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## Yip's Chemical Holdings Limited

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

**(Stock Code: 408)**

### **DISCLOSEABLE TRANSACTION**

On 2 January 2020, Baixing (an indirect wholly-owned subsidiary of the Company) entered into the Agreement A with, among others, the Target, pursuant to which Baixing agreed to inject cash in the sum of RMB12.13 million (equivalent to approximately HK\$13.5 million) as additional registered capital of the Target. Contemporaneously with the entering into of the Agreement A, Baixing also entered into the Agreement B with, among others, the Vendor, pursuant to which Baixing agreed to acquire the Sale Interest from the Vendor for a cash consideration of RMB10.0 million (equivalent to approximately HK\$11.2 million). The Agreement A and the Agreement B were negotiated as a packaged deal. Following completion of the Investment, the equity interest held by Baixing in the Target increases from approximately 38.6% to 61%.

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Investment, when aggregated with the Previous Transactions, exceeds 5% but all are less than 25%, the Investment constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

## **THE INVESTMENT**

On 2 January 2020, Baixing entered into the Agreement A with, among others, the Target, pursuant to which Baixing agreed to inject cash in the sum of RMB12.13 million (equivalent to approximately HK\$13.5 million) as additional registered capital of the Target. Contemporaneously with the entering into of the Agreement A, Baixing also entered into the Agreement B with, among others, the Vendor, pursuant to which Baixing agreed to acquire the Sale Interest from the Vendor for a cash consideration of RMB10.0 million (equivalent to approximately HK\$11.2 million). Following completion of the Agreements, the equity interest held by Baixing in the Target increases from approximately 38.6% to 61%. Details of the Agreements are set out below.

## **THE AGREEMENT A**

### **Date**

2 January 2020

### **Parties**

- (i) Baixing;
- (ii) the Target and its three wholly-owned subsidiaries;
- (iii) the Vendor; and
- (iv) the Existing Shareholder.

Prior to the entering into of the Agreements, Baixing held an approximately 38.6% equity interest in the Target through the Previous Transactions which were completed during 2018 and 2019 and the Target is accounted for as an associated company in the financial statements of the Group. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the ultimate beneficial owners of the Existing Shareholder are the Vendor, 孫立彬 (Sun Libin\*), 白文國 (Bai Wenguo\*), 趙玉蘭 (Zhao Yulan\*) and 魏麗莎 (Wei Lisha\*); (ii) the Existing Shareholder is principally engaged in business management consultation; (iii) apart from being co-investors in the Target, the Vendor, the Existing Shareholder and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

## **Subject matter**

Pursuant to the Agreement A, Baixing agreed to make cash injection of RMB12.13 million (equivalent to approximately HK\$13.5 million) as additional registered capital of the Target.

Baixing has paid 50% of the cash injection (i.e. RMB6.065 million) to the Target within 30 days from the signing of the Agreement A. The balance of RMB6.065 million shall be payable by Baixing within 30 days from the obtaining of an updated business licence and completion of the relevant registration procedures with the relevant industry and commerce department in the PRC in respect of the Capital Increase and subject to the fulfilment or waiver by Baixing of the conditions precedent described below.

## **Conditions**

Completion of the Capital Increase is conditional on the fulfillment or waiver by Baixing (as the case may be) of, among others, the following conditions within three months from the date of the Agreement A:

- (i) there being no restriction, injunction or cancellation orders in respect of the Capital Increase issued by any court, arbitration institution or governmental authority and there being no outstanding or potential litigation, arbitration, judgement or injunction order which may have a material adverse impact on the Capital Increase;
- (ii) all necessary approvals, authorisations, consents or waivers in relation to the Capital Increase from relevant governmental authorities or other third parties having been obtained and the consummation of the Capital Increase not being in breach of any applicable laws in the PRC;
- (iii) the Existing Shareholder and the Vendor having agreed in writing to the waiver of their pre-emptive rights in participating in the Capital Increase;
- (iv) the representations and warranties given by the Existing Shareholder, the Vendor and the Target in the Agreement A remaining true, complete and accurate;
- (v) there being no events the occurrence of which would or may result in a material adverse impact on the assets, financials, technology and operations of the Target;
- (vi) Baixing having completed its due diligence review on the financial, operational and legal aspects of the Target, and issues identified during such due diligence review by Baixing having been satisfactorily addressed;

- (vii) certain key employees as identified in the Agreement A having executed service agreements with the Target;
- (viii) the Target having completed the registration of all the trademarks relevant to its business as specified in the Agreement A;
- (ix) the Target having obtained all necessary licences and approvals relevant for its operations including fulfilling the relevant requirements under the franchising management regulations in the PRC; and
- (x) the Target having registered in its own name all the domain name, wechat, weibo and Tmall accounts which are involved in the business of the Target.

Completion of the Agreement A shall take place on the date of fulfillment or waiver (as the case may be) of all the conditions of the Agreement A. The Target shall within 30 days from fulfillment or waiver of all the conditions proceed with making the necessary filings and applications with the relevant industry and commerce authorities in the PRC in relation to the Capital Increase. In the event the conditions are not fulfilled or waived or the applications with the relevant industry and commerce authorities in the PRC in relation to the Capital Increase are not completed in accordance with the aforesaid timeframe, the Agreement A shall lapse and be of no further effect, and the cash already paid by Baixing shall be refunded without interest.

## **THE AGREEMENT B**

### **Date**

2 January 2020

### **Parties**

- (i) Baixing;
- (ii) the Vendor;
- (iii) the Target; and
- (iv) the Existing Shareholder.

## **Subject matter**

Pursuant to the Agreement B, Baixing agreed to acquire, and the Vendor agreed to sell, the Sale Interest at the cash consideration of RMB10.0 million (equivalent to approximately HK\$11.2 million).

Approximately RMB4.1 million has been paid by Baixing to the Vendor on 20 January 2020. Approximately RMB1.8 million shall be payable by Baixing on behalf of the Vendor and via the Target to the tax authority within 10 Business Days from the obtaining of an updated business licence and completion of the relevant registration procedures with the relevant industry and commerce department in the PRC in respect of the changes in the owner of the registered capital of the Target. The remaining balance of approximately RMB4.1 million shall be payable by Baixing within 15 Business Days from the date of completion of the aforesaid registration and subject to the fulfilment or waiver by Baixing of the condition precedent described below.

## **Condition**

Completion of the Agreement B is conditional on Baixing having completed its due diligence review on the Target and issues identified during such due diligence review by Baixing having been satisfactorily addressed. Within 30 Business Days after the payment by Baixing of the first installment of the consideration for the Sale Interest, the Target and the Vendor shall proceed with making the necessary filings and applications with the relevant industry and commerce authorities in the PRC in relation to the changes in the owners of the Sale Interest, and such applications shall be completed no later than 31 March 2020.

In the event the condition is not fulfilled or waived by Baixing or the applications with the relevant industry and commerce authorities in the PRC in relation to the changes in the owners of the Sale Interest are not completed in accordance with the aforesaid timeframe, the Agreement B shall lapse and be of no further effect, and the portion of the consideration already paid by Baixing shall be refunded without interest.

## INFORMATION OF THE TARGET

The Target was established on 18 September 2017 in the PRC with limited liability and is principally engaged in the provision of standardized, swift and reliable automotive lubricant change and maintenance services. Its service centre network covers 15 cities in the Hebei, Shandong, Jiangsu, Hunan and Guangdong provinces, the PRC, with 52 centres being operated by the Target Group and 34 centres being operated by franchisees as at 29 February 2020.

The Group made its first investment in a 12.75% equity interest in the Target in June 2018, at which time the Target was a new set up. The investment was intended to provide an opportunity for the Group to expand, in a small scale initially, into a downstream operation for its principal business of manufacturing and trading of lubricants. Having carefully assessed the performance and prospects of the Target, the Group increased its equity interest in the Target by way of capital increases during 2018 and 2019, as a result of which Baixing held an approximately 38.6% equity interest in the Target before the Investment with total investment cost of approximately RMB51.5 million (equivalent to approximately HK\$57.5 million).

The following table summarises the unaudited financial information of the Target Group extracted from its management accounts for the two financial years ended 31 December 2017 and 2018:

	<b>Year ended 31 December 2017 RMB'000</b>	<b>Year ended 31 December 2018 RMB'000</b>
Loss before tax	616	8,812
Loss after tax	616	8,812

As at 30 November 2019, the unaudited consolidated net asset value of the Target Group was approximately RMB2.27 million (equivalent to approximately HK\$2.5 million).

Following completion of the Investment, the total registered capital of the Target amounts to RMB8,903,062, which is held as to 61% by Baixing and the remaining 17.1% and 21.9% by the Vendor and the Existing Shareholder respectively. The Target shall be accounted for as a subsidiary in the financial statements of the Group.

The board of directors of the Target shall comprise 3 members, of which Baixing shall be entitled to appoint 2 members, while the Vendor shall be entitled to appoint 1 member.

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

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

Having considered the growth of car ownership in the PRC and the gradual aging of the motor vehicles, the Directors consider that there will be increasing demand for lubricant change and maintenance services. At present, the vehicle maintenance market is served by 4S shops operated by motor vehicle manufacturers which are generally more expensive with long waiting time, and small operators with varying quality of services. The Directors consider the Target is well poised to capture the market by offering less pricy services than 4S shops and standardized and better quality of services than other small operators. With the financial resources from the Capital Increase, the Target Group intends to continue to expand its service centre network and seize additional market share. The operation of the Target is considered to be a downstream extension of the Group's chemical business particularly for the lubricants business of the Group, and the Investment provides an opportunity for the Group to diversify its business and widen its source of income.

The Investment has been negotiated as a package such that the Group can obtain a majority interest in the Target. The total investment costs under the Investment amount to RMB22.13 million (equivalent to approximately HK\$24.7 million) and was determined among the parties based on arm's length negotiations having taken into consideration the financial position of the Target, the business development plan and capital needs of the Target and the prospects of the business of the Target as well as market information of similar transactions by other market players. The Directors consider that the business model of the Target is asset-light with sound growth prospect that can be rapidly replicated across the Mainland China. The investment costs are funded by the internal resources of the Group.

The Directors are of the view that the Investment is on normal commercial terms and the terms of the Agreements are fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Investment, when aggregated with the Previous Transactions, exceeds 5% but all are less than 25%, the Investment constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

## DEFINITIONS

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

“Agreement A”	the capital increase agreement dated 2 January 2020 entered into among Baixing, the Vendor, the Existing Shareholder and the Target and its subsidiaries in relation to the Capital Increase
“Agreement B”	the sale and purchase agreement dated 2 January 2020 entered into among Baixing, the Vendor, the Existing Shareholder and the Target in relation to the sale and purchase of the Sale Interest
“Agreements”	together, Agreement A and Agreement B
“Baixing”	百興汽車服務(深圳)有限公司 (Baixing Car Services (Shenzhen) Company Limited*), a company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Business Day”	a day on which licensed banks in the PRC are open to conduct business generally throughout their normal business hours, excluding Saturdays, Sundays and statutory holidays of the PRC
“Capital Increase”	the injection of additional registered capital in the Target by Baixing in accordance with the terms and conditions of the Agreement A
“Company”	Yip’s Chemical Holdings Limited
“Director(s)”	director(s) of the Company
“Existing Shareholder”	石家莊嘜眾企業管理諮詢中心(有限合夥) (Shijiazhuang Maizong Enterprise Management and Consulting Centre (Limited Partnership)*), an existing shareholder of the Target



“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Investment”	together, the Capital Increase and the acquisition of the Sale Interest
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macao Special Administrative Region and Taiwan for the purposes of this announcement
“Previous Transactions”	the acquisitions and investments in the Target completed by Baixing during 2018 and 2019 which resulted in Baixing holding an approximately 38.6% equity interest in the Target before the Investment
“Sale Interest”	the registered capital in the Target held by the Vendor to be acquired by Baixing pursuant to the terms and conditions of the Agreement B
“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
“Target”	河北大麥汽車維修服務有限公司 (Hebei Damai Car Maintenance Services Company Limited*), a company established under the laws of the PRC
“Target Group”	the Target and its three wholly-owned subsidiaries
“Vendor”	劉永傑 (Liu Yongjie*)

“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, 17 March 2020

*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*)

\* *For identification purposes only*

\*\* *Independent Non-executive Directors*

*Unless otherwise specified in this announcement, amounts denominated in RMB have been converted into Hong Kong dollars at RMB1 to HK\$1.117 for illustration purpose only. No representation has been made by the Company that any amount has been, could have been or could be converted at the above rate or at any other rates or at all. All figures so converted have been rounded up to the nearest thousand.*