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 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

MAJOR TRANSACTION IN RELATION TO SUBSCRIPTION OF PREFERRED SHARES

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 the context otherwise requires.

A letter from the Board is set out on pages 5 to 28 of this circular.

The Company has obtained a written shareholder's approval from the Closely Allied Group who are together interested in 293,882,693 Shares, representing approximately 51.69% of the issued share capital of the Company, to approve the Agreement and transactions contemplated thereunder. As such, no general meeting of the Company will be convened for the purpose of approving the Agreement and the transactions contemplated thereunder. This circular is being despatched to the Shareholders for information purposes only.

24 May 2023

CONTENTS

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

"Actual EBITDA"	the aggregate EBITDA of Handsome Chemical, YIH and HSD (excluding dividend income from subsidiaries of YIH and HSD) for the Performance Period
"Adjusted Amount"	being an amount payable to the Subscriber upon redemption of the Preferred Shares by the Issuer based on the Subscription Price and Performance Rate
"Agreement"	the investment agreement dated 27 March 2023 entered into between the Subscriber and the Issuer in relation to the Subscription
"Announcement"	the announcement of the Company dated 27 March 2023 in relation to, among other things, the Subscription
"Board"	the board of Directors
"Business Day(s)"	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 public holidays
"Closely Allied Group"	a closely allied group of the Shareholders comprising Mr. Ip Chi Shing, Mr. Yip Tsz Hin, Mr. Ip Kwan, Ms. Ip Fung Kuen and their associates who are together interested in 293,882,693 Shares, representing approximately 51.69% of the issued share capital of the Company as at the Latest Practicable Date
"Company"	Yip's Chemical Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 408)
"Completion"	completion of the Subscription pursuant to the terms and conditions of the Agreement
"Director(s)"	director(s) of the Company
"Early Redemption Events"	the events which would give rise to a right of redemption of the holder of the Preferred Shares as set out in the Agreement and reproduced in the subsection headed "Terms of the Preferred Shares – Early redemption" in this circular

"Early Redemption Price"	redemption price of the Preferred Shares in case of the occurrence of the Early Redemption Events, being a price equal to the Subscription Price in RMB pro rata to the then outstanding Preferred Shares together with the dividend accrued until the date of actual payment of the Early Redemption Price less the dividend already paid (if any) together with any dividend which would have accrued thereon
"EBITDA"	net profits of the relevant entities subject to certain adjustments agreed by the Subscriber and the Issuer
"First Mandatory Redemption"	redemption of 50% of the then outstanding Preferred Shares by the Issuer on the First Mandatory Redemption Date
"First Mandatory Redemption Date"	the date falling six (6) months after the expiration of the Performance Period
"First Mandatory Redemption Price"	the redemption price for the First Mandatory Redemption, being the sum of (i) 50% of the Adjusted Amount; and (ii) the dividend accrued on 50% of the Adjusted Amount from the issue date of the Preferred Shares until the First Mandatory Redemption Date, less the dividend already paid (if any) together with the dividend which would have accrued thereon
"Group"	the Company and its subsidiaries
"Handsome Chemical"	Handsome Chemical Group Limited* (謙信化工集團有限公司), a company established under the laws of the PRC
"Handsome Group"	Handsome Chemical and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HSD"	Handsome Chemical Development Limited, a company incorporated in Hong Kong and an associate of the Company, which is owned as to 68% and 32% by PAGAC II and the Subscriber respectively
"Issuer"	PAGAC Heisenberg Holding I Limited, a company incorporated in the Cayman Islands
"KPI"	key performance indicator
"Latest Practicable Date"	18 May 2023, 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
"Mandatory Redemption Dates"	the First Mandatory Redemption Date and the Second Mandatory Redemption Date
"New Plant"	the new acetic acid plant to be constructed by the Handsome Group in the PRC
"PAGAC Galileo"	PAGAC Galileo Investment Holding LP, an exempted limited partnership established with limited liability in the Cayman Islands
"PAGAC II"	PAGAC Heisenberg Holding II Limited, a company incorporated in the Cayman Islands, which is wholly-owned by the Issuer
"Performance Period"	a period of five years for which the Performance Rate shall be determined, the commencement date of which depends on the date of occurrence of commercial operation of the New Plant as detailed in the section headed "Terms of the Preferred Shares" in this circular
"Performance Rate"	the Actual EBITDA divided by the Target EBITDA
"PRC"	the People's Republic of China, excluding Hong Kong, the Macao Special Administrative Region and Taiwan for the purposes of this circular
"Preferred Shares"	redeemable non-voting preferred shares of the Issuer
"Redemption Price"	the First Mandatory Redemption Price, the Second Mandatory Redemption Price or the Early Redemption Price, as the case may be
"RMB"	Renminbi, the lawful currency of the PRC
"Second Mandatory Redemption"	redemption of the remaining outstanding Preferred Shares by the Issuer at the Second Mandatory Redemption Price on the Second Mandatory Redemption Date
"Second Mandatory Redemption Date"	the date falling eighteen (18) months after the expiration of the Performance Period
"Second Mandatory Redemption Price"	the redemption price for the Second Mandatory Redemption, being sum of (i) the remaining 50% of the Adjusted Amount; and (ii) the dividend accrued on the remaining 50% of the Adjusted Amount from the issue date of the Preferred Shares until the Second Mandatory Redemption Date, less the dividend already paid (if any) together with any dividend which would have accrued thereon

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Charge"	the share charge executed and delivered at Completion by PAGAC Galileo in favour of the Subscriber in respect of all the issued ordinary shares of the Issuer
"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) of the Company
"Solvents Business"	the business being operated by the Handsome Group involving the manufacturing and trading of solvents products
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Yip's H.C. (Holding) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
"Subscription"	the subscription of the Subscription Shares by the Subscriber pursuant to the terms of the Agreement
"Subscription Price"	the subscription price paid by the Subscriber to subscribe for the Subscription Shares pursuant to the terms of the Agreement
"Subscription Shares"	two Preferred Shares subscribed by the Subscriber pursuant to the terms of the Agreement
"Target EBITDA"	the target EBITDA of RMB3,856 million (equivalent to approximately HK$4,346 million)
"US$"	United States dollars, the lawful currency of the United States of America
"YIH"	Yip's Industrial Holdings Limited, a company incorporated in Hong Kong and an associate of the Company
"%"	per cent.

Unless otherwise specified in this circular, amounts denominated in US$ and RMB have been converted into HK$ at the rate of US$1.00 to HK$7.85 and RMB1.00 to HK$1.1272, respectively, for illustration purposes only. No representation has been made by the Company that any amount has been, could have been or could be converted at the above rates or at any other rates or at all.

* *For identification purposes only*

葉氏化工
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)*
Mr. Ip Kwan *(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:
PO Box 309
Ugland House
Grand Cayman
KY1-1104
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Head office and principal place of business in Hong Kong:
27/F., Fortis Tower
Nos. 77-79 Gloucester Road
Wanchai
Hong Kong

24 May 2023

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO SUBSCRIPTION OF PREFERRED SHARES

INTRODUCTION

Reference is made to the Announcement dated 27 March 2023 in relation to, among other things, the Subscription. Pursuant to the Agreement, the Subscriber, an indirect wholly-owned subsidiary of the Company, has agreed to subscribe for, and the Issuer has agreed to allot and issue, the Subscription Shares for the Subscription Price of US$85 million (equivalent to approximately HK$667.3 million, or approximately RMB583.5 million determined on the basis of the average middle rate of exchange for US$ to RMB of 6.8651 for the five Business Days immediately prior to the date of Completion published by the People's Bank of China), payable in cash.

The Subscription constitutes a major transaction for the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders has a material interest in the Subscription, and therefore no Shareholder is required to abstain from voting if a general meeting of the Company were to be convened to approve the Agreement and the transactions contemplated thereunder.

Pursuant to Rule 14.44 of the Listing Rules, on 27 March 2023, the Company has obtained a written shareholder's approval from the Closely Allied Group who are together interested in 293,882,693 Shares, representing approximately 51.69% of the issued share capital of the Company as at the Latest Practicable Date, to approve the Agreement and transactions contemplated thereunder. As such, no general meeting of the Company will be convened for the purpose of approving the Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with further information relating to the Agreement together with other information of the Group as required by the Listing Rules.

THE AGREEMENT

Date

27 March 2023

Parties

(i) the Subscriber, an indirect wholly-owned subsidiary of the Company; and

(ii) the Issuer.

Subject matter

Pursuant to the Agreement, the Subscriber has agreed to subscribe for, and the Issuer has agreed to allot and issue, the Subscription Shares, being two Preferred Shares of the Issuer.

The Subscription Price

The Subscription Price for the Subscription Shares is US$85 million (equivalent to approximately HK$667.3 million, or approximately RMB583.5 million determined on the basis of the average middle rate of exchange for US$ to RMB of 6.8651 for the five Business Days immediately prior to the date of Completion published by the People's Bank of China), and payable by the Subscriber in cash using its internal resources.

The Subscription Price was mutually arrived at after arms' length negotiations between the Issuer and the Subscriber and after assessment of the risks and benefits of the Subscription by each party. In particular, the Company had performed sensitivity analysis with three scenarios for the development of the Solvents Business based on the assumptions of (i) the projected sales price of acetic acid products; and (ii) the expected timing of the establishment of the New Plant, which the Directors considered to be the key factors affecting the performance of the Solvents Business in the Performance Period. The scenarios include (a) a base case, whereby the Actual EBITDA is equal to the Target EBITDA (the "**Base Case**"); (b) a conservative upside case, whereby the projected sales price of acetic acid products is equivalent to the average sales price over the previous five years (the "**Upside Case**"); and (c) a prudently worst downside case, whereby the projected sales price of acetic acid products is equivalent to the average sales price recorded over the previous seven years, excluding that of 2021 which was the record-high year and assuming a delay in production timetable of the New Plant of one year (the "**Downside Case**"), and all three scenarios are based on dividends accrued at 3.65% per annum, being the then latest one-year loan prime rate published by the National Interbank Funding Center. The return on investment of the Base Case, the Upside Case and the Downside Case is approximately 24%, 67% and negative 14% respectively. Having considered this, the Company arrived at the Subscription Price of US$85 million (equivalent to approximately HK$667.3 million, or approximately RMB583.5 million determined on the basis of the average middle rate of exchange for US$ to RMB of 6.8651 for the five Business Days immediately prior to the date of Completion published by the People's Bank of China) where, assuming the Downside Case, the Subscription would potentially result in a total loss on investment to the Group of approximately RMB83.5 million (equivalent to approximately HK$94.1 million), or about 1.2% of the total assets of the Group as at 31 December 2022, which represents an average annual loss on investment of approximately RMB16.7 million (equivalent to approximately HK$18.8 million) over the Performance Period. Pursuant to the Company's risk appetite and having taken into account the historical net profits and losses from its investments in other business, the Company considers such amount of potential loss, though unlikely to be incurred, is within the affordable amount of loss on investment that the Company is willing to accept under the Subscription. On this basis, the parties mutually agreed on the Subscription Price of US$85 million.

Having considered the risk and potential return of the Subscription, in particular (i) the Subscription Price of US$85 million (equivalent to approximately HK$667.3 million, or approximately RMB583.5 million determined on the basis of the average middle rate of exchange for US$ to RMB of 6.8651 for the five Business Days immediately prior to the date of Completion published by the People's Bank of China) represents only approximately 8.3% of the total assets of the Group as at 31 December 2022; (ii) in the Downside Case, the potential total loss on investment to the Group, as described above, represents only approximately 1.2% of the total assets and the potential average annual loss on investment to the Group, as described above, is acceptable; and (iii) as set out in the subsection headed "The Agreement – Share charge" below, to the best belief of the Directors, having considered the existing financing obtained by the Issuer, the residual value of the Issuer's underlying value would be sufficient to cover the Subscription Price (the "**Sufficiency**") and that the Sufficiency can likely be maintained, even in the Upside Case. In light of the above, the Directors consider the size of such investment as appropriate and the Subscription Price to be fair and reasonable.

Condition and Completion

Completion of the Agreement is subject to the satisfaction of the condition that the Company has obtained the approval from the Shareholders in respect of the Agreement and the transactions contemplated thereunder in accordance with the Listing Rules.

The Company had obtained a written shareholder's approval on 27 March 2023 from the Closely Allied Group who are together interested in 293,882,693 Shares, representing approximately 51.69% of the issued share capital of the Company as at the Latest Practicable Date, for approving the Agreement and transactions contemplated thereunder.

Accordingly, the abovementioned condition had been satisfied and Completion had taken place on 27 March 2023.

Share Charge

At Completion, the Share Charge was executed and delivered by PAGAC Galileo, the sole beneficial owner of the ordinary shares of the Issuer, in favour of the Subscriber in respect of all the issued ordinary shares of the Issuer, as security in relation to the obligations of the Issuer to pay any Redemption Price. In case of default of the Issuer to repay any Redemption Price, the Subscriber can enforce the Share Charge and take possession and dispose of the ordinary shares of the Issuer which owns the entire issued share capital of PAGAC II, which is in turn the 68% shareholder of HSD. For additional details of the Early Redemption Events, refer to the subsection headed "Terms of the Preferred Shares – Early redemption" below.

While the shares of PAGAC II, 68% of the shares of HSD, 51% of the shares of YIH, 38.88% of the shares of Handsome Chemical (collectively, the "**Charged Assets**") may be subject to charge in favour of a lending bank to secure a facility for PAGAC II to complete the acquisition of 68% equity interest in HSD (the "**Facility**"), the Share Charge over the shares in the Issuer at the holding company level shall still be sufficient to cover the Redemption Price and will secure the Subscriber's interest in the event of a default by the Issuer. To the best knowledge of the Directors having made all reasonable enquiries, the Subscription in the amount of US$85 million (equivalent to approximately HK$667.3 million, or approximately RMB583.5 million determined on the basis of the average middle rate of exchange for US$ to RMB of 6.8651 for the five Business Days immediately prior to the date of Completion published by the People's Bank of China) represents approximately 57% of the net of (i) the value of the Charged Assets (based on the value of 68% equity interest in HSD of approximately RMB2,295 million (equivalent to approximately HK$2,587 million) at the time of its disposal by the Group to PAGAC II); less (ii) the maximum amount of the Facility, which is secured by the Charged Assets. Based on the above, the Directors believe the residual value of the Charged Assets, after considering the Facility, is approximately RMB1,025 million (equivalent to approximately HK$1,155 million). As such, the Share Charge over the shares of the Issuer at the holding company level shall still be sufficient to cover the Redemption Price and will secure the Subscriber's interest in the event of a default by the Issuer.

In light of the above and given that (i) the Group will continue to help oversee the Solvents Business; (ii) the Deputy Chairman of the Company will continue to act as chairman of the members of the Handsome Group and lead its management team; and (iii) the Solvents Business has been stable and profit-making over the years, the Directors are of the view that it is unlikely the Sufficiency could not be maintained.

TERMS OF THE PREFERRED SHARES

Principal terms of the Preferred Shares are set out below:

Issuer	:	PAGAC Heisenberg Holding I Limited
Subscription Price	:	US$85 million (equivalent to approximately HK$667.3 million, or approximately RMB583.5 million determined on the basis of the average middle rate of exchange for US$ to RMB of 6.8651 for the five Business Days immediately prior to the date of Completion published by the People's Bank of China)
Mandatory redemption	:	**First Mandatory Redemption** 50% of the then outstanding Preferred Shares shall be redeemed by the Issuer at the First Mandatory Redemption Price on the First Mandatory Redemption Date. **Second Mandatory Redemption** The remaining outstanding Preferred Shares shall be redeemed by the Issuer at the Second Mandatory Redemption Price on the Second Mandatory Redemption Date. The aforesaid mandatory redemptions are subject to the condition that the New Plant has achieved commercial operation on the respective mandatory redemption dates unless the failure of the New Plant to achieve commercial operation arises as a direct result of PAGAC II or any director(s) nominated by PAGAC II to the board of directors of any member of Handsome Group voting in favour of a resolution to terminate or suspend for a continuous period of three months or more, the construction of the New Plant or achieving commercial operation of the New Plant, without the Subscriber's consent. If the New Plant has not yet achieved commercial operation on a mandatory redemption date, the redemption of the Preferred Shares shall be postponed to the 60th date after the New Plant has achieved commercial operation.

The First Mandatory Redemption Date falls on a date six months after the expiration of the Performance Period to allow time for the Group and PAG to gather, analyse and review the financial and operational data of the New Plant and arrange for audit to determine the Actual EBITDA in order to calculate the First Mandatory Redemption Price and the Second Mandatory Redemption Price; and the Second Mandatory Redemption Date falls on a date eighteen months after the expiration of the Performance Period to facilitate the cash flow arrangement of the Issuer towards the payment of the Second Mandatory Redemption Price. In light of the above and having considered dividends will continue to be accrued on the First Mandatory Redemption Price and the Second Mandatory Redemption Price up to the First Mandatory Redemption Date and Second Mandatory Redemption Date respectively, the Directors consider that the First Mandatory Redemption Date and Second Mandatory Redemption Date are acceptable.

Performance Period : The Performance Period is defined as follows:

(i) If commercial operation of the New Plant occurs on or prior to 30 June 2025, the Performance Period shall be the period from 1 January 2023 to 31 December 2027.

(ii) If commercial operation of the New Plant occurs in the period between 1 July 2025 and 30 September 2025, the Performance Period shall be the period from 1 April 2023 to 31 March 2028.

(iii) If commercial operation of the New Plant fails to occur on or prior to 30 September 2025, the Performance Period shall be the period from 1 July 2023 to 30 June 2028.

The Performance Period was determined based on the mutual expectation of the Group and PAG that the New Plant would require around (i) two and a half years for construction and obtaining necessary approvals from relevant government authorities; (ii) one year to ramp up operations; and (iii) one year to monitor operations running at full capacity.

Mandatory redemption price : The First Mandatory Redemption Price shall be the sum of (i) 50% of the Adjusted Amount; and (ii) the dividend accrued on 50% of the Adjusted Amount from the issue date of the Preferred Shares until the date of the First Mandatory Redemption, less the dividend already paid (if any) together with any dividend which would have accrued thereon.

The Second Mandatory Redemption Price shall be the sum of (i) the remaining 50% of the Adjusted Amount; and (ii) the dividend accrued on the remaining 50% of the Adjusted Amount from the issue date of the Preferred Shares until the date of the Second Mandatory Redemption, less the dividend already paid (if any) together with any dividend which would have accrued thereon.

The Adjusted Amount shall be calculated in accordance with the following formula:

$$\text{Subscription Price} + \text{Subscription Price} \times (\text{Performance Rate} - 1) \times 1.5$$

Note: For the purpose of the above formula, the Subscription Price shall be the equivalent amount in RMB calculated with reference to the average middle rate of exchange for USD to RMB published by the People's Bank of China for the five Business Days immediately prior to the date of Completion.

The Performance Rate is defined and calculated by dividing the Actual EBITDA by the Target EBITDA of RMB3,856 million (equivalent to approximately HK$4,346 million). The Target EBITDA represents the target KPI of the aggregate EBITDA of Handsome Chemical, YIH and HSD for the Performance Period, which is determined with reference to:

(i) the expected EBITDA contribution by the existing Solvents Business based on: (a) the historical financial performance for the existing Solvents Business and the planned sales for the year ending 31 December 2023, which is expected to generate EBITDA of approximately RMB430 million for the year, based on (1) the planned sales amount for the year of approximately RMB8,147 million; (2) the expected net profit margin of 3.5% based on historical net profit; and (3) the expected interest expense (net of interest income), depreciation, amortisation and taxation expenses of the Handsome Group. The Group recorded adjusted EBITDA of the Handsome Group of approximately RMB371.7 million, RMB306.7 million, RMB543.3 million, RMB754.4 million and RMB320.7 million for each of the years ended 31 December 2018, 2019, 2020, 2021 and 2022 respectively. The average adjusted EBITDA of the Handsome Group for the five years from 2018 to 2022 was approximately RMB459.4 million. The estimated EBITDA for the year ending 31 December 2023 is in line with the average adjusted EBITDA of the Handsome Group over the previous five financial years; and (b) the expected steady growth in sales and EBITDA, given that the Solvents Business has been operating stably for years. As a mature business, revenue growth is the main driver of EBITDA growth for the existing Solvents Business. The existing Solvents Business has recorded a compound annual growth rate ("**CAGR**") in revenue of about 15% over the previous three financial years. However, in order to be conservative, the Company has adopted a CAGR of approximately 1.4% in projecting the future revenue of the Solvents Business. As a result, the EBITDA of the existing Solvents Business is expected to grow by a CAGR of approximately 4.2% during the same period; and

(ii) the potential EBITDA contribution by the New Plant of approximately RMB270 million, RMB560 million and RMB670 million for the years ending 31 December 2025, 2026 and 2027, respectively, based on (a) the designed manufacturing capacity and the planned utilisation rate with reference to the feasibility study conducted by an independent engineering company in respect of the New Plant (the "**Feasibility Study**"); (b) the latest construction and operation plan, including the expected date of commencement of commercial operation of the New Plant (the "**Operation Plan**"); and (c) the expected sales, margins, costs and expenses for the New Plant based on, among other things, the Feasibility Study and the Operation Plan, for each year during the Performance Period. According to the Operation Plan, it is expected that the New Plant will commence trial production in the first quarter of 2025, operating at approximately 54% capacity during the year. The New Plant will begin to generate revenue from the sales of solvents products produced during the trial production phase. Operations at the New Plant are expected to ramp up to full capacity after the one-year trial production. The designed manufacturing capacity of the New Plant of 600,000 tonnes of acetic acid per annum is based on the Feasibility Study.

The New Plant is expected to generate approximately RMB1,000 million, RMB1,900 million and RMB2,100 million in revenue for each of the years ending 31 December 2025, 2026 and 2027 respectively based on the (i) designed manufacturing capacity of the New Plant, as discussed above; (ii) planned utilisation rate of the New Plant of approximately 54%, 96%, and 100% for each of the years ending 31 December 2025, 2026 and 2027 respectively according to the Operation Plan, as discussed above; and (iii) expected average sales price of the acetic acid product manufactured by the New Plant ranging from approximately RMB3,100 to RMB3,400 per tonne (exclusive of value-added tax) based on the average sales price over the previous ten years. The Company also estimated the manufacturing and other costs based on the Feasibility Study and the Operation Plan, which are expected to be approximately RMB890 million, RMB1,430 million and RMB1,510 million for each of the years ending 31 December 2025, 2026 and 2027 respectively. Based on the above, the potential EBITDA contribution by the New Plant is estimated to be approximately RMB270 million, RMB560 million and RMB670 million for each of the years ending 31 December 2025, 2026 and 2027 respectively.

The historical average adjusted EBITDA margin of the existing Solvents Business for the previous five years is approximately 5.5%. The estimated EBITDA margins of the existing Solvents Business and the New Plant ranges from about 5.2% to 5.9% and 26.2% to 32.7% respectively during the Performance Period.

In any event, the Adjusted Amount shall not be less than zero and shall not exceed two times the equivalent amount of the Subscription Price in RMB (the "**Capped Amount**"). If the amount calculated in accordance with the above formula is less than zero, the Adjusted Amount shall be zero, and if it is more than the Capped Amount, the Adjusted Amount shall be the Capped Amount.

Early redemption : The holder of the Preferred Shares may, at any time within thirty (30) days after the occurrence of the Early Redemption Events as set out in the Agreement and reproduced below or the date which the holder of the Preferred Shares becomes aware of the occurrence of an Early Redemption Event, whichever is later, request the Issuer to redeem the then outstanding Preferred Shares at the Early Redemption Price.

The Early Redemption Events are:

(i) winding-up, dissolution or liquidation of the Issuer or PAGAC II or appointment of receiver over whole or substantially all of the asset or undertaking of the Issuer or PAGAC II;

(ii) PAG Asia III LP and its affiliates ceasing to have control of the Issuer or the Issuer ceasing to have control of PAGAC II or Handsome Chemical, other than as a result of issuance of equity interest pursuant to any employee stock option plan or similar plan;

(iii) both the chairman and president of Handsome Chemical having been changed by PAGAC II (including through the directors nominated by it to the board of directors of Handsome Chemical) other than as a result of a termination for cause;

(iv) the shareholders' agreement entered into between PAGAC II, HSD, the Subscriber and the Company having been terminated other than as a result of unanimous consent of the parties thereto or liquidation of the Subscriber or termination by the Subscriber; and

(v) the Handsome Group having acquired or disposed of any business or assets (including by way of a capital or business restructuring, amalgamation or merger) with a book value exceed 10% of the total asset value of the Handsome Group.

Dividend	:	Dividend shall be accrued on a daily basis on 50% of the Adjusted Amount and the remaining 50% of the Adjusted Amount for the period from the date of issuance of the Preferred Shares and until the First Mandatory Redemption Date and the Second Mandatory Redemption Date respectively, compounded annually at the one-year loan prime rate then most recently published by the National Interbank Funding Center and paid on the First Mandatory Redemption and Second Mandatory Redemption, as the case may be. If the Preferred Shares have been early redeemed by the Issuer, the dividend shall be accrued on the pro rata Subscription Price of the then outstanding Preferred Shares for the period from the date of issuance of the Preferred Shares and until the date of actual payment of the Early Redemption Price. As at the Latest Practicable Date, the latest one-year loan prime rate published by the National Interbank Funding Center is 3.65%.
Voting	:	The holders of the Preferred Shares shall not be entitled to vote for the resolution(s) to be proposed by the Issuer other than the resolution(s) relating to variation of the rights of the Preferred Shares.
Convertibility	:	The Preferred Shares are not convertible into ordinary shares of the Issuer.
Transferability	:	The holder of the Preferred Shares may transfer the Preferred Shares to its wholly-owned subsidiaries, its parent company which owns 100% of the issued shares of the Subscriber or wholly-owned subsidiaries of such parent company by giving a prior notice to the Issuer.

INFORMATION ON THE ISSUER

The Issuer is a company incorporated in the Cayman Islands with limited liability on 16 December 2021. As at the Latest Practicable Date, the Issuer has 100 ordinary shares in issue beneficially owned by PAGAC Galileo and two Preferred Shares in issue owned by the Subscriber. Save as aforesaid, the Issuer has no other securities in any class which has been issued as at the Latest Practicable Date.

The Issuer 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 at 31 December 2022, PAG had 300 investment professionals in 10 key offices globally and more than US$50 billion in assets under management.

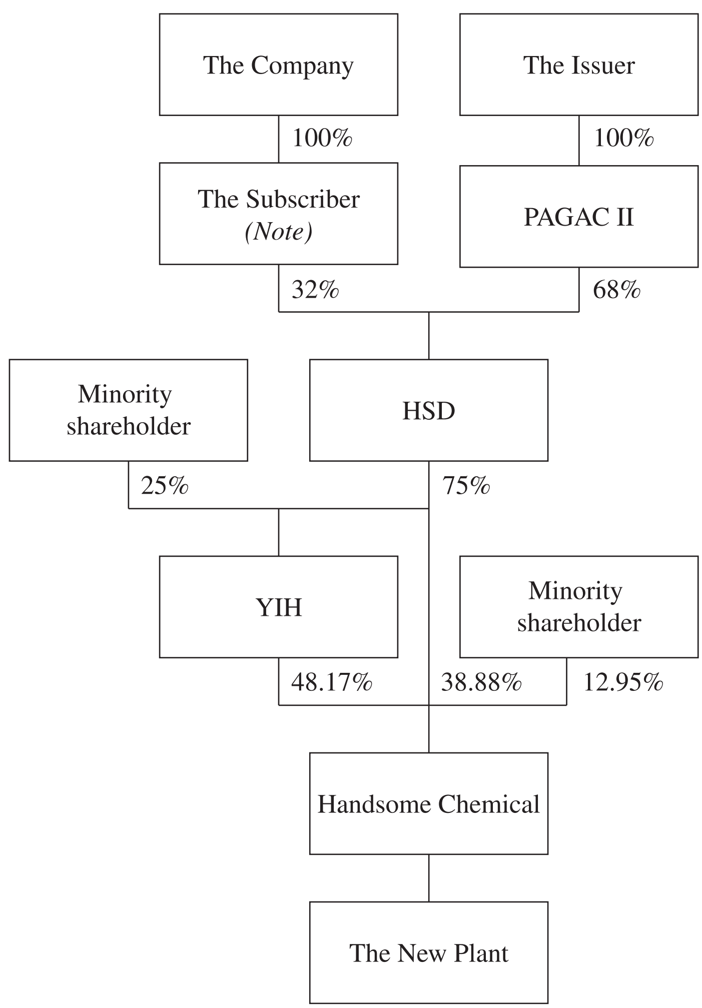
The Issuer owns the entire issued share capital of PAGAC II, which in turn owns 68% of the issued shares of HSD as at the Latest Practicable Date. HSD is the holding company of the Solvents Business, of which the other 32% shareholding is owned by the Subscriber. Through HSD, PAGAC II indirectly owns 51% in the Handsome Group which is principally operating the Solvents Business. As mentioned in the circular of the Company dated 20 September 2022, PAG was attracted by the Solvents Business and its growth potential with the plan of the establishment of the New Plant. Therefore, PAG invested in the Handsome Group with a view to forming a strategic cooperation with the Group to further develop the Solvents Business.

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

INFORMATION OF THE SOLVENTS BUSINESS AND THE NEW PLANT

Shareholding structure of the Handsome Group

The following chart depicts the simplified shareholding structure of the Handsome Group as at the Latest Practicable Date:



Note: The Subscriber is an indirect wholly-owned subsidiary of the Company.

The Solvents Business

The Solvents Business refers to the manufacturing and trading of solvents products by the Handsome Group. As at the Latest Practicable Date, the Handsome 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.

The Handsome Group is committed to the growth and expansion of its Solvents Business. As the Handsome Group is the world's largest acetates producer, the future development of the Solvents Business is affected by the price fluctuation of acetic acid, a critical raw material of producing acetates solvents. In order to secure a stable supply of acetic acid, achieve better margins for its products and increase competitiveness, the Handsome Group has commenced the establishment of the New Plant to achieve vertical integration of the Solvents Business, which will be key to the continuous growth. The New Plant is designed to have a manufacturing capacity of 600,000 tonnes per annum of acetic acid, 90% of which is expected to be utilised by the Handsome Group in the production of acetates.

As at the Latest Practicable Date, the Handsome Group has entered into an agreement with the relevant government authority in Jingmen City, Hubei Province, the PRC for the construction and operation of the New Plant in Jingmen Chemical Recycling Industrial Park (the "**Site Agreement**"). The major preliminary preparatory work for the construction of the New Plant has been substantially completed and the relevant construction will be organised at the site in the first half of 2023. Commercial operation of the New Plant is expected to commence in 2025, during the period from June 2025 to December 2025. The Handsome Group has also entered into a gas supply agreement with AirPower Technologies Limited ("**Airpower Technologies**") in respect of supplying gas for the operation of the New Plant (the "**Gas Supply Agreement**").

The commercial operation of the New Plant is contemplated to commence in 2025, during the period from June 2025 to December 2025, based on the expected construction timeline in respect of the New Plant, with a reasonable buffer period to accommodate possible delays or other changes in the timing of project construction and/or obtaining necessary approvals from relevant government authorities. As set out in the Agreement, "commercial operation" means, with respect to the New Plant, (a) all required construction, EHS acceptances and trial production having been completed; (b) all required acceptance and inspection certificates having been obtained; (c) all licenses, permits (including without limitation the safety production permit (安全生產許可證)), certificates, approvals, registrations and authorisations from relevant authorities which are necessary for the operation and conduct of the business of the New Plant in accordance with applicable laws (collectively, the "**Documents**") having been obtained by a member of the Handsome Group, and (d) production of acetic acid for commercial sale or use having commenced.

The disposal of the Company's interest in HSD and the Subscription

Reference is made to the announcement of the Company dated 25 July 2022 and the circular of the Company dated 20 September 2022 in respect of, among others, the disposal of 68% equity interest in HSD by the Group to PAGAC II (the "**Disposal**").

In the first half of 2021, the Company had started to consider and explore development opportunities for its Solvents Business and, in May 2021, commenced discussions with representatives of PAG to explore the possible disposal by the Group of part of its Solvents Business. On 3 November 2021, HSD, PAG and the minority shareholder of the Handsome Group entered into a non-legally binding framework agreement in respect of the possible disposal of part of the Solvents Business. On 15 July 2022, the relevant parties entered into a sale and purchase agreement in relation to the Disposal. Details of the sale and purchase agreement, among other things, are set out in the announcement and circular of the Company dated 25 July 2022 and 20 September 2022 respectively.

The conditions precedent to completion of the Disposal included, but were not limited to, negotiation of the Gas Supply Agreement with AirPower Technologies for the New Plant and for the Site Agreement with the relevant government authorities of Jingmen City to become effective. In around November 2022, the Gas Supply Agreement was close to finalisation and the Site Agreement was soon to become effective, it appeared to the Company that all the conditions precedent of the Disposal would likely be fulfilled by December 2022 or soon after and the parties would proceed to completion of the Disposal. The Company started to proactively explore potential investment opportunities in existing and/or new businesses for proper deployment of the relevant proceeds from the Disposal after completion based on the latest market situation and opportunities available, including exploring with PAG further cooperation opportunities, as well as other investment options (such as the consolidation of the Group's inks business subsequently announced by the Company on 10 March 2023).

On 30 December 2022, the Disposal was completed. The Handsome Group signed the manufacturing know-how process package and appointed the design institution for the establishment of the New Plant in February 2023. Finally, on 27 March 2023, after taking into account the progress of the construction of the New Plant during the first quarter of 2023 and review of the audited annual results of the Solvents Business for the year ended 31 December 2022, the Company was comfortable to meet the Target EBITDA and entered into the Agreement.

Based on the latest plan of the Company for the establishment of the New Plant, the key milestones in the establishment of the New Plant and comparison to the Performance Period and the Mandatory Redemption Dates are set out below.

		The Performance Period and the Mandatory Redemption Dates, assuming commercial operation of the New Plant commences:		
Expected date	**Key milestones of the establishment of the New Plant**	**(i) prior to 30 June 2025**	**(ii) between 1 July and 30 September 2025**	**(iii) after 30 September 2025**
1 January 2023	–	Start of the Performance Period on 1 January 2023	–	–
February 2023	(i) Signing of the manufacturing know-how process package	–	–	–
	(ii) Appointment of design institution			
First half of 2023	(i) Appointment of the construction works contractor	–	Start of the Performance Period on 1 April 2023	–
	(ii) Execution of purchase agreements in respect of equipment and machinery			
Second half of 2023	(i) Commence construction works of the New Plant	–	–	Start of the Performance Period on 1 July 2023
By the end of 2024	(i) Completion of construction works	–	–	–
	(ii) Inspection of the construction works			
January to June 2025	Trial production of the New Plant	–	–	–

Expected date	Key milestones of the establishment of the New Plant	The Performance Period and the Mandatory Redemption Dates, assuming commercial operation of the New Plant commences: (i) prior to 30 June 2025	(ii) between 1 July and 30 September 2025	(iii) after 30 September 2025
June to December 2025	Obtain the safety production permit and all of the relevant Documents not already obtained *(Note)*	–	–	–
31 December 2027	–	Expiration of the Performance Period	–	–
31 March 2028	–	–	Expiration of the Performance Period	–
30 June 2028	–	The First Mandatory Redemption Date	–	Expiration of the Performance Period
30 September 2028	–	–	The First Mandatory Redemption Date	–
31 December 2028	–	–	–	The First Mandatory Redemption Date
30 June 2029	–	The Second Mandatory Redemption Date	–	–
30 September 2029	–	–	The Second Mandatory Redemption Date	–
31 December 2029	–	–	–	The Second Mandatory Redemption Date

Note: Commercial operation of the New Plant will commence after the Handsome Group has, among other things, obtained all of the Documents, save for the real estate certificate which is not required for commercial operation.

The Documents obtained and to be obtained in respect of the New Plant are set out below.

Actual/expected date of obtaining the relevant Document	Project stage	Documents to be obtained in respect of the New Plant
Documents already obtained		
10 March 2023	Preparation stage	Project archival certificate (項目備案證)
Documents to be obtained		
First half of 2023	Preparation stage	Land use certificate (土地證)
First half of 2023	Preparation stage	Construction land planning permit (建設用地規劃許可證)
First half of 2023	Preparation stage	Construction project planning permit (建設工程規劃許可證)
First half of 2023	Preparation stage	Energy conservation examination opinion (能評批覆)
First half of 2023	Preparation stage	Safety pre-assessment report review (安全預評價報告審查)
First half of 2023	Preparation stage	Environmental impact assessment report (環評報告審查)
Second half of 2023	Preparation stage	Construction permit (施工許可證)
By the end of 2024	Before trial production	Completion check and acceptance and evaluation report on safety facilities (安全設施竣工驗收評價報告及審查意見)
By the end of 2024	Before trial production	Fire inspection (消防驗收)
By the end of 2024	Before trial production	Pollutant discharge license (排汙許可證)
By the end of 2024	Before trial production	Registration of hazardous chemicals certificate (危險化學品登記證)
By the end of 2024	Before trial production	Contingency plan review and registration (應急預案評審及備案)

Actual/expected date of obtaining the relevant Document	**Project stage**	**Documents to be obtained in respect of the New Plant**
By the end of 2024	Before trial production	Supervisory inspection report for pressure pipelines and pressure vessels (壓力管道、壓力容器監檢報告)
By the end of 2024	Before trial production	Special equipment registration (特種設備備案)
By the end of 2024	Before trial production	Completion check and acceptance on lightning protection (防雷驗收)
By the end of 2024	Before trial production	Trial production plan review and registration (試生產方案評審及備案)
By the end of 2024	Before trial production	Completion check and acceptance of buildings and structures (建築、結構竣工驗收)
By the end of 2024	Before trial production	Industrial product production license (工業產品生產許可證)
June to December 2025	Trial production	Safety production permit (安全生產許可證)
June to December 2025	Trial production	Operating license for hazardous chemicals (危險化學品經營許可證)
June to December 2025	Trial production	Completion check and acceptance of energy conservation examination (能評竣工驗收)
June to December 2025	Trial production	Customs registration certificate (報關單位註冊證)
June to December 2025	Trial production	Check and acceptance of planning (規劃驗收)
June to December 2025	Trial production	Occupational health control evaluation report (職業衛生控效評價報告)
March 2026	After commencement of commercial operation	Real estate certificate (不動產證)

The Handsome Group has a dedicated team of personnel overseeing the works involved in achieving and obtaining each of the above Documents in an efficient and timely manner. Save for any unforeseeable circumstances which may be outside the control of the Company, the Company does not foresee any legal, regulatory or other impediment to the obtaining of the relevant Documents in accordance with the expected timetable set out above.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Group has been principally engaged in the manufacture, sales and marketing of chemical products since 1971. Over the years, the Group developed the Solvents Business into the world's largest acetates solvents producer and it became a significant operation for the Group.

Common goal of the Group and PAG to further develop the Solvents Business

During the year ended 31 December 2022, despite the decline in raw material prices resulting in a drop in the revenue and operating profit, the Solvents Business continued to record relatively high profitability in its 30-year operation and achieved operating profit of approximately HK$230 million.

With the common goal to further develop the Solvents Business through the vertical integration of acetic acid from the New Plant, PAG and the Group entered into a strategic cooperation agreement in July 2022, in which PAG purchased a controlling stake in the Handsome Group from the Group. PAG contributes its expertise in fund raising and offers partnership opportunities with its portfolio of investments, namely Airpower Technologies, while the Group continues to manage and operate Handsome Group with the existing management and contribute its expertise in the Solvents Business.

As described above, the Group's cooperation with PAG in relation to the management of HSD and the Handsome Group as a whole has been smooth and the progress of establishing the New Plant has been good and the Group is optimistic as to the prospect of the Solvents Business. The Solvents Business has a strong record of performance through its position as the market leader in the industry and has previously been and remains a significant part of the Group's profit contributors. At the same time, once the New Plant achieves commercial operation it is expected to generate synergies for the Solvents Business through the vertical integration of the production of acetic acid and solvents products. As Handsome Chemical is already one of the largest purchasers of acetic acid in the world, the New Plant's 600,000-tonne acetic acid production capacity will allow Handsome Chemical to become vertically integrated. The New Plant will ensure a consistent supply of raw materials and stabilise raw materials costs for the Solvents Business, which will be able to utilise most of the acetic acid produced by the New Plant, helping it to achieve better margins for its solvents products and increasing competitiveness in the long run. Based on the Group's confidence in the prospects of the Solvents Business, the Group engaged in discussion with PAG for the Subscription.

The Subscription is financially beneficial to the Group

The Directors consider that the Subscription is financially beneficial to the Group as (i) the Group shall obtain a return from the Subscription if the Handsome Group's performance outperforms the target KPI; and (ii) the Group shall receive dividends accrued daily on the Adjusted Amount payable on the First Mandatory Redemption Date and the Second Mandatory Redemption Date respectively and such dividends will serve to balance the Group's investment holding costs in respect of the Subscription.

In light of the confidence of the Group in meeting the Target EBITDA as discussed below, particularly in the growth potential of the Solvents Business coupled with the New Plant, the Group aims to further capture the upside profit contribution to be derived from the New Plant as it continues to be interested in the performance of the Solvents Business while it holds 24% effective interest in the Handsome Group. The amount of investment contemplated under the Subscription was determined by balancing the concentration of business risk in the Solvents Business and its potential returns and also by considering the Group's overall financial health of its balance sheet and other potential uses of funds to grow other core businesses such as the Group's coatings and inks businesses for the benefit of the Shareholders.

As PAG, being an investment firm, will rely on the existing experienced management of the Handsome Group in managing the Solvents Business as well as the Group's expertise in the Solvents Business to oversee the Handsome Group, the Subscription fully aligns the interest of the Group and PAG. The Group has significant incentive to help execute and build the New Plant on schedule and grow the Solvents Business during the Performance Period such that all shareholders of Handsome Group, and in turn the Shareholders, can benefit.

Potential further investment of the Issuer in the Solvents Business for further development

The proceeds from the Subscription will be paid to the Issuer and are not earmarked for any specific use. The Issuer will decide as to how and when to apply such proceeds.

The capital expenditures involved in the construction of the New Plant are currently estimated to be approximately RMB1,740 million and, pursuant to the cooperation between the Group and PAG, PAG as the controlling shareholder of the Handsome Group is responsible for assisting the Handsome Group to obtain financing for the continued development of the Solvents Business. Additionally, PAG and the Group have recently been exploring the possibility of expanding the original plan for the New Plant to include additional production lines for solvents products other than acetic acid, such as ethyl acetate, normal propyl acetate and methyl acetate. This would potentially increase the expected capital expenditures in establishing the New Plant. Having considered the abovementioned financing needs of the Handsome Group, the Directors believe that the proceeds from the Subscription will help provide financial resources to strengthen the balance sheet and capital structure of the Issuer and enable the Issuer to have the ability to arrange for financing for the Solvents Business and/or the New Plant and to have the flexibility to potentially invest further in the Solvents Business in future for further development, which would be in line with the cooperation between the Group and PAG to develop the Solvents Business.

The Company is confident to meet the Target EBITDA

While the parties mutually agreed that EBITDA is an objective KPI for the purpose of assessing the performance of the Solvents Business, the Company considers the Target EBITDA to be reasonable and achievable, and is optimistic that the Solvents Business will be able to meet the Target EBITDA. The Company has confidence in managing the Handsome Group to meet the Target EBITDA given that (a) the Solvents Business will continue to be managed by the existing management of over 30 years, led by the Group's Deputy Chairman, who will remain as the chairman of the boards of the Handsome Group companies; (b) the Group will continue to oversee the Solvents Business pursuant to the terms of cooperation with PAG; (c) the prospect of the Solvents Business is expected to continue to improve particularly upon achieving the commercial operation of the New Plant; and (d) the basis of the Target EBITDA is fair and reasonable as described in the subsection headed "Terms of the Preferred Shares – Mandatory redemption price" above, including that by applying a multiple factor of 1.5 times (the "**Multiple**") on the excess or shortfall of the Actual EBITDA as a proportion of the Target EBITDA when calculating the Adjusted Amount, the Company strives to enhance its return on investment in respect of the Subscription and be rewarded for achieving better performance for the Solvents Business.

The Directors acknowledge that there may be a potential downside risk to the Group in respect of the Subscription and that the Multiple might also increase potential losses to the Company in the case of underperformance of the Handsome Group. In the event that the Handsome Group is unable to meet the target KPI, to the extreme, the redemption price for the Preferred Shares could be zero. However, in view of the reasons set out in the above paragraphs, including the experience of the Group in the industry and the optimistic outlook of the Solvents Business, the Directors are of the view that the risk and return attributable to the adjustment mechanism and thereby the potential downside risk to the Group is manageable, including the Multiple which the Directors consider to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. At the same time, the Multiple also serves to mitigate PAG's exposure to the risk of underperformance by the Solvents Business.

The key drivers to achieve the Target EBITDA are the good performance of the existing Solvents Business and timely construction of the New Plant. As mentioned above, the Issuer has discretion over the use of the proceeds from the Subscription and may or may not choose to deploy them towards the New Plant and/or the Solvents Business. Nevertheless, the Handsome Group has the capability to obtain sufficient funding to achieve the above without the proceeds from the Subscription. The Handsome Group, under the control of PAG and leveraging on the connections of PAG in the banking and finance industry, has already received term sheets from eight banks with competitive terms for financing the construction of the New Plant and currently has available banking facilities of approximately RMB3.6 billion for its operations. As the controlling shareholder of the Handsome Group, PAG has the necessary means for obtaining additional financing for the development of the New Plant and the Solvents Business should it become necessary. Even without the deployment of the proceeds from the Subscription, the Handsome Group will be able to obtain the necessary financing for the establishment of the New Plant and the development of the Solvents Business.

In light of the above, the Company is optimistic that the Solvents Business will be able to meet the Target EBITDA with or without the proceeds from the Subscription.

Directors' views

The Company considers the primary purposes of the Subscription are, among other things, to (i) allow the Group, as a shareholder of the Handsome Group, to further capture the upside profit contribution to be derived from the New Plant and the growth potential of the Solvents Business; and (ii) incentivise the Group with both upside and downside potential to help execute and build the New Plant on schedule and grow the Solvents Business during the Performance Period such that all shareholders of Handsome Group, and in turn the Shareholders, can benefit. The purposes of the Subscription do not include financing the Handsome Group and/or the Solvents Business because, as discussed above, the Handsome Group has the capability to obtain sufficient funding for the New Plant and the Solvents Business and, based on mutual understanding, PAG shall be responsible for facilitating and arranging financing for the Handsome Group, where necessary. In consideration of this, and since the aforementioned incentive and upside potential from the Subscription is intended to be provided by PAG to the Group, the Subscription has been made at level of the Issuer, which is wholly-owned by PAG, instead of at the level of HSD or Handsome Group, which is partially owned by the Group. Furthermore, as the minority shareholder of the Handsome Group also holds approximately 25% effective interest in the Handsome Group and the Subscription is a commercial arrangement between PAG and the Group, it is considered to be more appropriate for the Subscription to be made at the level of the Issuer, instead of at the level of HSD or Handsome Group.

Having considered the above, 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 thereunder are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Subscription is more than 25% but all are less than 100%, the Subscription constitutes a major transaction for the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders has a material interest in the Subscription, and therefore no Shareholder is required to abstain from voting if a general meeting of the Company were to be convened to approve the Agreement and the transactions contemplated thereunder.

Pursuant to Rule 14.44 of the Listing Rules, on 27 March 2023, the Company has obtained a written shareholder's approval from the Closely Allied Group who together interested in 293,882,693 Shares, representing approximately 51.69% of the issued share capital of the Company as at the Latest Practicable Date, to approve the Agreement and transactions contemplated thereunder. As such, no general meeting of the Company will be convened for the purpose of approving the Agreement and the transactions contemplated thereunder.

The Closely Allied Group comprises the following Shareholders:

Name of Shareholder	No. of Shares held	Percentage of shareholding as at 27 March 2023
Mr. Ip Chi Shing *(Note 1)*	187,808,532	33.02%
Mr. Yip Tsz Hin *(Note 2)*	45,116,248	7.94%
Mr. Ip Kwan	11,576,000	2.04%
Ms. Ip Fung Kuen	49,381,913	8.69%
Total	293,882,693	51.69%

Notes:

1. Out of these Shares, 21,200,000 Shares are held by Ip Chi Shing Charitable Foundation Limited, a charitable organisation; and 5,304,000 Shares are held by Yip's Care Extension Foundation Limited, a limited company. Mr. Ip Chi Shing controls 50% (and together with his spouse, control 100%) and 60% (and 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.

2. Out of these Shares, 14,000,000 Shares are held by Madam Yip Tso Ka Lai, Brenda, the spouse of Mr. Yip Tsz Hin.

Circulars in respect of a major transaction should include, among other things, the information required under Rules 14.58(6) and 14.58(7) of the Listing Rules, being the value (book value and valuation, if any) of the assets which are the subject of the transaction; and where applicable, the net profits (both before and after taxation) attributable to the assets which are the subject of the transaction for the two financial years immediately preceding the transaction, respectively. As the Preferred Shares, among other things, (i) do not carry any voting rights; (ii) do not entitle the holder(s) to share in the results of the Issuer; and (iii) do not entitle the holder(s) to control over the board or management or affairs of the Issuer, the Subscription is not an acquisition of equity interest in a company and is not an acquisition of an asset which is revenue in nature. Therefore, Rules 14.58(6) and 14.58(7) of the Listing Rules are not applicable to the Subscription and the transactions contemplated thereunder.

RECOMMENDATION

Although no general meeting will be convened for approving the Agreement and the transactions contemplated thereunder, the Directors, are of the view that the terms thereof and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, in the interests of the Company and the Shareholders as a whole.

Accordingly, if the general meeting was convened for approving the Agreement and transactions contemplated thereunder, the Directors would recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the general meeting to approve the Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

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 2020 ("**FY2020**"), 2021 ("**FY2021**") and 2022 ("**FY2022**") have been published in the annual reports of the Company, 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 are set out below:

(i) Annual report of the Company for FY2020 published on 15 April 2021 (pages 93 to 304): **https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0415/2021041500461.pdf**

(ii) Annual report of the Company for FY2021 published on 27 April 2022 (pages 89 to 300): **https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700740.pdf**

(iii) Annual report of the Company for FY2022 published on 24 April 2023 (pages 89 to 308): **https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0424/2023042400820.pdf**

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2023, 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$1,329,232,000 in total, of which approximately HK$1,193,753,000 were unsecured and guaranteed by the Company, bank loans of approximately HK$63,924,000 were unsecured and guaranteed by a wholly-owned subsidiary of the Company and bank loans of approximately HK$37,090,000 were secured by bills with full recourse and unguaranteed. The remaining bank loans of approximately HK$34,465,000 were unsecured and unguaranteed; and

(b) lease liabilities of approximately HK$37,639,000 in total, of which approximately HK$20,497,000 were secured by rental deposits and unguaranteed, a lease liability amounting to approximately HK$2,647,000 was secured by a rental deposit and guaranteed by a bank, and lease liabilities amounting to approximately HK$14,495,000 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 March 2023, 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 (i) the financial resources available to the Group, including internally generated funds and available banking facilities; and (ii) the Subscription Price paid 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

The Directors confirmed that there had not been any material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published audited consolidated 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 manufacture, sales and marketing of chemical products.

The disposal of the 68% equity interest in HSD to PAG in 2022 generated a cash inflow of over HK$2 billion to the Group, which, on one hand, significantly improved the cash position of the Group with expected substantial decrease in the interest expenses of the Group and, on the other hand, enable the Group to pursue favourable investment opportunities in order to further expand the business mix of the Group upon detailed consideration of the utilisation of part of the proceeds. As such, the Group would be well-equipped to allocate more resources to its three-pronged development plan and achieve greater progress. The Group will continue to seek more opportunities for business growth while making good use of its strong financial strength in consolidating and developing its core businesses, in particular the coatings and inks businesses.

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 and/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.

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

	Number of Shares and underlying 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 the Company as at the Latest Practicable Date**
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	–	–	11,576,000	2.04%
Mr. Ho Sai Hou	–	–	–	–	–
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.

(ii) Substantial Shareholders' interests and short positions in shares, underlying shares and debentures of the Company or its associated corporations

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	40,983,300(L)	7.21%
FIDELITY PURITAN TRUST	Beneficial Owner	2	29,423,120(L)	5.18%

(L) denotes long positions

Notes:

1. Based on information provided by FMR LLC, FMR LLC was beneficially interested in 40,983,300 Shares as of the Latest Practicable Date, of which 36,687,120 Shares were directly held and managed by Fidelity Management & Research Company LLC, 4,296,180 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 36,687,120 Shares held by Fidelity Management & Research Company LLC, 7,264,000 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 29,423,120 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 are not aware of any 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 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5. SERVICE CONTRACT

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;

(iii) the sale and purchase agreement dated 15 July 2022 entered into among PAGAC Heisenberg Holding II Limited (as purchaser), Yip's H.C. (Holding) Limited (as vendor), the Company (as guarantor) and Handsome Chemical Development Limited (as target) in relation to the disposal of 4,080 issued shares of Handsome Chemical Development Limited, representing 68% of the total issued share capital of Handsome Chemical Development Limited for the consideration of the equivalent amount in US$ of RMB2,295 million (equivalent to approximately HK$2,701 million), details of which were disclosed in the announcement of the Company dated 25 July 2022;

(iv) an agreement dated 10 March 2023 entered into among, Yip's Ink & Chemicals (Group) Limited ("**Yip's Ink**"), a wholly-owned subsidiary of the Group, and 中山市好利投資諮詢合夥企業(有限合夥) (Zhongshan Haoli Investment Advisory Partnership (Limited Partnership)*) in relation to the acquisition of approximately 2.00% of the equity interest in and of 洋紫荊油墨(浙江)有限公司(Bauhinia Variegata Ink & Chemicals (Zhejiang) Limited*) (formerly known as 洋紫荊油墨股份有限公司(Bauhinia Ink Company Limited)) ("**Bauhinia Ink**") for the consideration of approximately RMB15,900,000, details of which were disclosed in the announcement of the Company dated 10 March 2023;

(v) an agreement dated 10 March 2023 entered into among, Yip's Ink and 中山市源邦投資諮詢合夥企業(有限合夥)(Zhongshan Yuanbang Investment Advisory Partnership (Limited Partnership)*) in relation to the acquisition of approximately 1.71% of the equity interest in and of Bauhinia Ink for the consideration of approximately RMB13,587,000, details of which were disclosed in the announcement of the Company dated 10 March 2023;

(vi) an agreement dated 10 March 2023 entered into among, Yip's Ink and 中山市溢榮投資諮詢合夥企業(有限合夥) (Zhongshan Yirong Investment Advisory Partnership (Limited Partnership)*) in relation to the acquisition of approximately 0.43% of the equity interest in and of Bauhinia Ink for the consideration of approximately RMB3,453,000, details of which were disclosed in the announcement of the Company dated 10 March 2023;

(vii) an agreement dated 10 March 2023 entered into among, Yip's Ink and 中山市盈煌投資諮詢合夥企業(有限合夥) (Zhongshan Yinghuang Investment Advisory Partnership (Limited Partnership)*) in relation to the acquisition of approximately 0.34% of the equity interest in and of Bauhinia Ink for the consideration of approximately RMB2,690,000, details of which were disclosed in the announcement of the Company dated 10 March 2023;

(viii) an agreement dated 10 March 2023 entered into among, Yip's Ink and 中山市裕貿投資諮詢合夥企業(有限合夥) (Zhongshan Yumao Investment Advisory Partnership (Limited Partnership)*) in relation to the acquisition of approximately 0.53% of the equity interest in and of Bauhinia Ink for the consideration of approximately RMB4,221,000, details of which were disclosed in the announcement of the Company dated 10 March 2023;

(ix) an agreement dated 10 March 2023 entered into among, Yip's Ink and (i)中山市創好投資諮詢合夥企業(有限合夥) (Zhongshan Chuanghao Investment Advisory Partnership (Limited Partnership)*); (ii)中山市超浚投資諮詢合夥企業(有限合夥) (Zhongshan Chaojun Investment Advisory Partnership (Limited Partnership)*); and (iii)中山市卓迅投資諮詢合夥企業(有限合夥) (Zhongshan Zhuoxun Investment Advisory Partnership (Limited Partnership)*), collectively, in relation to the acquisition of approximately 3.23% of the equity interest in and of Bauhinia Ink for the consideration of approximately RMB25,648,000, details of which were disclosed in the announcement of the Company dated 10 March 2023; and

(x) the Agreement.

* *For identification purposes only*

9. 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 PO 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 shall prevail over the Chinese text.

10. 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) for a period of not less than 14 days commencing from the date of this circular:

(i) the Agreement; and

(ii) this circular.