Fidelity Management & Research Company LLC and Fidelity Management Trust Company are wholly owned by FMR LLC.

   The Company was further notified that out of the above mentioned 36,871,120 Shares held by Fidelity Management & Research Company LLC, 7,300,000 Shares were advised and hence indirectly held by Fidelity Investments Canada ULC, which is ultimately owned by certain employees and shareholders of FMR LLC. Those employees and shareholders of FMR LLC own 100% equity interest in Fidelity Canada Investors LLC, which owns 100% equity interest in Bay Street Holdings LLC, which in turn owns 18% equity interest in 483A Bay Street Holdings LP. 483A Bay Street Holdings LP owns 100% equity interest in BlueJay Lux 1 S.a.r.l., which in turn owns 100% equity interest in Fidelity Investments Canada ULC.

2. The Company was notified by FMR LLC that 29,571,120 Shares were held directly by Fidelity Puritan Trust, and that such Shares were managed by Fidelity Management & Research Company LLC, which is a wholly owned subsidiary of FMR LLC. Therefore, such Shares are deemed interest of FMR LLC.

Save as disclosed above, as at the Latest Practicable Date, the Directors confirmed that there have been no other persons who have interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO.

3. COMPETING BUSINESS

As at the Latest Practicable Date, as far as the Directors are aware, none of the Directors and their respective close associates had any business which competes or may compete, either directly or indirectly, with the business of the Group.

4. DIRECTORS' INTERESTS IN ASSETS

None of the Directors had any interest, either directly or indirectly, in any asset which has been, and up to the Latest Practicable Date, acquired or disposed of by or leased to or were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or may not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors had a material interest, either directly or indirectly, in any subsisting contract or arrangement of significance to the business of the Group to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party.

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within two years immediately preceding the date of this circular:

(i) the sale and purchase agreement dated 16 July 2021, entered into among Yip's H.C. (Holding) Limited (as vendor) and STRG Holdings III Limited (as purchaser) in relation to the disposal of the entire share capital of, and the assignment of the shareholder's loan owing by, Big Youth Investments Limited (the "**Big Youth Agreement**") for the aggregate consideration of HK$282,681,616 (subject to adjustment), details of which were disclosed in the announcement of the Company dated 16 July 2021;

(ii) the supplemental deed dated 19 August 2021, to supplement the Big Youth Agreement whereby, among others, the purchaser of the Big Youth Agreement agreed not to, and waived its right (if any) to, exercise the relevant put option granted under the Big Youth Agreement, details of which were disclosed in the annual report of the Company for the year ended 31 December 2021; and

(iii) the Agreement.

9. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinion or advice which is contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or any interests, directly or indirectly, in any assets which had been, since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, acquired, disposed of or leased to any member of the Group, or were proposed to be acquired, disposed of or leased to any member of the Group.

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they appear.

10. MISCELLANEOUS

(i) The company secretary of the Company is Mr. Ho Sai Hou, who is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(ii) The registered office of the Company is at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(iii) The head office and principal place of business of the Company in Hong Kong is at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong.

(iv) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(v) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Company (www.yipschemical.com) and the Stock Exchange (www.hkexnews.hk) from the date of this circular up to and including the date of the EGM:

(i) the review report from Deloitte Touche Tohmatsu in respect of the financial information of the Disposal Group, the text of which is set out in Appendix II to this circular;

(ii) the accountants' report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this circular;

(iii) the written consent referred to in the paragraph headed "**9. EXPERT AND CONSENT**" in this appendix;

(iv) the Agreement; and

(v) this circular.

Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 408

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of shareholders (the "**EGM**") of Yip's Chemical Holdings Limited (the "**Company**") will be held at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong at 3:00 p.m. on Thursday, 6 October 2022 for the purpose of considering and, if thought fit, passing with or without modification the following ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(i) the conditional sale and purchase agreement dated 15 July 2022 entered into between PAGAC Heisenberg Holding II Limited (the "**Purchaser**"), Yip's H.C. (Holding) Limited (the "**Vendor**"), the Company and Handsome Chemical Development Limited (the "**Target**") (the "**Agreement**") (a copy of which has been produced at the EGM and marked "A" and initialled by the chairman of the EGM for the purpose of identification) in relation to, among other matters, the proposed disposal by the Vendor to the Purchaser of 4,080 issued shares of the Target, representing 68% of the total issued share capital of the Target at completion, at a consideration of the equivalent amount in US$ of RMB2,295 million, and the transactions contemplated thereunder (including the entering into of the relevant shareholders agreement among the Purchaser, the Vendor, the Company and the Target), be and are hereby approved, ratified and confirmed; and

(ii) any one Director (or any two Directors if the affixing of the common seal of the Company is necessary) be and is/are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as he/she/they may, in his/her/their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the Agreement and the transactions contemplated thereunder and the implementation thereof, including, without limitation, the affixing of common seal of the Company thereon."

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

Hong Kong, 20 September 2022

Notes:

1. The Hong Kong branch register of members of the Company will be closed from Friday, 30 September 2022 to Thursday, 6 October 2022 (both dates inclusive) for the purpose of ascertaining entitlement of shareholders of the Company (the "**Shareholders**") to attend and vote at the EGM. No transfer of the shares of the Company (the "**Shares**") will be registered on those dates. In order to qualify for the Shareholders' entitlement to attend and vote at the EGM, all transfer forms accompanied by the relevant share certificates should be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, 29 September 2022.

2. In view of the recent development of the COVID-19 pandemic, and in order to better protect the safety and health of the Shareholders, the Company will not serve refreshments at the EGM to avoid participants at the EGM coming into close contact. The Company wishes to remind the Shareholders and other participants who will attend the EGM in person to take personal precautions and abide by the requirements of pandemic precaution and control at the venue of the EGM. The Company also advises the Shareholders to attend and vote at the EGM by way of non-physical presence. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the EGM, and appoint the chairman of the EGM as a proxy to vote on relevant resolution as instructed in accordance with the relevant proxy form instead of attending the EGM in person. For details, please refer to the proxy form of the EGM. The Company will keep monitoring the evolving COVID-19 situation and may implement additional measures which, if any, will be announced closer to the date of the EGM.

3. A member of the Company who is a holder of two or more Shares, and who is entitled to attend and vote at the EGM is entitled to appoint more than one proxy or a duly authorised corporate representative to attend and vote in his stead. A proxy need not be a member of the Company. Completion and return of the proxy form will not preclude a member of the Company from attending the EGM and vote in person if the member so wishes, but the proxy's authority to vote on a resolution is to be regarded as revoked if the member attends in person at the EGM and votes on that particular resolution.

4. A proxy form for the EGM is enclosed with the Company's circular. In order to be valid, a proxy form together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney, must be deposited at (i) the head office of the Company at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong; or (ii) the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 48 hours before the time appointed for holding the meeting or adjourned meeting.

5. Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

6. As at the date hereof, the board of directors ("**Directors**") of the Company comprises:

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)*

* *Independent Non-executive Directors*