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Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 408)

PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE INK BUSINESS AND CONNECTED TRANSACTIONS

The Board is pleased to announce that the Company has made an application for the Spin-off of the Ink Business pursuant to Practice Note 15 of the Listing Rules on 28 May 2020.

The Board is also pleased to announce that after the Stock Exchange trading hours on 28 May 2020, Yip's Ink Group (an indirect wholly-owned subsidiary of the Company and the holding company of Bauhinia Variegata Zhejiang) entered into the Agreements to dispose of an approximately 0.87% indirect equity interest in Bauhinia Variegata Zhejiang to certain senior management of the Group (including directors of the Company and its subsidiaries, namely Mr. TH Yip, Mr. K Ip, Mr. Ho and Mr. L Yip) for an aggregate consideration of approximately RMB7.0 million (equivalent to approximately HK\$7.6 million).

By virtue of Mr. TH Yip, Mr. K Ip and Mr. Ho being Directors and Mr. L Yip being a director of a subsidiary of Bauhinia Variegata Zhejiang and an associate (as defined in the Listing Rules) of Mr. TH Yip, the Disposals constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As all the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposals, when aggregated with one of the Previous Disposals involving Mr. Kwong (being a director of certain subsidiaries of the Company), are higher than 0.1% but less than 5%, the Disposals are subject to the announcement and reporting requirements but exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board is pleased to announce that the Company has made an application to the Stock Exchange for the Spin-off of the Ink Business pursuant to Practice Note 15 of the Listing Rules on 28 May 2020. The Board is also pleased to announce that after trading hours of the Stock Exchange on 28 May 2020, Yip's Ink Group (an indirect wholly-owned subsidiary of the Company and the holding company of Bauhinia Variegata Zhejiang) entered into the Agreements to dispose of an approximately 0.87% indirect equity interest in Bauhinia Variegata Zhejiang. Details of the Agreements are set out below.

I. PROPOSED SPIN-OFF OF THE INK BUSINESS

The Board is pleased to announce that the Company is considering the Spin-off and a separate listing of Bauhinia Variegata Zhejiang on the Shenzhen Stock Exchange. For this purpose, the Group is currently undertaking a group reorganisation to the effect that Bauhinia Variegata Zhejiang will become the listing vehicle and the holding company of the Company's subsidiaries which are engaged in the Ink Business.

The Bauhinia Variegata Zhejiang Group is the largest ink manufacturer in the PRC and one of the top 20 ink manufacturers internationally in terms of annual sales in 2019. The principal products of the Bauhinia Variegata Zhejiang Group are plastic printing inks and paper printing inks sold under its proprietary brand name "Bauhinia Variegata" which are mainly used in food and drinks packaging, gift packaging and paper printing. The Bauhinia Variegata Zhejiang Group also supplies post-printing materials such as thinner, water-based varnish and buffing oil as part of its business integration initiative. Products of the Bauhinia Variegata Zhejiang Group are mainly sold within the PRC, with a small portion being sold to overseas markets including, among others, Philippines and Vietnam. The production facilities of the Bauhinia Variegata Zhejiang Group are located in Zhongshan in Guangdong Province and Tongxiang in Zhejiang Province, the PRC.

The Board considers that the Spin-off will be beneficial to the Group as a whole because (i) the funds to be raised from the separate listing of Bauhinia Variegata Zhejiang will provide capital to the Ink Business for its operations and expansion plan; (ii) the Spin-off and the separate listing of Bauhinia Variegata Zhejiang will enhance the Ink Business' profile amongst its customers, suppliers and other business partners; (iii) the Spin-off will enable the Ink Business on the one hand and the Remaining Businesses on the other hand to have their own fund raising platforms to directly and independently access both the debt and equity capital markets; (iv) the Spin-off substantively separates the Ink Business from the Remaining Businesses, thereby enabling them to be valued on a standalone basis to reflect the true value of the

respective businesses; and (v) the Spin-off will increase the operational and financial transparency between the Ink Business and the Remaining Businesses of the Group, providing investors and the market with greater clarity on their respective businesses and financial status. The Company will continue to benefit from any potential upside in the Ink Business as Bauhinia Variegata Zhejiang (the holding company of the Ink Business) is expected to remain as a subsidiary of the Company upon completion of the Spin-off.

The proposed listing of Bauhinia Variegata Zhejiang on the Shenzhen Stock Exchange constitutes a spin-off of Bauhinia Variegata Zhejiang by the Company and the Company had made an application to the Stock Exchange for the Spin-off in compliance with Practice Note 15 of the Listing Rules on 28 May 2020. As at the date of this announcement, Bauhinia Variegata Zhejiang has not yet submitted any listing application with relevant regulatory authorities in the PRC. The Company will make further announcement(s) as and when appropriate as required under the Listing Rules regarding the Spin-off or the listing application of Bauhinia Variegata Zhejiang.

Shareholders and potential investors of the Company should note that the Spin-off may or may not proceed, and they are advised to exercise caution when dealing in the securities of the Company.

II. DISPOSALS

1. AGREEMENT A

Date

28 May 2020

Parties

- (i) Yip's Ink Group (as one of vendors);
- (ii) Ms. Lin (as one of the vendors and a nominee for Yip's Ink Group);
- (iii) Ms. Suen (as one of the purchasers);
- (iv) Mr. Ho (as one of the purchasers); and
- (v) Ms. Tse (as one of the purchasers).

Yip's Ink Group is an indirect wholly-owned subsidiary of the Company and a limited partner of Partnership A holding 99.99% interest in Partnership A while Ms. Lin is a general partner of Partnership A holding 0.01% interest in Partnership A as a nominee for Yip's Ink Group. Mr. Ho is an executive Director and each of Ms. Lin, Ms. Suen and Ms. Tse is an employee of the Group. Save for Mr. Ho, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, all the purchasers under Agreement A are Independent Third Parties.

Asset being disposed of

Pursuant to the Agreement A, (i) Yip's Ink Group agreed to sell the 99.99% interest in Partnership A as to 42.85%, 28.57% and 28.57% to Ms. Suen, Mr. Ho and Ms. Tse respectively; and (ii) Ms. Lin agreed to sell the 0.01% interest in Partnership A to Ms. Suen.

Consideration

The aggregate consideration for the 100% interest in Partnership A is RMB2,707,839.10 (equivalent to approximately HK\$2.94 million) and shall be payable in cash by Ms. Suen, Mr. Ho and Ms. Tse in proportion to the percentage of interest in Partnership A acquired within 20 days after the entering into of the Agreement A as follows:

Payable by	% of interest acquired	Consideration RMB	(equivalent to HK\$'million)
Ms. Suen	42.86	1,160,502.42	1.26
Mr. Ho	28.57	773,668.34	0.84
Ms. Tse	28.57	773,668.34	0.84
	<u>100.00</u>	<u>2,707,839.10</u>	<u>2.94</u>

The consideration was determined after arm's length negotiations among parties with reference to the unaudited net asset value of the Bauhinia Variegata Zhejiang Group as at 31 March 2020 attributable to the equity interest in Bauhinia Variegata Zhejiang held by Partnership A and is on the same basis that the consideration for the disposal of the indirect equity interest in Bauhinia Variegata Zhejiang to the Investor and the Employees under the Previous Disposals was determined.

Completion of the Disposal under Agreement A shall take place following the due registration of the change in owners of Partnership A with the relevant administration of industry and commerce in the PRC.

2. AGREEMENT B

Date

28 May 2020

Parties

- (i) Yip's Ink Group (as one of the vendors);
- (ii) Ms. Lin (as one of the vendors and a nominee for Yip's Ink Group);
- (iii) Mr. TH Yip (as one of the purchasers);
- (iv) Mr. L Yip (as one of the purchasers); and
- (v) Mr. K Ip (as one of the purchasers).

Yip's Ink Group is a limited partner of Partnership B and holds 99.99% interest in Partnership B while Ms. Lin is a general partner of Partnership B and holds 0.01% interest in Partnership B as a nominee for Yip's Ink Group. Mr. TH Yip and Mr. K Ip are executive Directors, and Mr. L Yip is the group strategic director of the Company and a director of a subsidiary of Bauhinia Variegata Zhejiang and is the son of Mr. TH Yip.

Asset being disposed of

Pursuant to Agreement B, (i) Yip's Ink Group agreed to sell the 99.99% interest in Partnership B as to 54.49%, 27.30% and 18.20% to Mr. TH Yip, Mr. L Yip and Mr. K Ip respectively; and (ii) Ms. Lin agreed to sell the 0.01% interest in Partnership B to Mr. L Yip.

Consideration

The aggregate consideration for the 100% interest in Partnership B is RMB4,247,945.85 (equivalent to approximately HK\$4.61 million) and shall be payable in cash by Mr. TH Yip, Mr. L Yip and Mr. K Ip in proportion to the percentage of interest acquired within 20 days after the entering into of the Agreement B as follows:

Payable by	% of interest acquired	Consideration RMB	(equivalent to HK\$'million)
Mr. TH Yip	54.49	2,314,637.16	2.51
Mr. L Yip	27.31	1,159,985.22	1.26
Mr. K Ip	18.20	773,323.47	0.84
	<u>100.00</u>	<u>4,247,945.85</u>	<u>4.61</u>

The consideration was determined after arm's length negotiations among the parties with reference to the unaudited net asset value of the Bauhinia Variegata Zhejiang Group as at 31 March 2020 attributable to the equity interest in Bauhinia Variegata Zhejiang held by Partnership B and is on the same basis that the consideration for the disposal of the indirect equity interest in Bauhinia Variegata Zhejiang to the Investor and the Employees under the Previous Disposals was determined.

Completion of the Disposal under Agreement B shall take place following the due registration of the change in owners of Partnership B with the relevant administration of industry and commerce in the PRC.

3. INFORMATION OF THE PARTNERSHIPS AND BAUHINIA VARIEGATA ZHEJIANG

The Partnerships are limited partnerships established in the PRC in April 2020 for the sole purpose of holding equity interests in Bauhinia Variegata Zhejiang. Partnership A and Partnership B respectively holds an approximately 0.34% and 0.53% direct equity interest in Bauhinia Variegata Zhejiang. Other than the equity interest in Bauhinia Variegata Zhejiang and nominal amount of petty cash, the Partnerships do not have any other material assets or liabilities and have not carried on any business or operation since establishment up to the date of this announcement.

Apart from the Agreements, the Group had previously entered into separate agreements for the Previous Disposals to dispose of (i) an approximately 2.00% indirect equity interest in Bauhinia Variegata Zhejiang to the Investor for a consideration of approximately RMB16.0 million (equivalent to approximately HK\$17.3 million); and (ii) an aggregate of approximately 2.14% indirect equity interest in Bauhinia Variegata Zhejiang to the Employees (including Mr. Kwong who is a director of certain subsidiaries of the Company) for an aggregate consideration of approximately RMB17.1 million (equivalent to approximately HK\$18.6 million). Bauhinia Variegata Zhejiang was a wholly-owned subsidiary of the Company immediately prior to the Previous Disposals. Following completion of the Previous Disposals and immediately before the Disposals, Bauhinia Variegata Zhejiang would be held as to approximately 95.86% by Yip's Ink Group (of which approximately 0.34% and 0.53% were held through Partnership A and Partnership B respectively), approximately 2.00% by a partnership beneficially owned by the Investor and approximately 2.14% by two partnerships beneficially owned by the Employees.

The following table summarises the unaudited combined financial information of the Bauhinia Variegata Zhejiang Group (as if this structure has been in existence throughout the two financial years ended 31 December 2018 and 2019) extracted from its management accounts included in the audited financial information of the Group for each of the two financial years ended 31 December 2018 and 2019:

	Year ended 31 December	
	2018	2019
	<i>HK\$' million</i>	<i>HK\$' million</i>
Profit before taxation	69.8	128.9
Profit for the year	<u>58.1</u>	<u>110.7</u>

As at 30 April 2020, the unaudited consolidated net asset value of the Bauhinia Variegata Zhejiang Group was approximately HK\$857.7 million.

4. FINANCIAL EFFECTS OF THE DISPOSALS

Following completion of the Previous Disposals and the Disposals, the Group remains to hold an approximately 94.99% equity interest in Bauhinia Variegata Zhejiang and Bauhinia Variegata Zhejiang shall continue to be accounted for as a subsidiary in the financial statements of the Group.

It is estimated that, upon completion of the Disposals, the difference between the aggregate consideration for the Disposals and the unaudited consolidated net asset value of the Bauhinia Variegata Zhejiang Group as at 30 April 2020 attributable to the aggregate 0.87% equity interest in Bauhinia Variegata Zhejiang held by Partnership A and Partnership B of approximately HK\$0.1 million will be recognised in other comprehensive income and accumulated in equity. The financial impact from the Disposals is subject to the finalisation of net asset value of the Bauhinia Variegata Zhejiang Group at the date of completion of the Disposals. The Group intends to apply the proceeds from the Disposals as general working capital of the Group.

5. REASONS FOR AND BENEFITS OF THE DISPOSALS

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

As mentioned above, the Company is currently undertaking a group reorganisation and intends to make an application for a listing of Bauhinia Variegata Zhejiang on the Shenzhen Stock Exchange. The Partnerships were established solely for the purpose of holding the equity interest in Bauhinia Variegata Zhejiang to facilitate the Disposals. The Previous Disposals and the Disposals were contemplated for the preparation of the separate listing of Bauhinia Variegata Zhejiang. The Employees and the purchasers under the Agreements comprise certain Directors, senior management and employees of the Group who are either involved in the day-to-day management and operation of the Ink Business or are considered to have significant contribution to the development of the Ink Business. The Disposals, together with the Previous Disposals, aim at broadening the shareholders base of and serve as an employee incentive scheme to align the interests of the key employees of the Group who are involved in the Ink Business with Bauhinia Variegata Zhejiang. The equity interest in Bauhinia Variegata Zhejiang indirectly held by the Investor, the Employees as well as the purchasers under the Agreements shall be subject to certain lock-up in compliance with the relevant requirements of the Shenzhen Stock Exchange if the Spin-off proceeds.

Taking into account that the Disposals are part of an employee incentive scheme to align the interests of the key management team with the Bauhinia Variegata Zhejiang Group; and the consideration for the Disposals is at a slight premium over the underlying net asset value of the Bauhinia Variegata Zhejiang Group and is determined on the same basis as that for the Previous Disposal involving the Investor who is an Independent Third Party, the Directors (including the independent non-executive Directors) are of the view that the Disposals are on normal commercial terms, incidental to the ordinary and usual course of business of the Group and the terms of the Agreements are fair and reasonable and in the interests of the Company and its shareholders as a whole.

6. IMPLICATIONS UNDER THE LISTING RULES

By virtue of Mr. TH Yip, Mr. K Ip and Mr. Ho being Directors and Mr. L Yip being a director of a subsidiary of Bauhinia Variegata Zhejiang and an associate (as defined in the Listing Rules) of Mr. TH Yip, the Disposals constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As each of Mr. TH Yip, Mr. K Ip and Mr. Ho is considered to have a material interest in the Disposals, each of them has abstained from voting on the resolutions at the Board meeting approving the respective Agreements. As all the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposals, when aggregated with one of the Previous Disposals involving Mr. Kwong (being a director of certain subsidiaries of the Company), are more than 0.1% but less than 5%, the Disposals are subject to the announcement and reporting requirements but exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

III. DEFINITIONS

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

“Agreement A”	the agreement dated 28 May 2020 entered into among Yip’s Ink Group and Ms. Lin (together as vendors) and Ms. Suen, Mr. Ho and Ms. Tse (together as purchasers) in relation to the sale and purchase of interest in Partnership A
“Agreement B”	the agreement dated 28 May 2020 entered into among Yip’s Ink Group and Ms. Lin (together as vendors) and Mr. TH Yip, Mr. L Yip and Mr. K Ip (together as purchasers) in relation to the sale and purchase of interest in Partnership B
“Agreements”	together, the Agreement A and the Agreement B
“Bauhinia Variegata Zhejiang”	洋紫荊油墨（浙江）有限公司（Bauhinia Variegata Ink & Chemicals (Zhejiang) Limited [#]), an approximately 95.86%-owned subsidiary of Yip’s Ink Group after completion of the Previous Disposals but immediately before the Disposals
“Bauhinia Variegata Zhejiang Group”	Bauhinia Variegata Zhejiang and its subsidiaries
“Board”	the board of Directors

“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)
“Director(s)”	director(s) of the Company
“Disposals”	collectively, the disposals by the Group of interests in the Partnerships pursuant to the terms and conditions of the Agreements
“Employees”	collectively, certain senior management and employees of the Bauhinia Variegata Zhejiang Group (including Mr. Kwong) who together would hold an approximately 2.14% indirect equity interest in Bauhinia Variegata Zhejiang following completion of the Previous Disposals
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) who is/are independent of the Company and its connected persons (as defined in the Listing Rules)
“Ink Business”	the manufacturing and trading of inks and related products undertaken by the Bauhinia Variegata Zhejiang Group
“Investor”	an individual investor who is an Independent Third Party and would hold an approximately 2.00% indirect equity interest in Bauhinia Variegata Zhejiang following completion of the Previous Disposals
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Ho”	Mr. Ho Sai Hou, an executive Director and the Chief Financial Officer of the Company
“Mr. K Ip”	Mr. Ip Kwan, an executive Director and the Deputy Chief Executive Officer of the Company

“Mr. Kwong”	Mr. Kwong Kwok Chiu, a director of certain subsidiaries of the Group
“Mr. L Yip”	Mr. Yip Long, a director of a subsidiary of Bauhinia Variegata Zhejiang and an associate (as defined in the Listing Rules) of Mr. TH Yip
“Mr. TH Yip”	Mr. Yip Tsz Hin, an executive Director and the Deputy Chairman and the Chief Executive Officer of the Company
“Ms. Lin”	Ms. Lin Mei Ju
“Ms. Suen”	Ms. Suen Kit Fong
“Ms. Tse”	Ms. Tse Yi Chu
“Partnership A”	中山市盈煌投資諮詢合夥企業（有限合夥）(Zhongshan Yinghuang Investment Advisory Partnership (Limited Partnership)#), a limited partnership established in the PRC
“Partnership B”	中山市裕貿投資諮詢合夥企業（有限合夥）(Zhongshan Yumao Investment Advisory Partnership (Limited Partnership)#), a limited partnership established in the PRC
“Partnerships”	together, Partnership A and Partnership B
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macao Special Administrative Region and Taiwan for the purposes of this announcement
“Previous Disposals”	collectively, the disposals by the Group of an aggregate of approximately 4.14% indirect equity interest in Bauhinia Variegata Zhejiang to the Investor and the Employees which are expected to be completed before end of June 2020
“Remaining Businesses”	businesses of the Group other than the Ink Business
“Spin-off”	the proposed spin-off of the Ink Business by the Company for a separate listing on the Shenzhen Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “subsidiaries” shall be construed accordingly
“Yip’s Ink Group”	Yip’s Ink & Chemicals (Group) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

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

Hong Kong, 28 May 2020

The English translation/transliteration of the Chinese names denoted in this announcement is for illustration purposes only. Should there be any inconsistencies, the Chinese names shall prevail.

For the purpose of illustration only, amounts denominated in RMB in this announcement have been converted into HK\$ at the rate of RMB1=HK\$1.0844. Such translations should not be construed as a representation that the amounts have been, could have been or could be converted at such rate or at all.

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

Non-executive Directors:

Mr. Ip Chi Shing (*Chairman*)
Mr. Wong Yuk
Mr. Wong Kong Chi*
Mr. Ku Yuen Fun*
Mr. Ho Pak Chuen, Patrick*

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*