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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 adviser.

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

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Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 408)

POSSIBLE MAJOR TRANSACTION AND DEEMED DISPOSAL IN RELATION TO PROPOSED SPIN-OFF AND SEPARATE LISTING OF BAUHINIA INK COMPANY LIMITED AND NOTICE OF EGM

Financial adviser to Yip's Chemical Holdings Limited



Optima Capital Limited

Independent financial adviser

to the Independent Board Committee and the Independent Shareholders



A notice convening the extraordinary general meeting of Yip's Chemical Holdings Limited to be held at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong at 3:00 p.m. on Monday, 7 September 2020, is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the meeting is enclosed with this circular.

Whether or not you are able to attend the meeting, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to (i) the head office and principal place of business of Yip's Chemical Holdings Limited at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong; or (ii) the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

Precautionary measures to be taken by Yip's Chemical Holdings Limited for better protection of the safety and health of the shareholders and other participants at the meeting in light of COVID-19 are set out at page 6 of this circular. Any attendee who does not comply with the precautionary measures may be refused admission to or requested to leave the venue of the meeting. Shareholders are reminded that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution at the meeting as an alternative to attending the meeting in person. Yip's Chemical Holdings Limited will keep monitoring the evolving COVID-19 situation and may implement additional measures which, if any, will be announced closer to the date of the meeting.

17 August 2020

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DEFINITIONS

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

“A share(s)”	domestic share(s) issued by companies and listed on a stock exchange in the PRC
“Bauhinia Ink”	洋紫荊油墨股份有限公司 (Bauhinia Ink Company Limited) (formerly known as 洋紫荊油墨(浙江)有限公司 (Bauhinia Variegata Ink & Chemicals (Zhejiang) Limited [#])), an approximately 91.76%-owned subsidiary of Yip’s Ink Group as at the Latest Practicable Date
“Bauhinia Ink Group”	Bauhinia Ink and its subsidiaries
“Board”	the board of Directors
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“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)
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the resolution in relation to the Proposed Spin-off
“Employees”	certain employees of the Bauhinia Ink Group (including a director of certain subsidiaries of the Company) who together held an approximately 2.14% indirect equity interest in Bauhinia Ink through two of the Key Employees’ Partnerships as at the Latest Practicable Date

DEFINITIONS

“Group”	the Company and its subsidiaries
“Halcyon Capital”	Halcyon Capital Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Spin-off
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, established to advise the Independent Shareholders on the Proposed Spin-off
“Independent Shareholders”	Shareholders other than (i) the Investor, the Institutional Investors, the Key Employees and their respective close associates; and (ii) other Shareholders who have a material interest in the Proposed Spin-off
“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 Ink Group
“Institutional Investors”	two pre-IPO institutional investors who are Independent Third Parties and held an aggregate of approximately 3.23% indirect equity interest in Bauhinia Ink through the Institutional Investors’ Partnerships as at the Latest Practicable Date
“Institutional Investors’ Partnerships”	collectively, (i) 中山市創好投資諮詢合夥企業(有限合夥) (Zhongshan Chuangho 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) [#]), each a limited partnership established in the PRC

DEFINITIONS

“Investor”	an individual pre-IPO investor who is an Independent Third Party and held an approximately 2.00% indirect equity interest in Bauhinia Ink through the Investor’s Partnership as at the Latest Practicable Date
“Investor’s Partnership”	中山市好利投資諮詢合夥企業(有限合夥) (Zhongshan Haoli Investment Advisory Partnership (Limited Partnership) [#]), a limited partnership established in the PRC
“Key Employees”	the Senior Management and the Employees
“Key Employees’ Partnerships”	collectively, (i) 中山市源邦投資諮詢合夥企業(有限合夥) (Zhongshan Yuanbang Investment Advisory Partnership (Limited Partnership) [#]); (ii) 中山市溢榮投資諮詢合夥企業(有限合夥) (Zhongshan Yirong Investment Advisory Partnership (Limited Partnership) [#]); (iii) 中山市盈煌投資諮詢合夥企業(有限合夥) (Zhongshan Yinghuang Investment Advisory Partnership (Limited Partnership) [#]); and (iv) 中山市裕貿投資諮詢合夥企業 (有限合夥) (Zhongshan Yumao Investment Advisory Partnership (Limited Partnership) [#]), each a limited partnership established in the PRC
“Latest Practicable Date”	11 August 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Partnerships”	collectively, the Investor’s Partnership, the Institutional Investors’ Partnerships and the Key Employees’ Partnerships
“PN15”	Practice Note 15 of the Listing Rules
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region and Taiwan

DEFINITIONS

“PRC Sponsor”	Zheshang Securities Co., Ltd., being the sponsor acting for Bauhinia Ink in relation to the Proposed A Share Listing
“Previous Disposals”	collectively, the disposals by the Group of an aggregate of approximately 8.24% indirect equity interest in Bauhinia Ink to the Investor, the Institutional Investors and the Key Employees (details of which are set out in the announcements of the Company dated 28 May and 10 June 2020 respectively)
“Proposed A Share Listing”	the proposed listing of the A shares of Bauhinia Ink on the Shenzhen Stock Exchange
“Proposed Spin-off”	the proposed spin-off of the Ink Business by the Company for a separate listing on the Shenzhen Stock Exchange
“Remaining Businesses”	businesses of the Group other than the Ink Business
“Remaining Group”	the Group excluding the Bauhinia Ink Group
“Senior Management”	certain senior management of the Group (including certain directors of the Company and its subsidiaries) who together held an approximately 0.87% indirect equity interest in Bauhinia Ink through two of the Key Employees’ Partnerships as at the Latest Practicable Date
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Shenzhen Stock Exchange”	the ChiNext Board of the Shenzhen Stock Exchange of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Waiver”	the waiver from strict compliance with paragraph 3(f) of PN15 in respect of the assured entitlement under the Proposed Spin-off
“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 dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

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

For the purpose of illustration only, amounts denominated in RMB in this circular are 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.

PRECAUTIONARY MEASURES FOR THE EGM

In light of the COVID-19 pandemic, and to better protect the safety and health of the Shareholders and other participants attending the EGM, the Company will implement the following precautionary measures at the venue of the EGM (the “Venue”):

1. compulsory body temperature checks will be conducted on all persons attending the EGM at the waiting area outside the Venue before they are admitted to the Venue. Any person with a body temperature of over 37.3 degree celsius, or who has any flu-like symptoms, or is otherwise apparently unwell will not be admitted to the Venue;
2. all attendees must wear face masks at all times inside the Venue or at the waiting area outside the Venue;
3. all attendees of the EGM are required to fill in a travel and health declaration form to confirm that (i) he/she has no flu-like symptoms within 7 days immediately before the EGM; and (ii) within 14 days immediately before the EGM: (a) he/she has not travelled outside of Hong Kong; (b) he/she is/was not under compulsory quarantine or medical surveillance order by the Department of Health of Hong Kong; (c) he/she has not had/has close contact with confirmed case(s) and/or probable case(s) of COVID-19 patient(s); and (d) he/she does/did not live with any person under home quarantine. Any person who fails to provide the required confirmation may be requested to leave or denied entry into the Venue;
4. seating at the Venue will be arranged in a manner to allow for appropriate social distancing. As a result, there may be limited capacity for Shareholders to attend the EGM. The Company may limit the number of attendees at the EGM as may be necessary to avoid over-crowding;
5. any attendee who does not follow any of the abovementioned measures will be refused admission to the Venue or requested to leave the Venue;
6. no refreshments or drinks will be served at the EGM to avoid close contact of attendees; and
7. all attendees are recommended to clean their hands with alcohol-based hand sanitizer before entering the Venue.

Shareholders are reminded that attendance at the EGM in person is not necessary for the purpose of exercising voting rights. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the EGM, and appoint the chairman of the meeting as a proxy to vote on relevant resolution at the EGM as instructed in accordance with the relevant proxy form instead of attending the EGM in person. For details, please refer to the proxy form of the EGM.

The Company will keep monitoring the evolving COVID-19 situation and may implement additional measures which, if any, will be announced closer to the date of the EGM.

LETTER FROM THE BOARD



Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 408)

Chairman:

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

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*)

Non-executive Director:

Mr. Wong Yuk

Independent Non-executive Directors:

Mr. Wong Kong Chi

Mr. Ho Pak Chuen, Patrick

Mr. Ku Yee Dao, Lawrence

Registered office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

*Head office and principal place
of business in Hong Kong:*

27/F., Fortis Tower

Nos. 77-79 Gloucester Road

Wanchai

Hong Kong

17 August 2020

To the Shareholders

Dear Sir or Madam,

**POSSIBLE MAJOR TRANSACTION AND DEEMED DISPOSAL
IN RELATION TO
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
BAUHINIA INK COMPANY LIMITED**

INTRODUCTION

Reference is made to the announcements of the Company dated 28 May 2020 and 21 July 2020 respectively in relation to, among other things, the Proposed Spin-off.

LETTER FROM THE BOARD

The Company has submitted a proposal in relation to the Proposed Spin-off to the Stock Exchange for approval pursuant to PN15. The Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted the Waiver. As at the Latest Practicable Date, the listing application for the Proposed A Share Listing had yet to be submitted by Bauhinia Ink to the relevant regulatory authorities of the PRC.

The Proposed Spin-off, if materialised, will constitute a deemed disposal of the Group's interest in Bauhinia Ink under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio in respect of the Proposed Spin-off is expected to exceed 25% but all of the applicable ratios are expected to be less than 75%, the Proposed Spin-off, if proceeded with, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to the requirement of Shareholders' approval under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Proposed Spin-off. The Independent Board Committee comprising Mr. Wong Kong Chi, Mr. Ho Pak Chuen, Patrick and Mr. Ku Yee Dao, Lawrence, being all independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Proposed Spin-off. Halcyon Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Investor, the Institutional Investors and the Key Employees who acquired indirect interests in Bauhinia Ink under the Previous Disposals are considered to have a material interest in the Proposed Spin-off by virtue of their indirect interests in Bauhinia Ink through their respective interests in the relevant Partnerships (please refer to the paragraph headed "The Proposed Spin-off — Effects of the Proposed Spin-off on the shareholding structure of Bauhinia Ink" for details). Accordingly, they and their respective close associates shall abstain from voting on the resolution in relation to the Proposed Spin-off at the EGM. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, certain Key Employees and their respective close associates held in aggregate 62,738,248 Shares, representing approximately 11.12% of the total issued share capital of the Company. Apart from them, no other Shareholder has a material interest in the Proposed Spin-off which is different from the other existing Shareholders who shall otherwise be required to abstain from voting on the resolution in relation to the Proposed Spin-off at the EGM.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others things, (i) information of the Proposed Spin-off and the Waiver in respect of the assured entitlement requirement under the Proposed Spin-off; (ii) the letter of recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Proposed Spin-off; (iii) the letter of advice from Halcyon Capital to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Spin-off; (iv) the financial information of the Group; (v) a notice convening the EGM; and (vi) other information as required under the Listing Rules.

THE PROPOSED SPIN-OFF

It is proposed that, subject to the conditions set out in the section headed “Conditions of the Proposed Spin-off”, Bauhinia Ink will apply for a separate listing of its A shares on the Shenzhen Stock Exchange and will be spun-off from the Group. The listing of Bauhinia Ink is expected to involve the issue of new A shares of Bauhinia Ink by way of public offer and/or placing. It is intended that the number of new A shares to be issued under the Proposed A Share Listing will not be more than 25% of the enlarged issued share capital of Bauhinia Ink after the aforesaid public offer and/or placing. The actual number of new A shares of Bauhinia Ink to be issued will be determined at a later stage subject to regulatory approvals by the Shenzhen Stock Exchange and CSRC, discussions among Bauhinia Ink, the PRC Sponsor and other advisers for the Proposed A Share Listing and in particular, subject to market conditions. In any event, the Group is expected to hold more than 50% of the enlarged issued share capital of Bauhinia Ink following completion of the Proposed A Share Listing, and Bauhinia Ink will remain as a subsidiary of the Company.

The Company has submitted a proposal in relation to the Proposed Spin-off to the Stock Exchange for approval pursuant to PN15. The Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted the Waiver (details of which are set out in the paragraph headed “The Waiver”).

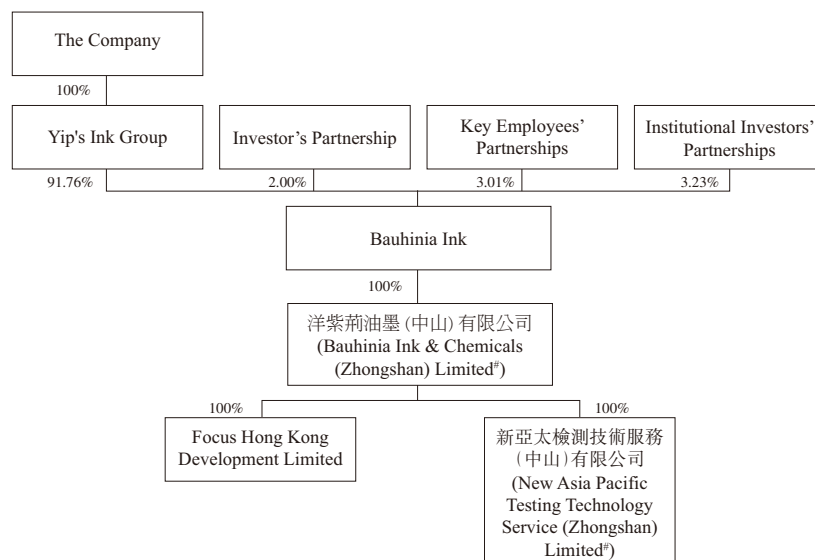
Zheshang Securities Co., Ltd., being the PRC Sponsor, has been engaged as the sponsor to Bauhinia Ink for the Proposed A Share Listing. As at the Latest Practicable Date, the listing application for the Proposed A Share Listing had yet to be submitted to the relevant regulatory authorities of the PRC. Based on the timetable indicated by the PRC Sponsor, the PRC Sponsor shall, during August to December 2020, conduct the pre-listing tutorial with Bauhinia Ink in accordance with the relevant regulatory and legal requirements in the PRC, following which the PRC Sponsor together with other professional parties engaged by Bauhinia Ink shall commence preparation of application materials for the Proposed A Share Listing and Bauhinia Ink targets to submit the application to the Shenzhen Stock Exchange in the first half of 2021. It is expected that the vetting of the listing application by the Shenzhen Stock Exchange will be undertaken, and the listing of the A shares of Bauhinia Ink on the Shenzhen Stock Exchange, if approved and proceeded with, is expected to take place by the end of 2021.

LETTER FROM THE BOARD

Effects of the Proposed Spin-off on the shareholding structure of Bauhinia Ink

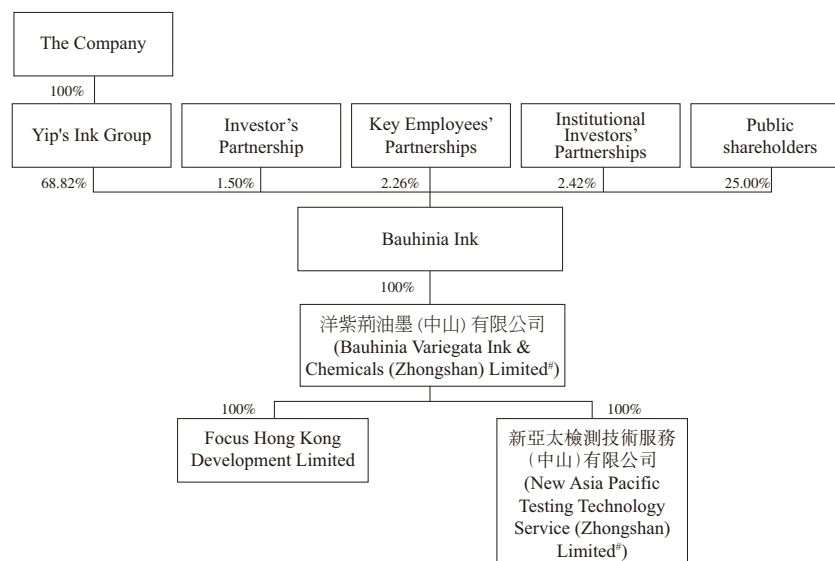
Reference is made to the announcements of the Company dated 28 May 2020 and 10 June 2020 respectively in relation to, among other things, the Previous Disposals. For the purpose of preparation of the Proposed Spin-off aiming at broadening the shareholders base of Bauhinia Ink and serving as an employee incentive scheme to align the interest of the key employees of the Group who are involved in the Ink Business with Bauhinia Ink, the Group entered into separate agreements for the Previous Disposals to dispose of (i) an approximately 2.00% indirect equity interest in Bauhinia Ink to the Investor for a consideration of approximately RMB16.0 million (equivalent to approximately HK\$17.3 million); (ii) an aggregate of approximately 2.14% indirect equity interest in Bauhinia Ink to the Employees for an aggregate consideration of approximately RMB17.1 million (equivalent to approximately HK\$18.6 million); (iii) an aggregate of approximately 0.87% indirect equity interest in Bauhinia Ink to the Senior Management for an aggregate consideration of approximately RMB7.0 million (equivalent to approximately HK\$7.6 million); and (iv) an aggregate of approximately 3.23% indirect equity interest in Bauhinia Ink to the Institutional Investors for an aggregate consideration of approximately RMB25.8 million (equivalent to approximately HK\$28.0 million). Bauhinia Ink was a wholly-owned subsidiary of the Company immediately prior to the Previous Disposals. Following completion of the Previous Disposals and as at the Latest Practicable Date, Bauhinia Ink was held as to approximately 91.76% by Yip's Ink Group, approximately 2.00% by the Investor's Partnership beneficially owned by the Investor, approximately 3.01% by the Key Employees' Partnerships beneficially owned by the Key Employees and approximately 3.23% by the Institutional Investors' Partnerships beneficially owned by the Institutional Investors.

Set out below is a simplified shareholding structure of Bauhinia Ink as at the Latest Practicable Date:



LETTER FROM THE BOARD

Set out below is a simplified shareholding structure of Bauhinia Ink immediately upon completion of the Proposed A Share Listing assuming that the number of A shares of Bauhinia Ink to be issued at the Proposed A Share Listing represents 25% of the enlarged issued share capital of Bauhinia Ink:



As shown above, it is expected that immediately following completion of the Proposed A Share Listing, the Company will indirectly control approximately 68.82% interest in Bauhinia Ink and Bauhinia Ink will remain as a non-wholly-owned subsidiary of the Company.

Proceeds to be raised from the Proposed A Share Listing and proposed use of proceeds

On the assumption that the proposed offering size shall represent 25% of the enlarged issued share capital of Bauhinia Ink, it is currently expected the total gross proceeds to be raised under the Proposed A Share Listing would be around RMB400 million to RMB450 million. Taking into account the existing issued share capital of Bauhinia Ink of 299,900,000 shares and the target fund raising size of RMB400 million to RMB450 million, the number of A shares of Bauhinia Ink to be issued under the Proposed A Share Listing would be approximately 99,966,667 A shares (representing 25% of the enlarged issued share capital of Bauhinia Ink immediately following completion of the Proposed A Share Listing) and the issue price would be approximately RMB4 to RMB4.5 per A share.

It should be noted that the terms of the Proposed A Share Listing including the number of A shares of Bauhinia Ink to be issued, the offer price per A Share of Bauhinia Ink and therefore the amount of proceeds to be raised will be determined at a later stage subject to regulatory approvals by the Shenzhen Stock Exchange and CSRC, discussions among Bauhinia Ink, the PRC Sponsor

LETTER FROM THE BOARD

and other advisers for the Proposed A Share Listing and in particular, subject to market conditions. Based on the discussions between the management of Bauhinia Ink and the PRC Sponsor, the final offer price and the number of A shares to be issued under the Proposed A Share Listing shall take into account (i) the historical operating results and financial performance of the Bauhinia Ink Group; (ii) financial performance of the Bauhinia Ink Group for the year ending 31 December 2020, which would be the latest financial year of Bauhinia Ink prior to the submission of the listing application; (iii) the business development plan and the capital needs of the Bauhinia Ink Group; (iv) the prospects and industry outlook of the ink manufacturing industry in general; (v) the then responses to price consultation with potential subscribers in the book-building process for the Proposed A Share Listing; (vi) the prevailing market sentiment at the time of the Proposed A Share Listing; and (vii) the reference to be drawn from other comparable companies in the same industry listed in the PRC.

The Company shall continuously assess the capital needs of Bauhinia Ink and the market sentiment for the Proposed A Share Listing, and shall proceed with the Proposed A Share Listing if it is considered cost effective and in the best interests of the Company and the Shareholders as a whole, taking into account the factors for determining the terms of the Proposed A Share Listing as described above. In the event the total gross proceeds to be raised from the Proposed A Share Listing is below the estimated amount of RMB400 million to RMB450 million as indicated above, the Group shall explore other financing means (such as external borrowings and/or internally generated funds) to meet the capital needs of the Bauhinia Ink Group. It is expected that the issue price per new A share of Bauhinia Ink under the Proposed A Share Listing shall not be lower than the equivalent value per share represented by the consideration received by the Group under the Previous Disposals (which represented an implied valuation of RMB800 million for 100% equity interest of the Bauhinia Ink Group). Based on the above, the implied size of the new A shares to be issued under the Proposed A Share Listing (being 25% of the enlarged issued share capital of Bauhinia Ink) is approximately RMB266.7 million.

Based on the preliminary estimation of the total gross proceeds to be raised under the Proposed A Share Listing of approximately RMB400 million to RMB450 million, it is expected that the proceeds will be applied as to (i) approximately RMB50 million to RMB60 million for improvement and enhancement of the existing technology of the Bauhinia Ink Group; (ii) approximately RMB120 million to RMB135 million for constructing a production base of environmentally friendly ink for the Ink Business; (iii) approximately RMB110 million to RMB120 million for setting up a research and development and testing centre for the Bauhinia Ink Group; and (iv) approximately RMB120 million to RMB135 million as general working capital of the Bauhinia Ink Group.

LETTER FROM THE BOARD

Shareholders and potential investors of the Company should be aware that the expected offering size and the estimated gross proceeds as referred to above is for illustration purposes only and the actual amount raised and the proposed use of proceeds shall be subject to the listing application documents to be submitted by Bauhinia Ink taking into account, among other things, the PRC domestic market conditions at the time of the Proposed A Share Listing as well as the business development of the Bauhinia Ink Group, and may vary substantially from the amounts estimated above.

CONDITIONS OF THE PROPOSED SPIN-OFF

Based on the information available to the Board, the Proposed Spin-off and the Proposed A Share Listing will be conditional upon, among other things, the following:

- (a) the approval by CSRC, the Shenzhen Stock Exchange and other authorities in relation to the Proposed A Share Listing;
- (b) approval by the Independent Shareholders of the Proposed Spin-off at the EGM; and
- (c) any other PRC regulatory approvals for the listing of and permission to deal in the A shares to be issued by Bauhinia Ink.

If any of the above conditions is not fulfilled, the Proposed Spin-off and the Proposed A Share Listing will not proceed and an announcement will be published by the Company as soon as practicable.

INFORMATION ON THE GROUP

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

INFORMATION ON THE BAUHINIA INK GROUP

Bauhinia Ink (formerly known as 洋紫荆油墨(浙江)有限公司 (Bauhinia Variegata Ink & Chemicals (Zhejiang) Limited[#])) was established on 28 September 2006 in the PRC with limited liability and is principally engaged in the Ink Business, including the manufacturing of and trading in inks and related products.

LETTER FROM THE BOARD

Business

The Bauhinia Ink Group is the largest ink manufacturer in the PRC in terms of annual sales volume in 2019 and is one of the top 20 ink manufacturers internationally. The principal products of the Bauhinia Ink 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 Ink Group also supplies post-printing materials such as water-based varnish and buffing oil as part of its business integration initiative. Products of the Bauhinia Ink Group are mainly sold within the PRC, with a small portion being sold to overseas markets including, among others, the Philippines and Vietnam. The production facilities of the Bauhinia Ink Group are located in Zhongshan in Guangdong Province and Tongxiang in Zhejiang Province, the PRC.

Financial information

The following table summarises the unaudited combined financial information of the Bauhinia Ink Group (as if the group structure had been in existence throughout the relevant period) extracted from its management accounts included in the audited consolidated financial statements of the Group for each of the two financial years ended 31 December 2018 and 2019 and the unaudited consolidated management accounts of the Group for the six months ended 30 June 2020:

	Year ended 31 December		Six months ended 30 June
	2018	2019	2020
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
Profit before taxation	69.8	128.9	37.7
Profit for the year/period	<u>58.1</u>	<u>110.7</u>	<u>34.4</u>

As at 30 June 2020, the unaudited consolidated net asset value of the Bauhinia Ink Group was approximately HK\$820.1 million.

INFORMATION ON THE REMAINING GROUP

Upon completion of the Proposed Spin-off, the Remaining Group will continue to be primarily engaged in (i) manufacturing and trading of raw solvents and related products; (ii) manufacturing and trading of coatings and related products; (iii) manufacturing and trading of lubricants and related products; (iv) property investment; and (v) car maintenance operation and other chemical products related business.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP

Following completion of the Proposed Spin-off, the Group shall remain to hold more than 50% of the enlarged issued share capital of Bauhinia Ink, and Bauhinia Ink shall continue to be accounted for as a subsidiary in the consolidated financial statements of the Group. The expected financial impacts of the Proposed Spin-off on the Group are as follows:

Earnings

The Proposed Spin-off, which is expected to involve the issue of new A shares of Bauhinia Ink, will constitute a deemed disposal of the Group's interest in Bauhinia Ink. It is expected that the difference between the net proceeds from the issue of new A shares of Bauhinia Ink and the change of share of consolidated net asset value of the Bauhinia Ink Group by the non-controlling interests upon completion of the Proposed A Share Listing will be recorded in equity attributable to owners of the Company.

Based on the assumption that the number of A shares of Bauhinia Ink to be issued at the Proposed A Share Listing represents 25% of the enlarged share capital of Bauhinia Ink which will result in a dilution of the Company's interest in Bauhinia Ink from approximately 91.76% as at the Latest Practicable Date to approximately 68.82% immediately after the completion of the Proposed A Share Listing, it is expected that the earnings attributable to owners of the Company contributed by Bauhinia Ink will decrease while the earnings attributable to the non-controlling interests of the Company will increase.

Assets and liabilities

The Proposed Spin-off, which is expected to involve the issue of new A shares of Bauhinia Ink and corresponding fund raising, will lead to an increase in the number of shares of Bauhinia Ink. The net proceeds from the Proposed A Share Listing will increase the amount of cash recorded in the consolidated statement of financial position of the Group and increase the amount of total assets of the Group correspondingly.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Board considers that the Proposed Spin-off will be beneficial to both the Bauhinia Ink Group as part of the Group and the Group as a whole for the following reasons:

(i) New sources of fund raising opportunity

The cash proceeds to be received from the public offering and/or placing of A shares of Bauhinia Ink will provide capital to the Bauhinia Ink Group for its operations and expansion plan. The Proposed Spin-off will also enable the Bauhinia Ink Group and the Remaining Group to have their own fund raising platforms to directly and independently access both the debt and equity capital markets, which in turn may provide greater aggregate financing capacity to the Group to deploy funds towards the respective developments, operations and investment opportunities of the Bauhinia Ink Group and the Remaining Group.

(ii) Enhancement of business profile

The Proposed Spin-off and a separate listing of the A shares of Bauhinia Ink will enhance the Bauhinia Ink Group's profile amongst its customers, suppliers and other business partners. It also improves the Bauhinia Ink Group's ability to recruit, motivate and retain key management personnel by enhancing management incentives through adoption of equity-based incentive program such as share option scheme.

(iii) Alternative valuation for the business

The Proposed Spin-off separates the Ink Business from the Remaining Businesses, thereby enabling investors and financiers to appraise the strategies, functional exposure, risks and returns of the respective businesses separately and to make their investment decisions accordingly. The Bauhinia Ink Group and the Remaining Group can be valued on a standalone basis to reflect the true market value of the respective businesses so as to create better return of value to the shareholders of Bauhinia Ink and the Company.

(iv) Adoption of different business strategies

The management teams of the Bauhinia Ink Group and the Remaining Group may adopt different business strategies and models which they determine to be better suited to their respective businesses, and which, due to the different nature of products, may not always be aligned. On the other hand, the Proposed Spin-off will increase the operational and financial transparency between

LETTER FROM THE BOARD

the Bauhinia Ink Group and the Remaining Group, providing investors and the market with greater clarity on the businesses and financial status of the respective groups and therefore better identifying and establishing their investment decisions.

(v) No loss in control of Bauhinia Ink

As Bauhinia Ink is expected to remain as a subsidiary of the Company upon completion of the Proposed Spin-off, the Company will continue to benefit from any potential upside in the Ink Business through consolidation of the Bauhinia Ink Group's accounts and receipt of dividend distributions (if any).

Having considered the above, the Directors are of the view that the Proposed Spin-off is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

THE WAIVER

In accordance with the requirements of paragraph 3(f) of PN15, the Company is required to give due regard to the interests of the existing Shareholders by providing them with an assured entitlement to the A shares of Bauhinia Ink, if the Proposed A Share Listing proceeds. However, the Board considers that it is not practicable to provide assured entitlement of the A shares of Bauhinia Ink as further explained below and that the requirement of paragraph 3(f) of PN15 of the Listing Rules cannot be met. Accordingly, the Company made an application for a waiver from strict compliance with paragraph 3(f) of PN15 (the Waiver) to the Stock Exchange and the Stock Exchange has granted the Waiver.

In determining the venue for the proposed listing of Bauhinia Ink, the Board has made due and careful consideration, taking into account, among other things, the nature of the Ink Business, the jurisdiction in which Bauhinia Ink was established and had been operating its business, and the characteristics of different capital markets, and concluded that it is beneficial to seek a listing of Bauhinia Ink on the Shenzhen Stock Exchange.

Based on the legal advice from the Company's PRC legal counsel, according to applicable PRC laws and regulations, foreign investors which meet certain criteria are allowed to subscribe for or participate in the offering of A shares, which include, among others, (a) foreign investors with permanent residency in the PRC; (b) residents of Hong Kong, the Macao Special Administrative Region or Taiwan who live and work in the PRC; (c) foreign investors who work in the PRC and the securities regulatory authority at his country of nationality has entered into cooperation arrangement with CSRC; (d) foreign investors who are entitled to such A shares as part of an employee incentive scheme which is set up in compliance with 《上市公司股權激勵管理辦法》 (the Administrative Measures for the Incentive Measures of Listed Companies[#]); (e)

LETTER FROM THE BOARD

qualified foreign institutional investors qualified under 《合格境外機構投資者境內證券投資管理辦法》(QFII); (f) RMB qualified foreign institutional investors qualified under 《人民幣合格境外機構投資者境內證券投資試點辦法》(RQFII); (g) foreign strategic investors qualified under 《外國投資者對上市公司戰略投資管理辦法》(Measures for the Administration of Strategic Investment in Listed Companies by Foreign Investors[#]); and (h) parties who are shareholders of the A share issuer before the listing of such issuer on the A share market.

Based on the register of members maintained by the branch share registrar of the Company in Hong Kong, most of the registered Shareholders are individuals with addresses in Hong Kong, and on that basis, the Board believes that most of these Shareholders are not PRC residents. The Board considers it impracticable and unduly burdensome to provide the Shareholders with assured entitlement under the Proposed Spin-off in light of the legal restrictions for foreign investors to subscribe for or participate in the offering of A shares.

It is contemplated that the Group will hold more than 50% of the issued share capital in Bauhinia Ink and Yip's Ink Group will continue to be the holding company of Bauhinia Ink after the Proposed Spin-off. The financial results of the Bauhinia Ink Group will continue to be consolidated into the Group, and the Shareholders will continue to enjoy the contribution from the Bauhinia Ink Group as well as the benefits of the Proposed Spin-off through their holdings in the Shares. The Board is of the view that the interest of the Shareholders would not be materially prejudiced by the Company not providing assured entitlement to the A shares of Bauhinia Ink to the Shareholders.

Having considered the above and the reasons for and benefits of the Proposed Spin-off under the section headed "Reasons for and benefits of the Proposed Spin-off", the Board is of the view that the Proposed Spin-off and the Waiver are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Company held approximately 91.76% of the issued share capital of Bauhinia Ink. It is intended that the number of new A shares to be issued under the Proposed A Share Listing will not be more than 25% of the enlarged issued share capital of Bauhinia Ink after the public offer and/or placing, following which the ownership of the Company in Bauhinia Ink will be reduced to approximately 68.82%. Accordingly, the Proposed Spin-off, if materialised, will constitute a deemed disposal of the Group's interest in Bauhinia Ink under Rule 14.29 of the Listing Rules. Based on the proposed size of offering of approximately RMB400 million to RMB450 million under the Proposed Spin-off, the highest applicable percentage ratio in respect of the Proposed Spin-off is expected to exceed 25% but all of the applicable percentage ratios are expected to be less than 75%, the Proposed Spin-off, if proceeded with, will constitute a

LETTER FROM THE BOARD

major transaction of the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to the requirement of Shareholders' approval under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The final structure of the Proposed Spin-off and the Proposed A Share Listing is subject to, among other things, the approval of relevant authorities including the Shenzhen Stock Exchange and CSRC, the market conditions and other considerations. Accordingly, Shareholders and potential investors of the Company should be aware that there is no assurance that the Proposed Spin-off and the Proposed A Share Listing must take place and, if so, when they may take place. Shareholders and potential investors of the Company should exercise caution when dealing in or investing in the securities of the Company.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Wong Kong Chi, Mr. Ho Pak Chuen, Patrick and Mr. Ku Yee Dao, Lawrence, being all of the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Proposed Spin-off. The letter of recommendation from the Independent Board Committee is set out on pages 22 to 23 of this circular.

Halcyon Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The letter from Halcyon Capital is set out on pages 24 to 50 of this circular.

EGM

The EGM will be held at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong at 3:00 p.m. on Monday, 7 September 2020 for the Independent Shareholders to consider and, if thought fit, to approve the Proposed Spin-off.

The notice of the EGM is set out in pages EGM-1 to EGM-2 to this circular. Whether or not you are able to attend the EGM (or any adjourned meeting thereof) in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to (i) the head office and principal place of business of the Company at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong; or (ii) the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM (or any adjourned meeting thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) should you so wish.

LETTER FROM THE BOARD

The Investor, the Institutional Investors and the Key Employees are considered to have a material interest in the Proposed Spin-off by virtue of their indirect interests in Bauhinia Ink through their respective interests in the relevant Partnerships. Accordingly, they and their respective close associates shall abstain from voting on the resolution in relation to the Proposed Spin-off at the EGM. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, certain Key Employees and their respective close associates held in aggregate 62,738,248 Shares, representing approximately 11.12% of the total issued share capital of the Company. Apart from them, no other Shareholder has a material interest in the Proposed Spin-off which is different from the other existing Shareholders who shall otherwise be required to abstain from voting on the resolution in relation to the Proposed Spin-off at the EGM.

The Hong Kong branch register of members of the Company will be closed from Wednesday, 2 September 2020 to Monday, 7 September 2020 (both dates inclusive) for purpose of ascertaining Shareholders' entitlement to attend and vote at the EGM. No transfer of Shares will be registered during those dates. In order to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 1 September 2020.

RECOMMENDATION

The Directors (including the independent non-executive Directors having taken into account of the advice of Halcyon Capital) consider that the terms of Proposed Spin-off are fair and reasonable so far as the Company and the Shareholders are concerned, and that the Proposed Spin-off is in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Spin-off.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter from Halcyon Capital, additional information set out in the appendices to this circular and the notice of the EGM.

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



Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 408)

17 August 2020

To the Independent Shareholders

Dear Sir or Madam,

**POSSIBLE MAJOR TRANSACTION AND DEEMED DISPOSAL
IN RELATION TO
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
BAUHINIA INK COMPANY LIMITED**

We refer to the circular of the Company dated 17 August 2020 (the “**Circular**”) of which this letter forms part. Capitalised terms used herein have the same meanings as defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the Proposed Spin-off is fair and reasonable and in the interests of the Company and its Shareholders as a whole and to the voting action that should be taken.

We wish to draw your attention to the letter from the Board and the letter of advice from Halcyon Capital, the independent financial adviser appointed to advise you and us in respect of the Proposed Spin-off, as set out in the Circular.

Having taken into account the advice given by Halcyon Capital (together with the principal factors and reasons considered in arriving at such advice), we are of the opinion that the terms of the Proposed Spin-off are fair and reasonable so far as the Company and the Shareholders are concerned, and that the Proposed Spin-off is in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We therefore recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Spin-off.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Wong Kong Chi
*Independent Non-executive
Director*

Mr. Ho Pak Chuen, Patrick
*Independent Non-executive
Director*

Mr. Ku Yee Dao, Lawrence
*Independent Non-executive
Director*

LETTER FROM HALCYON CAPITAL

The following is the letter of advice from Halcyon Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Shareholders, which has been prepared for the purpose of inclusion in this circular.



HALCYON CAPITAL LIMITED

11TH FLOOR

8 WYNDHAM STREET

CENTRAL

HONG KONG

17 August 2020

To: the Independent Board Committee and the Shareholders

Dear Sirs,

**POSSIBLE MAJOR TRANSACTION AND DEEMED DISPOSAL
IN RELATION TO
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
BAUHINIA INK COMPANY LIMITED**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Shareholders in relation to the Proposed Spin-off. Details of the Proposed Spin-off are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 17 August 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

Subject to, among other things, approvals by the Independent Shareholders and the relevant PRC regulators including CSRC and the Shenzhen Stock Exchange, it is currently proposed that 洋紫荆油墨股份有限公司 (Bauhinia Ink Company Limited, or the “**Spin-off Company**” refer to hereinafter, and the Spin-off Company and its subsidiaries are referred to as the “**Spin-off Group**”) will apply for a separate listing of its A shares on the Shenzhen Stock Exchange. The listing of the Spin-off Company is expected to involve the issue of new shares of the Spin-off

LETTER FROM HALCYON CAPITAL

Company by way of public offer and/or placing. It is intended that the new A share(s) of the Spin-off Company to be issued under the Proposed Spin-off (the “**Offer Share(s)**”) will not be more than 25% of the enlarged issued share capital of the Spin-off Company after the aforesaid public offer and/or placing, while the terms of the Proposed A Share Listing including the number of Offer Shares to be issued, the offer price per Offer Share and therefore the amount of proceeds to be raised will be determined at a later stage subject to regulatory approvals by the Shenzhen Stock Exchange and CSRC, the PRC Sponsor and other advisers for the Proposed A Share Listing and in particular, subject to market conditions.

As at the Latest Practicable Date, the Spin-off Company was an indirect non-wholly owned subsidiary of the Company. It is expected that immediately upon completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will still have an indirect interest of not less than 50% in the Spin-off Company and therefore the Spin-off Company will remain as an indirect non-wholly owned subsidiary of the Company, and the results of the Spin-off Group will remain to be consolidated to the consolidated financial statements of the Company.

As set out in the “Letter from the Board” contained in the Circular, Yip’s Ink Group has disposed of certain interests in the Spin-off Company for the purpose of preparation of the Proposed Spin-off aiming at broadening the shareholders base of the Spin-off Company and serving as an employee incentive scheme to align the interest of the key employees of the Group who are involved in the Ink Business with the Spin-off Company. Such disposals involved (i) an approximately 2.00% indirect equity interest in the Spin-off Company to the Investor for a consideration of approximately RMB16.0 million (equivalent to approximately HK\$17.3 million); (ii) an aggregate of approximately 2.14% indirect equity interest in the Spin-off Company to the Employees for an aggregate consideration of approximately RMB17.1 million (equivalent to approximately HK\$18.6 million); (iii) an aggregate of approximately 0.87% indirect equity interest in the Spin-off Company to the Senior Management for an aggregate consideration of approximately RMB7.0 million (equivalent to approximately HK\$7.6 million); and (iv) an aggregate of approximately 3.23% indirect equity interest in the Spin-off Company to the Institutional Investors for an aggregate consideration of approximately RMB25.8 million (equivalent to approximately HK\$28.0 million). Following completion of the Previous Disposals and as at the Latest Practicable Date, the Spin-off Company was held as to approximately 91.76% by Yip’s Ink Group, approximately 2.00% by the Investor’s Partnership beneficially owned by the Investor, approximately 3.01% by the Key Employees’ Partnerships beneficially owned by the Key Employees and approximately 3.23% by the Institutional Investors’ Partnerships beneficially owned by the Institutional Investors.

The Company has submitted a proposal in relation to the Proposed Spin-off to the Stock Exchange for approval pursuant to PN15. The Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted a waiver from strict compliance with

LETTER FROM HALCYON CAPITAL

the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15. Further details regarding the background to the waiver are set out in the section headed “Waiver from strict compliance with paragraph 3(f) of PN15” in the “Letter from the Board” contained in the Circular. As at the Latest Practicable Date, the listing application for the Proposed A Share Listing had yet to be submitted to the relevant regulatory authorities of the PRC. Based on the timetable indicated by the PRC Sponsor, the PRC Sponsor shall, during August to December 2020, conduct the pre-listing tutorial with the Spin-off Company in accordance with the relevant regulatory and legal requirements in the PRC, following which the PRC Sponsor together with other professional parties engaged by the Spin-off Company shall commence preparation of application materials for the Proposed A Share Listing and the Spin-off Company targets to submit the application to the Shenzhen Stock Exchange in the first half of 2021. It is expected that the vetting of the listing application by the Shenzhen Stock Exchange will be undertaken, and the listing of the A shares of the Spin-off Company on the Shenzhen Stock Exchange, if approved and proceeded with, is expected to take place by end of 2021.

The Proposed Spin-off, if materialised, will constitute a deemed disposal of the interest in the Spin-off Company by the Company under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio in respect of the Proposed Spin-off is expected to be higher than 25% but less than 75%, the Proposed Spin-off, if materialised, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and therefore will be subject to, among other things, the approval of the Shareholders under PN15 and Chapter 14 of the Listing Rules. As set out in the “Letter from the Board” contained in the Circular, other than the Investor, the Institutional Investors and the Key Employees and their respective close associates, no other Shareholder is required to abstain from voting at the EGM to approve the Proposed Spin-off.

Pursuant to PN15, as the Proposed Spin-off is subject to the Shareholders’ approval, the Company is required to establish an independent board committee and appoint an independent financial adviser to advise the Shareholders as to (i) whether the terms of the Proposed Spin-off are fair and reasonable; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) on how to vote. The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Wong Kong Chi, Mr. Ho Pak Chuen, Patrick and Mr. Ku Yee Dao, Lawrence, has been formed to make a recommendation to the Shareholders in connection with the Proposed Spin-off. We, Halcyon Capital Limited, have been appointed to advise the Independent Board Committee and the Shareholders in this regard.

We are not associated with the Company or its core connected persons, close associates or associates and accordingly are considered eligible to give independent advice on the terms of the Proposed Spin-off. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the

LETTER FROM HALCYON CAPITAL

Company or its core connected persons, close associates or associates. Meanwhile, there was no past engagement between the Company and Halcyon Capital in last two years from the date of this letter and, hence, we are independent from the Company pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Shareholders, we have relied on the information, financial information and the facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and continue to be so as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The management of the Group has confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analysis were based upon the information provided by the Group including the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”), the Circular, and certain published information from the public domain. Investors should note that figures extracted from the relevant financial reports are rounded which may result in small tabulation errors.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the entering into of the Proposed Spin-off and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification or appraisal of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or the prospects of the Group, the Spin-off Group or any of their respective subsidiaries or associates. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any shares or any other securities of the Company or the Spin-off Company.

LETTER FROM HALCYON CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Proposed Spin-off, we have considered the following principal factors and reasons:

1. Background and financial information of the Group

The Company is an investment holding company and its principal subsidiaries are engaged in the manufacturing of and trading in solvents, coatings, inks, lubricants as well as engaged in properties investment. As set out in the 2019 Annual Report, solvents formed the largest part of the Group's core business and the Group was the world's largest acetate solvents producer.

Set out below is the summary of key financial information of the Group for the years ended 31 December 2018 and 2019 as extracted from the 2019 Annual Report:

	For the year ended 31 December	
	2018	2019
	<i>HK\$' million</i>	<i>HK\$' million</i>
	<i>(audited)</i>	<i>(audited)</i>
Revenue	12,388	10,465
Cost of sales	<u>(10,855)</u>	<u>(8,989)</u>
Gross profit	1,533	1,476
Profit before taxation	412	481
Taxation	<u>(158)</u>	<u>(144)</u>
Profit for the year	<u>254</u>	<u>337</u>
Profit attributable to owners of the Company	<u>185</u>	<u>273</u>

For the year ended 31 December 2019, the products manufactured and sold by the Group saw a decline in unit selling prices due to cost reduction and the sales revenue for 2019 was approximately HK\$10.5 billion while sales volume was approximately 1.38 million metric tons, down approximately 15.5% and approximately 1% respectively from 2018. The net profit of the Group was approximately HK\$337 million, after taking into account of the gain on disposal of subsidiaries of approximately HK\$163 million for the year ended 31 December 2019 (as compared to the gain on disposal of subsidiaries of approximately HK\$28 million for the year ended 31

LETTER FROM HALCYON CAPITAL

December 2018) and the loss on fair value change of investment properties of approximately HK\$12 million for the year ended 31 December 2019 (as compared to the gain on fair value change of investment properties of approximately HK\$116 million for the year ended 31 December 2018), representing an increase of approximately HK\$83 million as compared to 2018, which led to an increase of profit attributable to owners of the Company from approximately HK\$185 million in 2018 to approximately HK\$273 million in 2019.

Segmental information

Set out below is the summary of segmental information of the Group for the four key business segments for the years ended 31 December 2018 and 2019 as extracted from the 2019 Annual Report:

	Segmental revenue		Segmental results	
	2018	2019	2018	2019
	HK\$' million	HK\$' million	HK\$' million	HK\$' million
Solvents	8,948	7,403	345	278
Coatings	1,826	1,610	(6)	57
Inks	1,475	1,344	40	94
Lubricants	271	204	(39)	6
Others (<i>Note</i>)	(132)	(96)	138	140
Consolidated	12,388	10,465	478	575

Note: Others mainly included the property segment and elimination of inter-segmental transactions.

Solvents

As set out in the 2019 Annual Report, in the first half of 2019, as the effect of the Sino-US trade war multiplied, the prices of chemical raw materials fell significantly and solvents could not stay untouched. The decrease in sales tonnage and average selling price was respectively 1% and 13% year-on-year. The business was fraught with difficulties in the year 2019 as gross profit margin fell following a decrease in raw material prices. Production costs rose sharply as a result of the Group's efforts to meet more environmentally friendly production standards. Though the solvents division made every effort to catch up in the second half of 2019, operating profit for the full year decreased almost 20% year-on-year to about HK\$280 million.

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Coatings

As set out in the 2019 Annual Report, the management of the coatings business implemented a number of performance-improving reforms in 2019. In the area of sales, resources and efforts were directed to enhance overall sales quality. While the number of customers which had generated relatively lower profitability in the past was being pared down, substantive efforts were devoted into cultivating new and large customers. As a result, though sales revenue slipped 12% in the year to HK\$1.6 billion, gross profit margin was up 5 percentage points which, together with expense savings, had resulted in a sharp increase in operating profit from a HK\$6 million loss in the preceding year to a HK\$57 million profit in 2019.

Inks

As set out in the 2019 Annual Report, in setting quality sales as its top priority, the inks business carried out systematic improvements in its customer structure and product lines in 2019. Though sales revenue was down 9% in 2019, gross profit margin rose sharply by 4 percentage points. Operating expenses were greatly squeezed down in 2019, particularly by running two plants instead of three. Consequently, a reduction of about HK\$26 million in various expenses was achieved, leading to a sharp increase in operating profit to close to HK\$94 million or a growth of close to 1.4 times year-on-year. Financial performance of the ink business as carried by the Spin-off Group will be further analysed below.

Lubricants

As set out in the 2019 Annual Report, management of the lubricants business focused their attention on automotive lubricants and, by cooperating closely with distributors in existing sales channels, the proportion of medium-to-high end products sold was raised. Meanwhile, management managed to reduce procurement costs for base oil and other raw materials in times of price fluctuations. Lastly, by supporting substantial reorganization of the lubricants department, efficiency was raised while expenses were reduced. Therefore, though sales revenue fell 25% to close to HK\$204 million in 2019, gross profit margin increased markedly by 6 percentage points. With a drop in operating expenses, operating profit reached HK\$6 million in 2019 from a HK\$39 million loss in the preceding year, turning around the loss-making situation of many years.

Financial position

According to the 2019 Annual Report, as at 31 December 2019, the Group recorded net current asset of approximately HK\$2,246 million, and net assets of approximately HK\$3,562 million of which approximately HK\$2,941 million was attributable to the owners of the Company. Major assets of the Group included trade and bills receivables and property, plant and equipment,

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which amounted to approximately HK\$2,795 million and HK\$1,957 million, respectively, as at 31 December 2019, while bank balance and cash and short-term bank deposits also amounted to approximately HK\$1,010 million in aggregate as at 31 December 2019. Major liabilities of the Group included creditors and accrued charges, and borrowings, which amounted to approximately HK\$2,029 million and HK\$1,979 million, respectively, as at 31 December 2019.

The net gearing ratio of the Group (calculated by dividing the net borrowings by equity attributable to owners of the Company) was approximately 33% as at 31 December 2019, representing an improvement from approximately 46% as at 31 December 2018.

After the Proposed Spin-off, the Spin-off Company will become the listing vehicle and the holding company of the Spin-off Group which is engaged in the Ink Business, while the results of the Spin-off Group will still be consolidated into the consolidated accounts of the Group. On the other hand, the Remaining Group (i.e. excluding the Spin-off Group) will be principally engaged in the Remaining Businesses (which principally comprised the other three key business segments) upon completion of the Proposed Spin-off. As stated in the 2019 Annual Report, the Group has always valued its customers and the pre-and post-sales customer-oriented services of the solvents business have, over the years, won the trust and support of customers. The Group cooperated with world-class chemical companies in sourcing raw materials of superior and stable quality as a way to guarantee product quality. Facing the huge market demand in the PRC, the Group grasped full advantage of the opportunity not only by expanding its acetate solvents capacity to ensure its competitive edge in the industry, but also by developing new related products that offer synergic effects in order to expand its product portfolio. Meanwhile, the Group also acquired coatings brands, namely “Camel”, “Aquapro” and “VIVA” in early 2018, and their respective architectural and industrial coatings businesses in the PRC, Hong Kong and Macau and are now managed by the coatings group. On the other hand, the gross profit margin and operating profit margin of the two other business segments improved in 2019 as discussed above.

Nevertheless, the Company issued a profit warning announcement on 23 June 2020 which stated that, among other things, the Group is expected to record a decline in net profit for the six months ended 30 June 2020 mainly attributable to the one-off expenses incurred for the Proposed Spin-off, and the lockdown in the PRC due to the outbreak of COVID-19 pandemic in early 2020 has brought a negative impact on the Group’s businesses in the PRC, and the ongoing volatile international economic conditions have also affected the Group’s export-related businesses for solvents and coatings. As further stated in the section headed “Financial and operational prospects of the Group” contained in Appendix I to the Circular, the Company was not optimistic about the business prospects in the second half of 2020 principally due to the COVID-19 pandemic and the government of the United States of America has been confronting and containing the PRC on

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multiple fronts including the pandemic and other incidents. The Group will be more vigilant of the uncertainties ahead, and will also continue to uphold its undivided focus on the Group's core business, keep up-to-date with the market pulse and make all necessary risk prevention and efforts.

2. Background and financial information of the Spin-off Group

Immediately after the Proposed Spin-off, the Spin-off Group will continue to operate the Ink Business. As advised by the management of the Company, the business models, operational flow, core products and raw materials, target customers and suppliers of the Remaining Group and the Spin-off Group are different.

As stated in the Letter from the Board, the Spin-off Group was the largest ink manufacturer in the PRC in terms of annual sales volume in 2019 and one of the top 20 ink manufacturers internationally. The principal products of the Spin-off 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 Spin-off Group also supplies post-printing materials such as water-based varnish and buffing oil as part of its business integration initiative. Products of the Spin-off Group are mainly sold within the PRC, with a small portion being sold to overseas markets including, among others, the Philippines and Vietnam. The production facilities of the Spin-off Group are located in Zhongshan in Guangdong Province and Tongxiang in Zhejiang Province, the PRC.

For the purpose of preparation for the Proposed A Share Offering, the Group has undergone a group reorganisation, pursuant to which, among other things, two holding companies, namely Yip's Ink Group and Bauhinia Variegata Ink & Chemicals Limited, of certain members of the Spin-off Group were not included in the Spin-off Group. Yip's Ink Group previously undertook supporting and trading functions for the Spin-off Business while has ceased its operations since July 2020 and remained to be the holding company of the Spin-off Company and Bauhinia Variegata Ink & Chemicals Limited had become dormant. As advised by the Group, before taking into account of the then dividend income received from the Spin-off Group, Yip's Ink Group and Bauhinia Variegata Ink & Chemicals Limited were loss-making for the year ended 31 December 2019.

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Set out below is summary financial information of the Spin-off Group for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 and the statement of financial position of the Spin-off Group as at 30 June 2020 based on its unaudited consolidated management accounts provided by the Group (as if the group structure of the Spin-off Group had been in existence throughout the relevant financial periods):

	For the year ended 31 December			For the six months ended
	2017	2018	2019	30 June 2020
<i>(HK\$' million)</i>				
Revenue	1,230	1,347	1,286	525
Profit before taxation	60	70	129	38
Profit for the year/period	50	58	111	34
				As at 30 June 2020
				<i>HK\$' million</i>
Current assets				876
Total assets				1,269
Net current assets				427
Net assets				820

As advised by the management of the Company, revenue of the Spin-off Group mainly represents income from manufacturing and trading of ink.

The revenue of the Spin-off Group varied from approximately HK\$1,230 million to HK\$1,347 million during each of the three years ended 31 December 2019 and the Spin-off Group recorded revenue of approximately HK\$525 million for the six months ended 30 June 2020, while the Spin-off Group had placed increased emphasis on the quality of customers during the periods. The systematic improvements in customer structure and product lines had contributed to the significant improvement in gross profit margin in 2019. As advised by the Company, during the year ended 31 December 2018, the Spin-off Group had undergone a restructuring to merge three production plants to two and the Spin-off Group then recorded reduction in both selling and distribution costs and administrative expenses for the year ended 31 December 2019. As a result,

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the Spin-off Group recorded increasing net profit before and after tax over the past three years ended 31 December 2019. On the other hand, the Spin-off Group recorded an unaudited net profit of approximately HK\$34 million for the six months ended 30 June 2020.

As at 30 June 2020, total assets of the Spin-off Group amounted to approximately HK\$1,269 million, of which approximately HK\$876 million was current assets. The current assets of the Spin-off Group mainly comprised trade and bills receivables of approximately HK\$641 million, inventories of approximately HK\$105 million and bank balances and cash of approximately HK\$83 million. After deducting the current liabilities, which amounted to approximately HK\$449 million (mainly comprised creditors and accrued charges of approximately HK\$283 million and amounts due to related parties of approximately HK\$72 million), the net current assets of the Spin-off Group amounted to approximately HK\$427 million. The difference between the net assets value and net current assets value of the Spin-off Group was principally attributable to the carrying value of property, plant and equipment of approximately HK\$393 million as at 30 June 2020.

3. Reasons for and benefits of the Proposed Spin-off

As stated in the Letter from the Board, the Company has considered the following factors in relation to the Proposed Spin-off:

(i) New sources of fund raising opportunity

The cash proceeds to be received from the public offering and/or placing of A shares of the Spin-off Company will provide capital to the Spin-off Group for its operations and expansion plan. The Proposed Spin-off will also enable the Spin-off Group and the Remaining Group to have their own fund raising platforms to directly and independently access both the debt and equity capital markets, which in turn may provide greater aggregate financing capacity to the Group to deploy funds towards the respective developments, operations and investment opportunities of the Spin-off Group and the Remaining Group.

Upon completion of the Proposed Spin-off and Proposed A Share Listing, each of the Remaining Group and the Spin-off Group will have separate fund-raising platforms, which will increase financing flexibility and adaptability of both entities to support and accelerate their respective operations and future expansion. In particular, the Spin-off Group will have the separate and independent listing platform in the PRC which enables it to have a direct access to the PRC capital market and to enhance its possibility to explore new financing and fund-raising channels for the development of its business. We concur with the Company that the Proposed Spin-off will provide an additional source of fund raising opportunity to the Group, which will also benefit the Shareholders with the Spin-off Group remaining as subsidiaries of the Company.

(ii) Enhancement of business profile

The Proposed Spin-off and a separate listing of the A shares of the Spin-off Company will enhance the Spin-off Group's profile amongst its customers, suppliers and other business partners. It also improves the Spin-off Group's ability to recruit, motivate and retain key management personnel by enhancing management incentives through adoption of equity-based incentive program such as share option scheme.

As stated in the 2019 Annual Report, Bauhinia Variegata Ink ranked 1st in sales volume and revenue in 2018 based on information of China Chemistry Industrial Association and 14th among the International Ink Companies 2019. Meanwhile, Bauhinia Variegata Ink was first being recognised as a famous trademark in Guangdong province in 2005, and a China well-known trade mark in 2010. Although the revenue of the Spin-off Group was leading in the relevant industry, it only accounted for less than 15% of the total revenue of the Group for each of the two years ended 31 December 2019. We concur with the view of the Company that the separate listing of the Spin-off Company will facilitate the Spin-off Group to further enhance its corporate profile as a separately listed company.

(iii) Alternative valuation for the business

The Proposed Spin-off separates the Ink Business from the Remaining Businesses, thereby enabling investors and financiers to appraise the strategies, functional exposure, risks and returns of the respective businesses separately and to make their investment decisions accordingly. The Spin-off Group and the Remaining Group can be valued on a standalone basis to reflect the true market value of the respective businesses so as to create better return of value to the shareholders of the Spin-off Company and the Company;

Taking into account the analysis under "Valuation under the Proposed A Share Listing – comparable companies" as set out below, we concur with the Company that the business valuation of companies (e.g. price-to-earnings ratio) engaged in Ink Business is generally higher in the PRC stock market as compared to the current valuation of the Company, and the Proposed Spin-off may unlock the potential valuation of the Spin-off Group which will be beneficial to the Company as the controlling shareholder of the Spin-off Company.

(iv) Adoption of different business strategies

The management teams of the Spin-off Group and the Remaining Group may adopt different business strategies and models which they determine to be better suited to their respective businesses, and which, due to the different nature of products, may not always be aligned. On the other hand, the Proposed Spin-off will increase the operational and financial transparency between

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the Spin-off Group and the Remaining Group, providing investors and the market with greater clarity on the businesses and financial status of the respective groups and therefore better identifying and establishing their investment decisions.

As stated in the section headed “Proposed use of proceeds” in the “Letter from the Board” contained in the Circular, the proceeds from the Proposed A Share Listing are intended to be applied for (i) improvement and enhancement of production process and technology of the Spin-off Group; (ii) constructing a production base of environmentally friendly ink for the Ink Business; and (iii) setting up a research and development and testing centre for the Spin-off Group. Meanwhile, based on preliminary estimation, the total gross proceeds to be raised under the Proposed A Share Listing is approximately RMB400 million to RMB450 million, representing over 40% of the aggregate bank balance and cash and short-term bank deposits of the Group as at 31 December 2019. We concur with the Company that the Proposed Spin-off may facilitate the development of the Spin-off Group with their own strategies through the proceeds of the Proposed A Share Listing while the Group may allocate other resources to Remaining Group for further development with different business strategies. Meanwhile, taking into account that upon the Proposed A Share Listing, the Spin-off Group would have to comply with, among other things, the relevant disclosure requirements of the Shenzhen Stock Exchange on a standalone basis, we concur with the Company that the Proposed Spin-off will enhance the transparency of the Spin-off Group and the Group as a whole.

(v) No loss in control of the Spin-off Company

As the Spin-off Company is expected to remain as a subsidiary of the Company upon completion of the Proposed Spin-off, the Company will continue to benefit from any potential upside in the Ink Business through consolidation of the Spin-off Group’s accounts and receipt of dividend distributions (if any).

After completion of the Proposed Spin-off and Proposed A Share Listing, the Company will remain as the ultimate controlling shareholder of the Spin-off Company and will continue to consolidate the financial statements of the Spin-off Group. We concur with the Company that the Shareholders and the Group would continue to enjoy the benefits arising from the future business development and growth of the Spin-off Group.

As a result of the above, we concur with the Company’s management of the view that the Proposed Spin-off will allow both the Remaining Group and the Spin-off Group to release business value and ultimately benefit the Shareholders.

4. Conditions of the Proposed Spin-off

As set out in the section headed “Conditions if the Proposed Spin-off” in the “Letter from the Board” contained in the Circular, based on the information available to the Board, the Proposed Spin-off and the Proposed A Share Listing will be conditional upon, among other things, the following:

- (a) the approval by CSRC, the Shenzhen Stock Exchange and other authorities in relation to the Proposed A Share Listing;
- (b) approval by the Independent Shareholders of the Proposed Spin-off at the EGM; and
- (c) any other PRC regulatory approvals for the listing of and permission to deal in the A shares to be issued by the Spin-off Company.

If any of the above conditions is not fulfilled, the Proposed Spin-off and the Proposed A Share Listing will not proceed and an announcement will be published by the Company as soon as practicable.

Shareholders and potential investors should be aware that there is no assurance that the Proposed Spin-off will take place, and, if so, when it will take place. Shareholders and potential investors should exercise caution when dealing in or investing in the securities of the Company.

5. Principal structure of the Proposed Spin-off and the Proposed A Share Listing

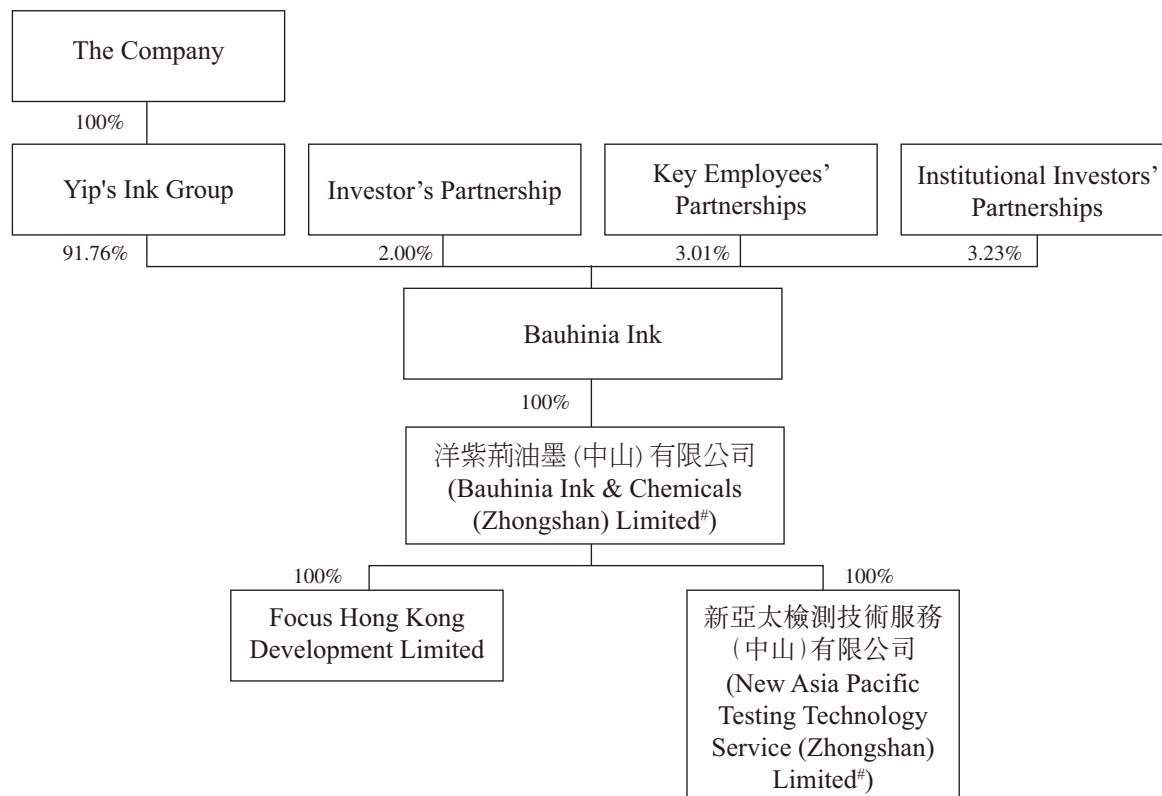
(a) Structure of the Proposed Spin-off

As set out in the “Letter from the Board” contained in the Circular, it is intended that the new A shares to be issued under the Proposed Spin-off will be not more than 25% of the enlarged issued share capital of the Spin-off Company after the public offer and/or placing. The terms of the Proposed A Share Listing including the number of Offer Shares to be issued, the offer price per Offer Share and therefore the amount of proceeds to be raised will be determined at a later stage subject to regulatory approvals by the Shenzhen Stock Exchange and CSRC, advice of the PRC Sponsor and other advisers for the Proposed A Share Listing and in particular, subject to market conditions. In any event, the Company is expected to hold more than 50% of the enlarged issued share capital of the Spin-off Company following completion of the Proposed A Share Listing, and the Spin-off Company will remain as a subsidiary of the Company and the operating results of the Spin-off Group will continue to be consolidated into the consolidated accounts of the Group.

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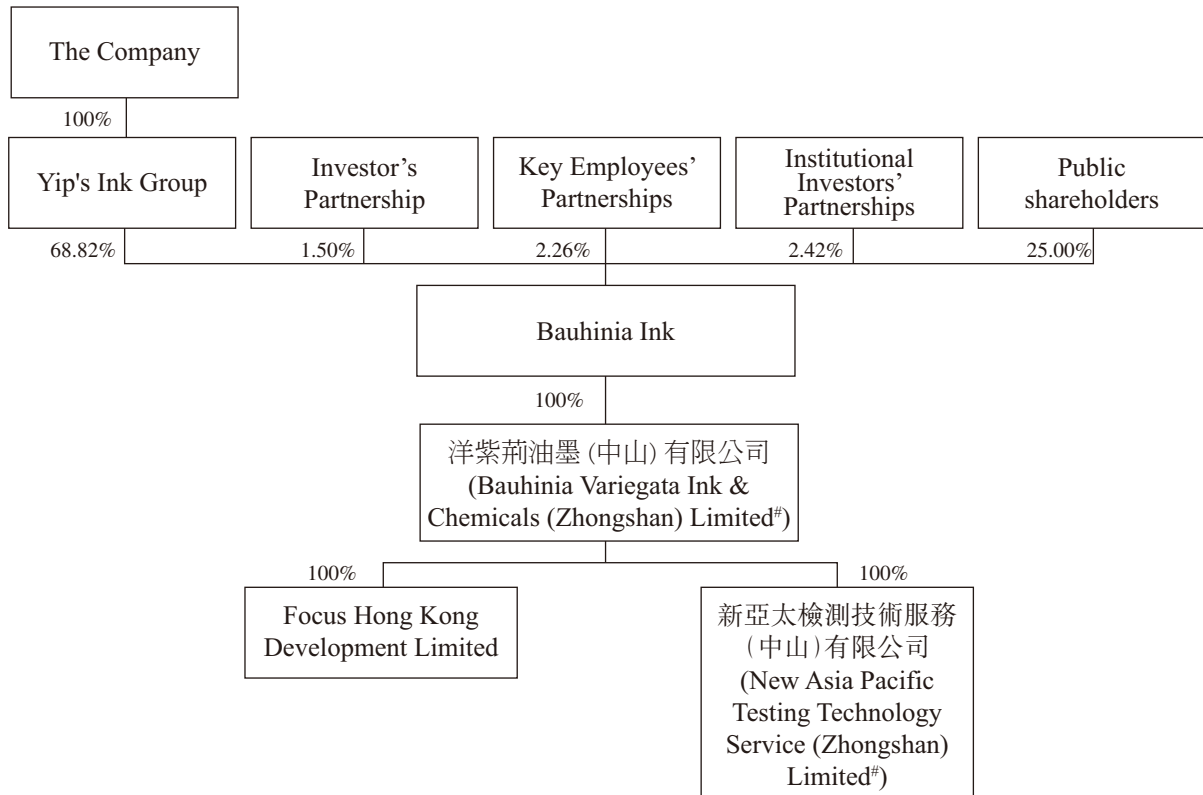
According to the section headed “Effects of the Proposed Spin-off on the shareholding structure of Bauhinia Ink” in the “Letter from the Board” contained in the Circular, set out below is the shareholding structure of the Spin-off Group (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed Spin-off and the Proposed A Share Listing assuming that the Offer Shares to be issued at the Proposed A Share Listing represents 25% of the enlarged share capital of the Spin-off Company:

(i) as at the Latest Practicable Date



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- (ii) immediately after completion of the Proposed Spin-off and the Proposed A Share Listing assuming that the Offer Shares to be issued at the Proposed A Share Listing represents 25% of the enlarged share capital of the Spin-off Company



It is expected that immediately following completion of the Proposed Spin-off and the Proposed A Share Listing, the shareholding percentage of the Company in the Spin-off Company will be diluted from approximately 91.76% as at the Latest Practicable Date to not less than approximately 68.82%. Further details are discussed in the paragraph headed “(d) Dilution of interest in the Spin-off Group” under the section headed “6. Effects of the Proposed Spin-off on the Group” of this letter below.

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(b) Percentage of A shares to be issued

It is currently proposed that the Spin-off Company will issue Offer Shares of not more than 25% of the then issued share capital of the Spin-off Company as enlarged by the Proposed A Share Listing. The actual number of the Offer Shares will be subject to, among other things, the market conditions and the relevant rules and regulations of CSRC as amended from time to time. It is expected that immediately after completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will have an indirect interest of not less than 50% in the Spin-off Company.

(c) Illustrative proceeds to be raised

On the assumption that the proposed offering size represent 25% of the then enlarged issued share capital of the Spin-off Company, it is currently expected the total gross proceeds to be raised under the Proposed A Share Listing would be around RMB400 million to RMB450 million. Taking into account the existing issued share capital of the Spin-off Company of 299,900,000 A shares and the target fund raising size of RMB400 million to RMB450 million, the number of Offer Shares would be approximately 99,966,667 A shares (representing 25% of the enlarged issued share capital of the Spin-off Company immediately following completion of the Proposed A Share Listing) and the issue price would be approximately RMB4 to RMB4.5 per Offer Share.

It should be noted that the terms of the Proposed A Share Listing including the number of Offer Shares to be issued, the offer price per Offer Share and therefore the amount of proceeds to be raised will be determined at a later stage subject to regulatory approvals by the Shenzhen Stock Exchange and CSRC, discussions among the Spin-off Company, the PRC Sponsor and other advisers for the Proposed A Share Listing and in particular, subject to market conditions. As stated in the Letter from the Board, based on the discussion between the management of the Spin-off Company and the PRC Sponsor, the offer price and the number of Offer Shares shall take into account (i) the historical operating results and financial performance of the Spin-off Group; (ii) the financial performance of the Spin-off Group for the year ending 31 December 2020, which would be the latest financial year of the Spin-off Company prior to the submission of listing application; (iii) the business development plan and capital needs of the Spin-off Group; (iv) the prospects and industry outlook of the ink manufacturing industry in general; (v) the then responses to price consultation with potential subscribers in the book-building process for the Proposed A Share Listing; (vi) the prevailing market sentiment at the time of the Proposed A Share Listing; and (vii) the reference to be drawn from other comparable companies in the same industry listed in the PRC. Investors should be aware that the above-mentioned gross proceeds is for illustration purpose only and the above assumptions may be different at the time of the Proposed A Share Listing, therefore, the actual offer price may be different from the indicative offer price.

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(d) Intended use of proceeds

As stated in the “Letter from the Board” contained in the Circular, the Spin-off Company intends to apply the proceeds (after deducting the issue and related expenses) from the Proposed A Share Listing (taking into account the Offer Shares to be issued on the Shenzhen Stock Exchange by way of initial public offering to public investors in the market only) in the following manner:

Based on the preliminary estimation of the total gross proceeds to be raised under the Proposed A Share Listing of approximately RMB400 million to RMB450 million, it is expected that the proceeds will be applied as to (i) approximately RMB50 million to RMB60 million for improvement and enhancement of the existing technology of the Spin-off Group; (ii) approximately RMB120 million to RMB135 million for constructing a production base of environmentally friendly ink for the Ink Business; (iii) approximately RMB110 million to RMB120 million for setting up a research and development and testing centre for the Spin-off Group; and (iv) approximately RMB120 million to RMB135 million as general working capital of the Spin-off Group.

The additional funds available to the Spin-off Group through the Proposed A Share Listing will enhance the financial position of the Spin-off Group and the Group. There may be changes to the proposed use of proceeds after taking into account the business development of the Spin-off Group and the prevailing market conditions, and it is also subject to the listing application documents to be submitted by the Spin-off Company.

Meanwhile, investors should be aware that the expected offering size and the estimated gross proceeds as referred to above is for illustration purposes only and the actual amount raised and the proposed use of proceeds shall be subject to the listing application documents to be submitted by the Spin-off Company taking into account, among other things, the PRC domestic market conditions at the time of the Proposed A Share Listing as well as the business development of the Spin-off Group, and may vary substantially from the amount estimated above.

Shareholders are reminded that there is no assurance that the Proposed Spin-off and the Proposed A Share Listing will proceed in a timely manner or proceed at all. If the Proposed Spin-off is postponed, terminated or lapsed, the Spin-off Group might use its best endeavours to finance the aforesaid projects with its own funds or funds to be raised by other financing method(s) or delay the implementation of the projects.

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(e) Valuation under the Proposed A Share Listing

Comparable companies

As mentioned in the section headed “2. Background and financial information of the Spin-off Group” above of this letter, the Spin-off Group is principally engaged in the production and trading of ink in the PRC.

Based on (i) the estimated market capitalisation with reference to the expected gross proceeds of approximately RMB400 million to RMB450 million (equivalent to approximately HK\$444 million to HK\$500 million) from issuance of A shares on the Shenzhen Stock Exchange by way of initial public offering to public investors in the market (assuming 25% of the enlarged issued share capital of the Spin-off Company will be offered under the Proposed A Share Listing) as indicated by the PRC Sponsor; and (ii) the net profit (after tax and extraordinary items) of the Spin-off Group for the year ended 31 December 2019 of approximately HK\$110.7 million, the implied price-to-earnings ratio (the “**PER**”) of the Spin-off Group is approximately 16.0 times to 18.1 times.

In order to provide the Shareholders with a general reference regarding the valuation of companies engaging in a business similar to that of the Spin-off Group, we have conducted a search on Bloomberg on a best effort basis for companies (the “**Comparable Companies**”) (i) listed on any of the stock exchanges in the PRC; and (ii) generated over 40% of its revenue from ink products in its latest financial year based on information available on Bloomberg.

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The following table sets out the PER of the Comparable Companies for reference purpose:

Company name	Principal activities (<i>Note 1</i>)	PER as at the Latest Practicable Date
New East New Materials Co., Ltd. (603110.CH)	Produces and sells chemical raw materials, highly toxic chemicals, inks, plastics, and other products	47.60 times
Suzhou Kingswood Printing Ink Co., Ltd. (300192.CH)	Offers secondary and college entrance examination supplementary training, kindergarten through twelfth grade extra-curricular training, teaching software and course sales, and more, and produces and sells offset printing inks	77.77 times
Letong Chemical Co., Ltd. (002319.CH)	Produces printing inks, color chips, powder coatings, and laminating adhesives	Loss-making
Average		62.69 times
The Company		4.65 times
The Spin-off Company		16.0 times to 18.1 times

Source: Bloomberg

Notes:

1. The principal activities of the Comparable Companies are sourced from Bloomberg.
2. PER of the Comparable Companies are extracted from Bloomberg as at the Latest Practicable Date.
3. The PER of the Company is calculated based on (i) the market capitalisation of the Company of approximately HK\$1,269 million as at the Latest Practicable Date; and (ii) the profit attributable to the owners of the Company of approximately HK\$273 million for the year ended 31 December 2019.
4. The expected market capitalisation of the Spin-off Company was calculated based on the exchange rate of approximately HK\$1:RMB0.90 as quoted from Bloomberg as at the Latest Practicable Date.

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As stated in the Letter from the Board, the expected offering size and the estimated gross proceeds as referred to above are for illustration purposes only and the actual amount raised and the proposed use of proceeds shall be subject to the listing application documents to be submitted by the Spin-off Company taking into account, among other things, the PRC domestic market conditions at the time of the Proposed A Share Listing as well as the business development of the Spin-off Group, and may vary substantially from the amounts estimated.

As set out in the table above, the current PER calculated based on the latest market capitalisation of the Company is significantly below (i) the current estimated implied PER of the Spin-off Company upon the Proposed A Share Listing; and (ii) the range of PER of the Comparable Companies. Accordingly, it is considered that the Proposed Spin-off and the Proposed A Share Listing would likely to unlock the value of the Spin-off Company and create a higher market value in the PRC stock market.

Shareholders should note that the calculation of the implied PER of the Spin-off Company and the comparison above is for illustrative purposes only and the implied PER of the Spin-off Company was calculated based on the estimated gross proceeds from the Proposed A Share Offering as mentioned above. The final offer price and the number of Offer Shares of the Proposed A Share Listing shall take into account a number of factors as stated above, and therefore the actual amount of gross proceeds to be raised from the Proposed A Share Listing and the actual PER of the Spin-off Company might be higher or lower than the above indicated implied range.

Meanwhile, the Group entered into separate agreements for the Previous Disposals to dispose of an aggregate of approximately 8.24% interest in the Spin-off Company for an aggregate consideration of approximately RMB65.9 million (representing an implied valuation of RMB800 million for 100% equity interest of the Spin-off Group). As disclosed in the announcement of the Company dated 28 May 2020, the consideration of the Previous Disposals was determined after arm's length negotiations among parties with reference to the unaudited net asset value of the Spin-off Group as at 31 March 2020. On the other hand, as stated in the Letter from the Board, the final offer price and the number of A shares to be issued under the Proposed A Share Listing shall take into account, among other things, the financial performance of the Bauhinia Ink Group for the year ending 31 December 2020. As advised by the PRC Sponsor, it is a common market practice to determine the issue price of a listing applicant on the Shenzhen Stock Exchange with reference to, among other things, its net profit if such applicant is profit-making over recent financial years. Further, we noted that the expected total gross proceeds to be raised under the Proposed A Share Listing of RMB400 million to RMB450 million (assuming the proposed offer size represent 25% of the enlarged issued share capital of the Spin-off Company) represented an implied valuation of approximately RMB1,600 million to RMB1,800 million and such implied valuation is higher than the implied valuation of the Spin-off Group under the Previous Disposals.

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Based on the above analyses, we consider that the estimated market capitalisation of the Spin-off Company with reference to the expected gross proceeds of approximately RMB400 million to RMB450 million (equivalent to approximately HK\$444 million to HK\$500 million) from issuance of Offer Shares on the Shenzhen Stock Exchange by way of initial public offering to public investors in the market (assuming 25% of the enlarged issued share capital of the Spin-off Company will be offered under the Proposed A Share Listing) as indicated by the PRC Sponsor is fair and reasonable.

As stated above, for the purpose of preparation of the Proposed Spin-off aiming at broadening the shareholders base of the Spin-off Company and serving as an employee incentive scheme to align the interest of the key employees of the Group who are involved in the Ink Business with the Spin-off Company, the Group entered into separate agreements for the Previous Disposals. Based on the consideration and terms of the Previous Disposal, the valuation of 100% equity interest of the Spin-off Group under the Previous Disposals was approximately RMB800 million. As stated in the Letter from the Board, the implied size of new A shares to be issued under the Proposed A Share Listing (being 25% of the enlarged issued share capital of the Spin-off Company) under such valuation is approximately RMB266.7 million. Accordingly, the implied PER of the Spin-off Group would be approximately 10.7 times (calculated based on the net profit (after tax and extraordinary items) of the Spin-off Group for the year ended 31 December 2019 of approximately HK\$110.7 million), which is higher than the PER of the Company.

As referred to in the Letter from the Board, the Company shall continuously assess the capital needs of the Spin-off Company and the market sentiment for the Proposed A Share Listing, and shall proceed with the Proposed A Share Listing if it is considered cost effective and in the best interests of the Company and the Shareholders as a whole, taking into account the factors for determining the terms of the Proposed A Share Listing as described above. In the event the proceeds to be raised from the Proposed A Share Listing is below the estimated amount of RMB400 million to RMB450 million as indicated above, the Group shall explore other financing means (such as external borrowings and/or internally generated funds) to meet the capital needs of the Spin-off Group. It is expected that the issue price per new Offer Share shall not be lower than the equivalent value per share represented by the consideration received by the Group under the Previous Disposals (which represented an implied valuation of RMB800 million for 100% equity interest of the Spin-off Group). Based on the above, the implied size of the new A shares to be issued under the Proposed A Share Listing (being 25% of the enlarged issued share capital of the Spin-off Company) is approximately RMB266.7 million. Taking into account the implied PER of the Spin-off Group based on the valuation of the Previous Disposals was approximately 10.7 times which was higher than the PER of the Company and the final pricing of the Proposed A Share Listing would also be subject to, among other things, the financial performance of the Spin-off Group for the year ending 31 December 2020 whilst the Spin-off Group recorded a net profit of approximately HK\$34 million for the six months ended 30 June 2020, we consider that, in the

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event that the gross proceeds to be raised from the Proposed A Share Listing is below the estimated range of RMB400 million to RMB450 million, the expected issue price of the Offer Shares of not lower than the equivalent value per share represented by the consideration received by the Group under the Previous Disposals is still fair and reasonable.

(f) Waiver in respect of assured entitlement

In accordance with the requirements of paragraph 3(f) of PN15, the Company is required to give due regard to the interests of the existing Shareholders by providing them with an assured entitlement to the A shares of the Spin-off Company, if the Proposed A Share Listing proceeds. However, the Board considers that it is not practicable to provide assured entitlement of the A shares of the Spin-off Company as further explained below and that the requirement of paragraph 3(f) of PN15 of the Listing Rule cannot be met.

In determining the venue for the proposed listing the Spin-off Company, the Board has made due and careful consideration, taking into account, among other things, the nature of the Ink Business, the jurisdiction in which the Spin-off Company was established and had been operating its business, and the characteristics of different capital markets, and concluded that it is beneficial to seek a listing of the Spin-off Company on the Shenzhen Stock Exchange.

Based on the legal advice from the Company's PRC legal counsel, according to applicable PRC laws and regulations, foreign investors which meet certain criteria are allowed to subscribe for or participate in the offering of A shares, which include, among others, (a) foreign investors with permanent residency in the PRC; (b) residents of Hong Kong, the Macao Special Administrative Region or Taiwan who live and work in the PRC; (c) foreign investors who work in the PRC and the securities regulatory authority at his country of nationality has entered into cooperation arrangement with CSRC; (d) foreign investors who are entitled to such A shares as part of an employee incentive scheme which is set up in compliance with 《上市公司股權激勵管理辦法》 (the Administrative Measures for the Incentive Measures of Listed Companies[#]); (e) qualified foreign institutional investors qualified under 《合格境外機構投資者境內證券投資管理辦法》 (QFII); (f) RMB qualified foreign institutional investors qualified under 《人民幣合格境外機構投資者境內證券投資試點辦法》 (RQFII); (g) foreign strategic investors qualified under 《外國投資者對上市公司戰略投資管理辦法》 (Measures for the Administration of Strategic Investment in Listed Companies by Foreign Investors[#]); and (h) parties who are shareholders of the A share issuer before the listing of such issuer on the A share market.

Based on the register of members maintained by the branch share registrar of the Company in Hong Kong, most of the registered Shareholders are individuals with addresses in Hong Kong, and on that basis, the Board believes that most of these Shareholders are not PRC residents. The Board

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considers it impracticable and unduly burdensome to provide the Shareholders with assured entitlement under the Proposed Spin-off in light of the legal restrictions for foreign investors to subscribe for or participate in the offering of A shares.

By reason of the above, the Company has also applied for and the Stock Exchange has granted a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under paragraph 3(f) of PN15.

6. Effects of the Proposed Spin-off on the Group

Set out below are the possible effects of the Proposed Spin-off on the Group and the analysis of the financial effects of the Proposed Spin-off as illustrated below is based on the current structure of the Proposed Spin-off, assuming that the Spin-off Company will issue Offer Shares representing approximately 25% of the enlarged issued share capital of the Spin-off Company by way of initial public offering to public investors in the market for the Proposed A Share Listing.

(a) Effect on net asset value

As stated in the Letter from the Board, immediately following completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will still be indirectly holding not less than 50% of the equity interest in the Spin-off Company and therefore the Spin-off Group will continue to be accounted for as a subsidiary of the Company and the financial results of the Spin-off Group will continue to be consolidated into the accounts of the Group.

Assuming the Proposed Spin-off and the Proposed A Share Listing had completed on 31 December 2019, the total assets of the Group would have been enhanced by the amount of net proceeds from the Proposed A Share Listing (after deducting certain expenses in relation to the Proposed A Share Listing that can be capitalised under the relevant accounting standards), while apart from certain professional fees in relation to the Proposed Spin-off and the Proposed A Share Listing (for certain expenses that cannot be capitalised under the relevant accounting standards), it is expected that there would be no other material expenses or significant increase in liabilities of the Group as a result of the Proposed Spin-off. Therefore, the net asset value of the Group would have been enhanced as a result of the Proposed Spin-off and the Proposed A Share Listing.

The estimated change in the Group's net assets as mentioned above is based on, among others, the current terms of the Proposed Spin-off and the Proposed A Share Listing based on information currently available to the Company. Accordingly, the actual change in the Group's net assets, which will be calculated based on the final structure of the Proposed Spin-off and the Proposed A Share Listing, and the financial position of the Spin-off Group immediately upon the completion of the Proposed Spin-off, may be different.

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(b) Effect on earnings

The effect of the Proposed Spin-off on the future earnings of the Group will depend on, among others, the return generated from the proceeds raised from the Proposed A Share Listing as well as the future business operations of the Spin-off Group. For details of our analysis on the benefits to be brought about by the Proposed Spin-off, please refer to the section headed “3. Reasons for and benefits of the Proposed Spin-off” of this letter above. The Proposed Spin-off constitutes a deemed disposal of interest in the Spin-off Company by the Company, which will result in an increase in non-controlling interests of the Group.

To the best knowledge of the Directors, it is expected that the difference between the net proceeds from the issue of new A shares of the Spin-off Company and the change in share of consolidated net asset value of the Spin-off Group by the non-controlling interests upon completion of the Proposed A Share Listing will be recorded in equity attributable to owners of the Group. In other words, such difference will not be recognized as profit or loss of the Group.

The aforesaid estimation is based on, among others, the current terms of the Proposed Spin-off and the Proposed A Share Listing based on information currently available to the Company. Accordingly, the actual impact of the Proposed Spin-off and the Proposed A Share Listing on the Group’s earnings, which will be calculated based on the final structure of the Proposed Spin-off and the Proposed A Share Listing, as a result of the completion of the Proposed Spin-off and the Proposed A Share Listing, may be different.

Following completion of the Proposed Spin-off and the Proposed A Share Listing, the share of profit in the Spin-off Group attributable to owners of the Company will be proportionally reduced as a result of the reduction in the Company’s equity interest in the Spin-off Company. Assuming that the Proposed Spin-off had been completed on 1 January 2019 and there was no change in the net profit of the Spin-off Group for the year ended 31 December 2019, the profit of the Spin-off Group attributable to the owners of the Company for the year ended 31 December 2019 would have been reduced as a result of the increase in share of profit attributable to non-controlling interests of the Spin-off Group.

(c) Effect on working capital and gearing of the Group

Taking into account of the net cash proceeds to be received by the Spin-off Company from the Proposed A Share Listing and the fact that the members of the Spin-off Group will remain as members of the Group, it is expected that the working capital of the Group would be enhanced as a result of the Proposed Spin-off.

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As stated in the 2019 Annual Report, the net gearing ratio of the Group (calculated by dividing the net borrowings by equity attributable to owners of the Company) was approximately 33% as at 31 December 2019. Given the net borrowings of the Group will be reduced by the net cash proceeds to be received by the Spin-off Group from the Proposed A Share Listing, it is currently expected that the net gearing ratio of the Group will be improved as a result of the Proposed Spin-off and the Proposed A Share Listing.

(d) Dilution of interest in the Spin-off Group

Under the Proposed Spin-off and the Proposed A Share Listing, it is intended that the new A shares to be issued under the Proposed Spin-off will be not more than 25% of the enlarged issued share capital of the Spin-off Company after the public offer and/or placing, following which the ownership of the Company in the Spin-off Company will be reduced to approximately 68.82% from approximately 91.76% as at the Latest Practicable Date.

In our opinion, such dilution is acceptable to the Shareholders taking into consideration the benefits to be derived from the Proposed Spin-off as discussed in the sub-sections above and the section headed “3. Reasons for and benefits of the Proposed Spin-off and the Proposed A Share Listing” of this letter and the abovementioned financial effects.

(e) Remaining Businesses of the Group

As set out above, following the Proposed Spin-off, the Remaining Group will continue to engage in the Remaining Businesses, which included the three key business segments namely solvents, coatings, and lubricants, and the property investment business. For illustration purpose, based on the 2019 Annual Report, the Group recorded revenue of approximately HK\$10.5 billion for the year ended 31 December 2019 and ink business accounted for approximately HK\$1.3 billion or 12.8% of the total revenue of the Group, and the Group recorded revenue of approximately HK\$12.4 billion for the year ended 31 December 2018 and ink business accounted for approximately HK\$1.5 billion or approximately 11.9% of the total revenue of the Group. As a result, we concur with the Company that the revenue of the Remaining Group still accounted for the majority of the revenue of the Group for the two years ended 31 December 2019 and the Remaining Group will continue to have substantial businesses after completion of the Proposed Spin-off.

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RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the view that the terms of the Proposed Spin-off are fair and reasonable so far as the Company and the Shareholders are concerned and that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole, and we advise the Independent Board Committee to recommend, and we ourselves would recommend, the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Proposed Spin-off.

Yours faithfully,
For and on behalf of
Halcyon Capital Limited

Derek C.O. Chan
Chairman

Barton Lai
Director

Mr. Chan is a licensed person registered with the Securities and Futures Commission and a responsible officer of Halcyon Capital, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities. Mr. Chan has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

Mr. Lai is a licensed person registered with the Securities and Futures Commission and a responsible officer of Halcyon Capital, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities. Mr. Lai has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

1. INDEBTEDNESS STATEMENT

As at the close of business on 30 June 2020, 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\$1,695,525,000 in total, of which HK\$1,640,750,000 were unsecured and guaranteed by the Company and a bank loan of HK\$21,910,000 was unsecured and guaranteed by a non-wholly owned subsidiary of the Company. The remaining bank loan of HK\$32,865,000 was unsecured and unguaranteed; and
- (b) Lease liabilities amounting to approximately HK\$39,292,000 which were secured by rental deposits and unguaranteed, a lease liability amounting to approximately HK\$15,671,000 which was secured by a rental deposit and guaranteed by a bank, and lease liabilities amounting to approximately HK\$33,646,000 which 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 30 June 2020, the Group did not have any material 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 contingent liabilities.

2. WORKING CAPITAL

The Directors are of the opinions that, having regard to the financial resources available to the Group, including internally generated funds and available banking facilities, and the Proposed Spin-off, the Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular.

3. MATERIAL ADVERSE CHANGE

Reference is made to the profit warning announcement of the Company dated 23 June 2020 (the “**Profit Warning Announcement**”). Based on preliminary assessment of the unaudited consolidated management accounts of the Group for the five months ended 31 May 2020 (the “**May 2020 Management Accounts**”) and the information currently available to the Board, the Group is expected to record a profit for the six months ended 30 June 2020, which would be approximately 30% to 45% lower than the profit for the six months ended 30 June 2019. The

aforesaid expected decline is mainly attributable to certain one-off expenses comprising exchange losses, taxation and professional costs incurred for the corporate restructuring of the Group in preparation of the Proposed Spin-off. Based on the May 2020 Management Accounts, the Group is also expected to record a lower turnover for the six months ended 30 June 2020 as compared to that for the six months ended 30 June 2019. The lockdown in the PRC due to the outbreak of COVID-19 pandemic in early 2020 has brought a negative impact on the Group's businesses in PRC, in particular for coatings and lubricants. The ongoing volatile international economic conditions have also affected the Group's export-related businesses for solvents and coatings. However, the local consumption demand for solvents and inks business has remained stable and both businesses (excluding the impact of the above one-off expenses for the Inks Business) still managed to generate their profit contribution from normal operations.

Save as disclosed in the Profit Warning Announcement, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Group have been made up, and up to the Latest Practicable Date.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

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

The Company is not optimistic about the business prospects in the second half of 2020. One reason is that the COVID-19 pandemic, which has proliferated for almost half a year, is still inflicting enormous damage to the global economy. Restoration will therefore take time. What is more, the pandemic until now has not been under control and is resurging in many places. The time of recovery of the global economy is therefore hard to predict. Besides, the government of the United States of America has been confronting and containing the PRC on multiple fronts including the pandemic and other incidents. As these actions may well evolve into a national policy of the United States of America, their negative impacts on the PRC are expected to be far more long-term and serious than those posed by the pandemic. In such a turbulent time, the Group will be more vigilant of the uncertainties ahead. The Group will also continue to uphold its undivided focus on the Group's core businesses, keep up-to-date with the market pulse and make all necessary risk prevention and management efforts so as to stay strong enough to deal with more severe challenges and opportunities that may come along.

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 Company. 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 executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) to be notified to the Company and the Stock Exchange were as follows:

(a) *Interests and short positions in the Shares, underlying Shares and debentures of the Company*

Name of Directors	Number of ordinary Shares and underlying Shares held				Total	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
	Interests in Shares	Interests in Shares	Interests in Shares	Interests in share options(a)		
	<i>Personal</i>	<i>Family</i>	<i>Corporate</i>	<i>Personal</i>		
Mr. Ip Chi Shing	155,042,532	8,802,000 (b)	24,380,000 (c)	—	188,224,532	33.37%
Mr. Yip Tsz Hin	31,316,248	14,000,000 (d)	—	—	45,316,248	8.03%
Mr. Ip Kwan	11,084,000	—	—	200,000	11,284,000	2.00%
Mr. Ho Sai Hou	—	—	—	200,000	200,000	0.04%
Mr. Wong Yuk	—	—	—	—	—	—
Mr. Wong Kong Chi	—	100,000 (e)	—	—	100,000	0.02%
Mr. Ho Pak Chuen, Patrick	—	—	—	—	—	—
Mr. Ku Yee Dao, Lawrence	—	—	—	—	—	—

Notes:

- (a) All the share options are unlisted physically settled equity derivatives. Under the share option scheme of the Company adopted on 25 May 2012, certain share options, each entitling its holder to subscribe for one Share, were granted on 11 January 2013 to the Directors with an exercise price of HK\$5.942 per Share and exercise period from 11 January 2015 to 10 January 2023. Accordingly, the Directors were regarded as having an interest in the underlying Shares of the share options.
 - (b) Out of these Shares, 6,796,000 Shares are jointly held with Madam Liang Bih Yu, the wife of Mr. Ip Chi Shing and 2,006,000 Shares are held by his wife.
 - (c) Out of these Shares, 20,300,000 Shares are held by Ip Chi Shing Charitable Foundation Limited, a charitable organisation and 4,080,000 Shares are held by Yip's Care Extension Foundation Limited. Mr. Ip Chi Shing holds 100% interest with his spouse in Ip Chi Shing Charitable Foundation Limited and with his younger sister and brother in Yip's Care Extension Foundation Limited. Pursuant to the SFO, Mr. Ip Chi Shing is deemed to be interested in the 24,380,000 Shares held by these two corporations.
 - (d) These Shares are held by Ms. Yip Tso Ka Lai, Brenda, the spouse of Mr. Yip Tsz Hin.
 - (e) These Shares are held by Ms. Jim Siu Wai, the spouse of Mr. Wong Kong Chi.
- (b) *Interests and short positions in the shares, underlying shares and debentures of the associated corporation of the Company***

Bauhinia Ink

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

Note:

- (a) For the purpose of Part XV of the SFO, as at the Latest Practicable Date, Mr. Yip Tsz Hin was deemed to be interested in 1,593,000 shares in Bauhinia Ink (representing approximately 0.53% of the issued share capital of Bauhinia Ink) held by 中山市裕貿投資諮詢合夥企業(有限合伙) (Zhongshan Yumao Investment Advisory Partnership (Limited Partnership)[#]), in which Mr. Yip Tsz Hin held approximately 54.49% economic interest as a limited partner thereof.

Each of Mr. Ip Chi Shing, Mr. Yip Tsz Hin and Madam Liang Bih Yu, the wife of Mr. Ip Chi Shing, holds one non-voting deferred share of Yip's H.C. (Holding) Limited, a wholly-owned subsidiary of the Company.

Save as disclosed above and certain nominee shares in subsidiaries held by Directors in trust for the Company or its subsidiaries, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(ii) Substantial Shareholders' and other person's interests and short positions in the Shares and underlying Shares of the Company

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company as disclosed in the paragraph headed "Disclosure of interests — Directors and chief executive of the Company" above in this section) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, directly or indirectly, interested in ten per cent or more of the issued voting shares of any other member of the Group:

Name of substantial Shareholders	Capacity	Number of Shares	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Ms. Ip Fung Kuen	Beneficial owner (a)	47,547,913	8.43%
FMR LLC	Corporate interest (b)	39,640,000	7.03%
Fidelity Puritan Trust	Beneficial owner (c)	28,220,000	5.00%

Notes:

- (a) The calculation of the number of Shares held takes into account (i) the interests of Ms. Ip Fung Kuen in the issued share capital of the Company disclosed under the SFO (i.e. 47,592,000); (ii) the acquisition of 955,913 Shares by Ms. Ip Fung Kuen in June 2012; and (iii) the disposal of 1,000,000 Shares by Ms. Ip Fung Kuen in March 2015.

- (b) The 39,640,000 Shares were held indirectly by FMR LLC through FMR Co., Inc. which is wholly-owned by Fidelity Management & Research Company which is in turn a wholly-owned subsidiary of FMR LLC. Of which, the Company was notified that 3,710,000 Shares were held for Fidelity Management Trust Company, which is wholly-owned by FMR LLC, while 7,536,000 Shares were held for 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 64% 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 owns 100% equity interest in FIC Holdings ULC, which in turn owns 100% equity interest in Fidelity Investments Canada ULC.
- (c) 28,220,000 Shares were held directly by Fidelity Puritan Trust and the Company was notified that such Shares are deemed interest of FMR LLC.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, no other persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under section 336 of the SFO or who is, directly or indirectly, interested in ten per cent or more of the issued voting shares of any other member of the Group.

3. DIRECTOR'S INTERESTS

(i) Interests in assets and contracts of the Group

Save for the Previous Disposals, as at the Latest Practicable Date, (i) none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up; and (ii) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

(ii) Service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts 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).

(iii) **Interests in competing businesses**

As at the Latest Practicable Date, none of the Directors or any of their respective close associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

4. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

5. MATERIAL CONTRACTS

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

- (i) a share purchase agreement dated 18 January 2019 entered into between Bauhinia Paints Manufacturing Limited (大中漆廠有限公司, a subsidiary of the Company), 上海重固新雲尚置業有限公司 and 上海青浦重固資產經營有限公司 in relation to the disposal of the entire equity interest in 紫荊花制漆(上海)有限公司 (Bauhinia Paints Manufacturing (Shanghai) Company Limited[#]) for a consideration of approximately RMB269.9 million (equivalent to approximately HK\$307.3 million), details of which are set out in the Company's announcement dated 18 January 2019;
- (ii) a capital increase agreement dated 2 January 2020 entered into among 百興汽車服務(深圳)有限公司 (Baixing Car Services (Shenzhen) Company Limited[#], "**Baixing**", a subsidiary of the Company), 劉永傑 (Mr. Liu Yongjie[#], "**Mr. Liu**"), 石家莊嚶眾企業管理諮詢中心(有限合夥) (Shijiazhuang Maizong Enterprise Management and Consulting Centre (Limited Partnership)[#], "**Shijiazhuang Maizong**") and 河北大麥汽車維修服務有限公司 (Hebei Damai Car Maintenance Services Company Limited[#], "**Hebei Damai**") and its three wholly-owned subsidiaries in relation to capital contribution in Hebei Damai by Baixing in the sum of RMB12.13 million (equivalent to approximately HK\$13.5 million), details of which are set out in the Company's announcement dated 17 March 2020;

- (iii) a sale and purchase agreement dated 2 January 2020 entered into among Baixing, Mr. Liu, Shijiazhuang Maizong and Hebei Damai in relation to the acquisition of the registered capital in Hebei Damai held by Mr. Liu by Baixing at a consideration of RMB10.0 million (equivalent to approximately HK\$11.2 million), details of which are set out in the Company's announcement dated 17 March 2020;
- (iv) an agreement dated 15 May 2020 entered into among Yip's Ink Group, Ms. Lin Mei Ju, the Investor in relation to the disposal of an approximately 2.00% indirect equity interest in Bauhinia Ink through disposing the entire interests in the Investor's Partnership by Yip's Ink Group for a consideration of approximately RMB16.0 million (equivalent to approximately HK\$17.3 million);
- (v) an agreement dated 25 May 2020 entered into among Yip's Ink Group, Ms. Lin Mei Ju and 48 Employees in relation to the disposal of an approximately 1.71% indirect equity interest in Bauhinia Ink through disposing the entire interests in 中山市源邦投資諮詢合夥企業(有限合夥) (Zhongshan Yuanbang Investment Advisory Partnership (Limited Partnership)[#]) by Yip's Ink Group for an aggregate consideration of approximately RMB13.7 million (equivalent to approximately HK\$14.8 million);
- (vi) an agreement dated 25 May 2020 entered into among Yip's Ink Group, Ms. Lin Mei Ju and two Employees in relation to the disposal of an approximately 0.43% indirect equity interest in Bauhinia Ink through disposing the entire interests in 中山市溢榮投資諮詢合夥企業(有限合夥) (Zhongshan Yirong Investment Advisory Partnership (Limited Partnership)[#]) by Yip's Ink Group for an aggregate consideration of approximately RMB3.5 million (equivalent to approximately HK\$3.8 million);
- (vii) an agreement dated 28 May 2020 entered into among Yip's Ink Group, Ms. Lin Mei Ju and three Senior Management in relation to the disposal of an approximately 0.34% indirect equity interest in Bauhinia Ink through disposing the entire interests in 中山市盈煌投資諮詢合夥企業(有限合夥) (Zhongshan Yinghuang Investment Advisory Partnership (Limited Partnership)[#]) by Yip's Ink Group for an aggregate consideration of approximately RMB2.7 million (equivalent to approximately HK\$2.9 million), details of which are set out in the Company's announcement dated 28 May 2020;
- (viii) an agreement dated 28 May 2020 entered into among Yip's Ink Group, Ms. Lin Mei Ju and three Senior Management in relation to the disposal of an approximately 0.53% indirect equity interest in Bauhinia Ink through disposing the entire interests in 中山市裕貿投資諮詢合夥企業(有限合夥) (Zhongshan Yumao Investment Advisory Partnership

(Limited Partnership)[#]) by Yip's Ink Group for an aggregate consideration of approximately RMB4.2 million (equivalent to approximately HK\$4.6 million), details of which are set out in the Company's announcement dated 28 May 2020;

- (ix) three agreements all dated 10 June 2020 entered into among Yip's Ink Group, Ms. Lin Mei Ju and the Institutional Investors in relation to the disposal of an aggregate of approximately 3.23% indirect equity interest in Bauhinia Ink through disposing the entire interests in the Institutional Investors' Partnerships respectively by Yip's Ink Group for an aggregate consideration of approximately RMB25.8 million (equivalent to approximately HK\$28.0 million), details of which are set out in the Company's announcement dated 10 June 2020; and
- (x) a supplemental agreement dated 10 June 2020 entered into among Yip's Ink Group, Ms. Lin Mei Ju and the Institutional Investors in relation to the giving of certain representations and undertakings by Yip's Ink Group in favour of the Institutional Investors in respect of the interests of the Institutional Investors in the Institutional Investors' Partnerships.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions, letter or advices contained in this circular:

Name	Qualification
Halcyon Capital	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Spin-off

As at the Latest Practicable Date, Halcyon Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have been, since 31 December 2019 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Halcyon Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they are included.

7. MISCELLANEOUS

- (i) The company secretary of the Company is Mr. Ho Sai Hou, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (ii) The registered office of the Company is at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (iii) The head office and principal place of business of the Company in Hong Kong is at 27/F, Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong.
- (iv) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (v) The English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong during normal business hours from the date of this circular and up to 14 days thereafter:

- (i) memorandum and articles of association of the Company;
- (ii) the letter from the Independent Board Committee, the text of which is set out on pages 22 to 23 of this circular;
- (iii) the letter from Halcyon Capital, the text of which is set out on pages 24 to 50 of this circular;
- (iv) the written consent as referred to in the paragraph headed "Expert and Consent" in this appendix;

- (v) the material contracts as referred to in the paragraph headed “Material Contracts” in this appendix;
- (vi) the annual reports of the Company for the two years ended 31 December 2018 and 2019; and
- (vii) this circular.

NOTICE OF EGM



Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 408)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of shareholders (the “EGM”) of Yip’s Chemical Holdings Limited (the “**Company**”) will be held at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong at 3:00 p.m. on Monday, 7 September 2020 for the purpose of considering and, if thought fit, passing with or without modification the following ordinary resolution:

ORDINARY RESOLUTION

“THAT

- (a) the proposed spin-off of 洋紫荊油墨股份有限公司 (Bauhinia Ink Company Limited) (formerly known as 洋紫荊油墨(浙江)有限公司 (Bauhinia Variegata Ink & Chemicals (Zhejiang) Limited[#]) (“**Bauhinia Ink**”), a non-wholly-owned subsidiary of the Company, and a separate listing of the shares of Bauhinia Ink on the ChiNext Board of the Shenzhen Stock Exchange by way of the issue of new shares of Bauhinia Ink in a public offer and/or placing (the “**Proposed Spin-off**”) be and is hereby approved; and
- (b) any director of the Company be and is hereby authorised on behalf of the Company to do all such acts and sign or execute all such documents and to enter into all such transactions and arrangements as such director may in his opinion consider necessary, appropriate or desirable for the purpose of implementing and giving effect to the Proposed Spin-off.”

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

Hong Kong, 17 August 2020

NOTICE OF EGM

Notes:

1. The Hong Kong branch register of members of the Company will be closed from Wednesday, 2 September 2020 to Monday, 7 September 2020 (both dates inclusive) for the purpose of ascertaining entitlement of shareholders of the Company (the “**Shareholders**”) to attend and vote at the EGM. No transfer of the shares of the Company (the “**Shares**”) will be registered on those dates. In order to qualify for the Shareholders’ entitlement to attend and vote at the EGM, all transfer forms accompanied by the relevant share certificates should be lodged with the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 1 September 2020.
2. In view of the recent development of the COVID-19 pandemic, and in order to better protect the safety and health of the Shareholders, the Company will not serve refreshments at the EGM to avoid the coming into close contact amongst participants at the EGM. The Company wishes to remind the Shareholders and other participants who will attend the EGM in person to take personal precautions and abide by the requirements of pandemic precaution and control at the venue of the EGM. The Company also advises the Shareholders to attend and vote at the EGM by way of non-physical presence. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the EGM, and appoint the chairman of the EGM as a proxy to vote on relevant resolution as instructed in accordance with the relevant proxy form instead of attending the EGM in person. For details, please refer to the proxy form of the EGM. The Company will keep monitoring the evolving COVID-19 situation and may implement additional measures which, if any, will be announced closer to the date of the EGM.
3. A member of the Company who is a holder of two or more Shares, and who is entitled to attend and vote at the EGM is entitled to appoint more than one proxy or a duly authorised corporate representative to attend and vote in his stead. A proxy need not be a member of the Company. Completion and return of the proxy form will not preclude a member of the Company from attending the EGM and vote in person if the member so wishes, but the proxy’s authority to vote on a resolution is to be regarded as revoked if the member attends in person at the EGM and votes on that particular resolution.
4. A proxy form for the EGM is enclosed with the Company’s circular. In order to be valid, a proxy form together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney, must be deposited at (i) the head office of the Company at 27/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong; or (ii) the Company’s Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 48 hours before the time appointed for holding the meeting or adjourned meeting.
5. Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders, stand on the register in respect of the relevant joint holding.
6. As at the date hereof, the board of directors (“**Directors**”) of the Company comprises the following Directors:

Non-executive Directors:

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

Executive Directors:

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

* *Independent Non-executive Directors*

In this notice, the English translation/transliteration of the Chinese name(s) denoted is for illustration purposes only. In the event of any inconsistency, the Chinese name(s) shall prevail.