葉氏化工
YIP'S CHEMICAL

Yip's Chemical Holdings Limited

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

HIGHLIGHTS

Records Growth in Overall Revenue and Sales Volume

- Mainly driven by the solvents business, the total product sales tonnage continued to grow to approximately 590,000 metric tons, up 9% year-on-year.
- Achieved revenue close to HK$4.5 billion, up 18%.
- Gross profit margin of coatings and inks businesses under pressure from surge of major raw material costs, and in turn the Group's overall gross profit was affected.
- With the Group's cost control efforts, profit attributable to owners dropped by a mild 5% to approximately HK$53.6 million.
- The Board recommended the payment of an interim dividend of HK5 cents per share.

	For the six-month period ended 30 June 2017 (unaudited)	For the six-month period ended 30 June 2016 (unaudited)	% change
Revenue	**HK$4,478,340,000**	HK$3,811,663,000	+18%
Profit attributable to owners of the Company	**HK$53,628,000**	HK$56,389,000	-5%
Earnings per share	**HK9.5 cents**	HK10.0 cents	-5%
Interim dividend	**HK5.0 cents**	HK5.0 cents	NIL

	As of 30 June 2017 (unaudited)	As of 30 June 2016 (unaudited)	
Gearing ratio*	**57.3%**	54.5%	+2.8% points

* *Measured by net bank borrowings as a percentage of equity attributable to owners of the Company*

CHAIRMAN'S STATEMENT – REVIEW AND PROSPECTS

Review

It is my pleasure to present to all shareholders of Yip's Chemical Holdings Limited (the "Company") and its subsidiaries (collectively "Yip's Chemical" or the "Group") a business overview of the Group for the first half of 2017.

In the period, the overall operating environment was characterised by the following features: the fluctuation of the renminbi narrowed considerably, inbound investment increased again, geopolitics was comparatively stable and external demands grew. Boosted by the Belt and Road enthusiasm, the mainland's GDP edged up to 6.9%, despite the fact that enterprises were seeking growth outside of the country driven by export growth while overcapacity persisted and growth in domestic demand was progressing at a slower pace than expected. In the first half, thanks to the steady growth of the mainland economy and the significant economies of scale effect enjoyed by the solvents business, the revenue of the Group registered the largest growth in recent years to reach HK$4.48 billion, up 18% from the same period last year. Sales volume also hit a new high to close to 590,000 metric tons, up 9% from last year.

Profit attributable to owners, however, did not grow in tandem with revenue and recorded HK$53.6 million, down slightly by 4.9% from last year. One major attribution was that, to comply with the mainland's increasingly stringent environmental requirements on the chemical industry, the Group had to invest tens of million dollars in projects of upgrading facilities. Another reason was that the Group had for the first time appointed an external consultant to help with costs control and to comprehensively raise and optimize operational efficiency so as to further enhance foundation for the Group's long-term sustainable development and to bolster competitiveness. On the other hand, in the period, particularly the first quarter, all kinds of chemical raw materials generally underwent a huge and continuing price hike. As it takes time to pass on the rise in costs to customers, our core business segments suffered a drop in profit margin of 4 to 5 percentage points on average during the period. This greatly suppressed the gross profit of our products. Concurrently, the Group's gearing ratio was also affected and rose to 57%, which is still at a controllable level. After taking a comprehensive evaluation, the Board of Directors has resolved to declare an interim dividend of HK5 cents per share to all shareholders, the same as with last year.

Outlook

For the second half, no substantial changes in the overall operating environment are expected. Admittedly, a number of factors may constitute uncertainties in the market and pose temporary challenges to China and the world at large. These include the increasingly tense situation in the Korean Peninsula, the fact that the virtuous maintenance of the Sino-US relationship remains to be observed, as well as the massive reform in China's financial system about to be launched in the second half. Yet, China's economy is growing steadily and sustainably while a series of domestic demand stimulating measures are being scaled up. Moreover, the Belt and Road Initiative is not only stepping up but is also getting the recognition and participation of an increasing number of countries. These have all combined in building an irreversible trend. It is therefore expected that the Group will see a continuation of the strong momentum in revenue it has built in the first half. It is also expected that the slowdown in increases in all major raw material prices that began in the second quarter of the first half will continue. As prices become increasingly stable, the lagged effect of price increases for the Group's core products will gradually take hold. The Group is confident that overall gross profit margin will rise in the second half, though it will be challenging to reach the level attained last year.

Over the years, the Group has been upholding the principle of focusing on core businesses in striving for steady development and reasonable returns through the three key strategies of economies of scale, branding and product research & development. But in reality, as the market environment evolves rapidly, industry peers step up the pace of consolidation and competition becomes ever more ferocious, the Group is in no doubt facing the predicament of achieving continuously growing sales but unsatisfactory returns. Therefore, there is consensus that the Group should endeavour to achieve improvements in quantity as well as quality in overall business development without further delay. To this end, it has to ensure precise adjustments in investing resources in implementing its three key strategies and developing its core businesses. The Group has set up a dedicated department responsible for investing and expanding into related businesses as a means of seeking breakthroughs and seizing business opportunities.

Lastly, it is my pleasure to report to our shareholders that the Group moved out of its Fanling headquarters after having been there for almost 27 years on 1 May 2017 to better utilize its assets. In bringing the staff a more comfortable work environment, our fashionably decorated new headquarters in Wanchai will go a long way towards the fulfilment of "Thirst for Talents" as one of the seven driving forces of our corporate vision. Meanwhile, our old headquarters has also been rented out entirely at rentals with reasonable return. On behalf of the Board of Directors, I would like to express our sincere gratitude to the unrelenting efforts of our senior leadership team, the devoted contribution of the entire staff and the trust and support of all our partners.

REPORT OF THE CO-CHIEF EXECUTIVE OFFICERS

The key points on the Group's performance in the first half of 2017 are as follows:

1. Overall product sales tonnage grew continuously by 9% year-on-year to close to 590,000 tonnes. Sales revenue increased by 18% to close to HK$4.5 billion. The growth in sales was driven mainly by the solvents business, while sales in other business segments were at the same level as or slightly lower than last year.

2. The drop of 5 percentage points in overall gross profit margin to 14% was one of the greatest drops in recent years. This was attributable to the drastic increases in the prices of key raw materials and the time lag in implementing price increment for the Group's products. Such decline in gross profit margin in coatings and inks, the Group's two main business segments, has dragged down the Group's overall performance.

3. Due to the Group's efforts in controlling expenses and the relative stability of the renminbi, profits attributable to owners declined only slightly by 4.9% to around HK$53.6 million.

4. Substantial resources were invested in hiring a world-renowned consultancy firm to carry out a 30-week optimization project for the coatings group to improve the efficiency of various processes.

5. Through appropriate use of funds, the Group's gearing ratio was maintained at below 60%.

6. In the period, the fair value of the Group's investment properties increased by around HK$8.7 million.

Reviews of the Group's four business segments are as follows:

Solvents

Export sales volume grew heftily, pushing overall product sales tonnage up by 12% to almost 480,000 tonnes. As solvent prices rose, sales revenue also shot up 34% to around HK$3 billion. This further highlighted the advantage of the economies of scale effect that brought in increases in sales volume without corresponding increases in expenses. Consequently, in the period, operating profit reached HK$132 million, up 27% year-on-year.

Since capacity utilization for all lines of products has reached 90% or above, the management is seriously studying the possibilities of adding more product lines or expanding the capacities of existing ones. A piece of land of about 80 "mu" (畝) in the Taixing plant in Jiangsu which is already endowed with a full complement of infrastructure is available. Diversifying into new products with good prospects will be the most important task in the second half. In the long run, the solvents business will actively plan resources and look into upstream expansion or merger and acquisition opportunities of peers to maximize its economies of scale effect.

Coatings

Higher than expected raw material cost escalation had profound impact on our coatings business in first half of 2017 in that gross margin rate was dampened by 9 percentage points compared to same period last year. Overall gross profit dropped by 30% to HK$187 million while sales revenue recorded HK$776 million compared to HK$814 million in first half of 2016.

On a positive note, better product mix to drive higher margin sales of environmental emulsion paints in architectural coatings segment has resulted in a relatively lower decline in gross margin rate to 7 percentage points while strategic consolidation of our industrial coatings segment has seen sales volume uplifted by 6% and revenue by 3%. In addition, structural cost reduction initiatives by exiting high cost and low margin business segments and deployment of consulting firm to streamline business processes have helped lower cost of operation. Operating profit in the period amounted to HK$4.6 million, a decrease of HK$10.5 million compared to same period last year.

With the tapering off of soaring raw material cost and more solid business fundamentals in place, we are cautiously optimistic that performance of coatings business would be healthier come second half of the year.

Inks

Similar to coatings, our inks business result in first half of the year has been dampened by acute raw material cost increases in that gross margin rate has dropped by 5 percentage points leading to overall gross profit reduction of 24% to HK$121 million. Sales revenue dropped mildly to HK$627 million compared to HK$660 million in first half of 2016.

The team has worked hard to maintain sales volume, leveraging our leadership position in China, while engaging customers to propose price adjustment and exercising disciplines in cost management. The operating profit dropped to HK$19.7 million, compared to HK$48.2 million same period last year.

It is expected that lagging effect of price increase and hence margin improvement would be reflected in second half of the year when raw material costs start to stabilize in recent months. At the same time, introduction of environmentally friendly products would resume its traction when the market dynamics become more favorable.

Lubricants

Milestone success of lubricants in moving up the higher tier automotive engine oil in past 12 months has borne some fruits in that overall gross margin rate has managed to stay at par with that of same period in 2016, despite upward raw material cost pressure.

Determination to focus on right business segment and let go low margin business though has led to reduction in sales revenue from HK$161 million to HK$146 million year-on-year while gross profit dropped from HK$39.2 million in first half of 2016 to HK$36.8 million. On the other hand, segment focus coupled with robust business management has contributed to significant cost reduction – which in turn has supported the funding of the brand revitalization of our Hercules automotive lubricants series. As a result, operating profit for the period has recorded a mild negative figure of HK$0.4 million which was still better than the HK$1.3 million loss reported in first half of 2016.

Management of the business would continue to strengthen our position in automotive engine oil by further building Hercules brand and upgrading our channel capability to capture more customers and market share, hence further contributing to the sustainability of the business for years to come.

Outlook

Solvents business would continue to be our locomotive for sales growth and margin uplift. For other segments, we expect with the tapering off of the raw material costs spike, robust organization muscles so built and strategy to religiously drive segment focus, overall gross margin rate and profitability would improve in second half of the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was 57.3% (30 June 2016: 54.5%). The gearing ratio slightly increased by 2.8 percentage points. The rise in gearing ratio was mainly attributable to purchase of the new Hong Kong headquarters in Wanchai and an increase in working capital for the supporting growth in sales as well as rise in receipts of banker's acceptances (i.e. bills receivables). During the interim period, the Group continued to mitigate its exposure to Renminbi ("RMB") fluctuation by remitting surplus fund back from the mainland. Although RMB rose 3.5% in the first half of 2017, the Group took a prudent view to narrow the foreign exchange exposure position as much as possible to minimize the impact of RMB fluctuation on its results. As for the operating cash flow, the Group recorded a net cash outflow of HK$87,997,000, compared to a net cash inflow of HK$89,154,000 in the same period of 2016. The increase in operating cash outflow was mainly attributable to the reduction in the amount of creditors and accrued charges and an increase in inventories.

As at 30 June 2017, the gross bank borrowings of the Group amounted to HK$2,402,276,000 (31 December 2016: HK$2,246,319,000). After the deduction of short-term bank deposits, bank balances and cash amounting to HK$858,241,000 (31 December 2016: HK$971,103,000), the net bank borrowings amounted to HK$1,544,035,000 (31 December 2016: HK$1,275,216,000). Out of the gross bank borrowings, HK$905,562,000 (31 December 2016: HK$789,848,000) were short-term loans and repayable within one year. Such loans were denominated in two currencies, namely HK$813,514,000 in Hong Kong Dollar and HK$92,048,000 in RMB (31 December 2016: HK$789,848,000 in Hong Kong Dollar). Long-term loans repayable after one year amounted to HK$1,496,714,000 (31 December 2016: HK$1,456,471,000), and they were all denominated in Hong Kong Dollar. The short-term bank deposits, bank balances and cash were denominated in the following currencies, namely HK$179,651,000 in Hong Kong Dollar, HK$518,295,000 in RMB, HK$159,801,000 in US Dollar, HK$494,000 in other currencies (31 December 2016: HK$173,722,000 in Hong Kong Dollar, HK$582,928,000 in RMB, HK$214,447,000 in US Dollar and HK$6,000 in other currencies).

In order to refinance previous mid-to-long-term loans which are now due for repayments, the Group has obtained 3-4 years bilateral long-term loans of HK$660,000,000 in the first half of 2017. As at 30 June 2017, mid to long-term loans (including portions repayable within one year of HK$813,514,000) accounted for 96% of the total bank loans as most of the short-term loans have been repaid by the surplus RMB funds returned from the mainland. Since some of the borrowings of the Group carry interest at floating rates, the funding costs are subject to interest rate fluctuation. In anticipation of the rate fluctuation, the Group has, from time to time, made arrangements with the banks such as interest rate swaps to fix the interest rate for most of its bilateral long-term and mid-term loans to hedge against the risk of such fluctuations. As at 30 June 2017, the Group's loans under fixed rate arrangement accounted for 64% and 62% of its total and non-current bank borrowings, respectively. This arrangement should help to alleviate the expected higher interest costs resulting from Hong Kong interest rate hikes in future following the increase of US federal interest rate since early 2016.

As at 30 June 2017, a total of 18 banks in Hong Kong and the Mainland China granted banking facilities totaling HK$5,598,386,000 to the Group, providing sufficient funds to meet the present working capital and expansion requirements. Of these banking facilities, 72%, 26% and 2% were denominated in Hong Kong Dollar, RMB and US Dollar respectively. As explained in previous reports, the Group has been expanding its RMB loan portfolio to address its exposure to potential further RMB depreciation and interest rate increments in Hong Kong. In the interim period, the Group has obtained RMB revolving loan facilities of RMB250,000,000 and has made several drawdown of RMB80,000,000 in total. The Group is also working closely with its major banks to set up cross-border RMB cash pooling to facilitate fund management between Hong Kong and the Mainland China. The Group will continue to strike an optimal balance between lowering borrowing costs and minimizing currency exposure by structuring an optimal combination of Hong Kong Dollar, US Dollar, RMB or other foreign currency bank loans in Hong Kong and the Mainland China.

HUMAN RESOURCES

As of 30 June 2017, the Group has a total number of 3,697 employees. 76 employees are from Hong Kong while 3,621 of them are from different provinces in the Mainland China.

The Group places great emphasis on the management and development of human capital. The employees are encouraged to strive for improvement through internal and external training program, on-the-job training and participation in the Group's educational subsidies, allowing for self-development in knowledge and skills and to maximize their potential in their work. We offer suitable platform for the development of highly committed and capable employees, regardless of their background, geographical region or educational levels. Through versatile experience in challenging roles, the current management team of the Group has come through the ranks to advance to positions of management. Apart from the focus of developing employees internally, the Group seeks not only to attract talent from outside but also to recruit top graduates from the best tertiary institutions in Hong Kong, the Mainland China, and abroad as well as to provide them with training and development opportunities. The Management Trainee Program has been implementing for a number of years. Some of the management trainees have demonstrated their excellent capabilities and have been advanced to positions of leadership within the Group.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2017, the Company has complied with "Corporate Governance Code and Corporate Governance Report" (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that the Company does not have a nomination committee (CG Code provisions A.5.1 to A.5.4). The Company considers it is more beneficial and efficient for the full Board to perform the functions of the nomination committee.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was formed in November 1998. During the six months ended 30 June 2017, the Audit Committee comprised one non-executive director and three independent non-executive directors of the Company and is chaired by Mr. Wong Kong Chi. Major duties of the Audit Committee include reviewing financial information of the Group, overseeing the Group's financial reporting system and internal control procedures, and monitoring of the relationship between the Group and its external auditors.

An Audit Committee meeting was held on 10 August 2017 to review the Group's unaudited interim financial statements for the six months ended 30 June 2017. Deloitte Touche Tohmatsu, the Group's external auditor, has carried out a review of the Group's unaudited interim financial statements for the six months ended 30 June 2017, which is prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the securities transactions of the directors of the Company (the "Directors"). After making specific enquiry, all Directors have confirmed that they have fully complied with the required standard as set out in the Model Code during the six months ended 30 June 2017.

UNAUDITED INTERIM RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017, together with comparative figures for the corresponding period of last year. The interim financial report has not been audited, but has been reviewed by the Company's auditor and Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Six months ended 30 June	
		2017	2016
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**4,478,340**	3,811,663
Cost of sales		**(3,849,308)**	(3,106,159)
Gross profit		**629,032**	705,504
Other income	*4a*	**29,645**	29,873
Other gains and losses	*4b*	**2,941**	(18,619)
Selling and distribution expenses		**(187,973)**	(196,624)
General and administrative expenses		**(320,299)**	(357,380)
Interest expense		**(27,061)**	(30,622)
Profit before taxation	*5*	**126,285**	132,132
Taxation	*6*	**(42,728)**	(54,383)
Profit for the period		**83,557**	77,749
Other comprehensive income (expenses):			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**151,873**	(56,105)
Gain on revaluation of properties		**31,702**	240
		183,575	(55,865)
Items that may be reclassified subsequently to profit or loss:			
Net adjustments on cash flow hedges		**(7,076)**	(5,226)
Exchange differences arising on translation		**10,009**	(2,005)
		2,933	(7,231)
Other comprehensive income (expenses) for the period		**186,508**	(63,096)
Total comprehensive income for the period		**270,065**	14,653
Profit for the period attributable to:			
Owners of the Company		**53,628**	56,389
Non-controlling interests		**29,929**	21,360
		83,557	77,749
Total comprehensive income (expenses) attributable to:			
Owners of the Company		**222,318**	(547)
Non-controlling interests		**47,747**	15,200
		270,065	14,653
Earnings per share	*8*		
– Basic		**HK9.5 cents**	HK10.0 cents
– Diluted		**HK9.5 cents**	HK10.0 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**30.6.2017** ***HK$'000*** **(Unaudited)**	31.12.2016 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*9*	**1,727,034**	1,597,930
Prepaid lease payments		**253,727**	248,805
Investment properties	*9*	**293,854**	226,330
Goodwill		**69,574**	69,574
Intangible assets		**658**	1,217
Deposits	*10*	**28,671**	36,089
Other non-current asset		**4,600**	4,600
Derivative financial instruments		**1,770**	4,468
		2,379,888	2,189,013
Current assets			
Inventories		**879,621**	808,203
Trade and bills receivables	*11*	**2,899,170**	2,804,610
Other debtors and prepayments	*11*	**291,102**	353,591
Prepaid lease payments		**6,904**	6,684
Derivative financial instruments		**972**	4,152
Short-term bank deposits – with original maturity within three months		**131,860**	49,175
Bank balances and cash		**726,381**	921,928
		4,936,010	4,948,343
Current liabilities			
Creditors and accrued charges	*12*	**1,569,434**	1,771,877
Taxation payables		**43,392**	72,002
Dividend payables to the owners of the Company		**56,389**	–
Derivative financial instruments		**1,184**	311
Bank borrowings – amount due within one year		**905,562**	789,848
		2,575,961	2,634,038
Net current assets		**2,360,049**	2,314,305
Total assets less current liabilities		**4,739,937**	4,503,318
Non-current liabilities			
Derivative financial instruments		**428**	47
Bank borrowings – amount due after one year		**1,496,714**	1,456,471
Deferred tax liabilities		**42,809**	41,812
		1,539,951	1,498,330
		3,199,986	3,004,988
Capital and reserves			
Share capital		**56,389**	56,381
Reserves		**2,638,940**	2,472,868
Equity attributable to owners of the Company		**2,695,329**	2,529,249
Non-controlling interests		**504,657**	475,739
		3,199,986	3,004,988

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	**(87,997)**	89,154
Net cash (used in) from investing activities		
Purchases of property, plant and equipment	**(117,481)**	(35,659)
Deposits paid for acquisition of property, plant and equipment	**(19,752)**	(16,009)
Purchase of an investment property	**(17,961)**	–
Deposit paid for acquisition of an equity investment	**(5,753)**	–
Interest received	**4,507**	9,859
Proceeds from disposal of property, plant and equipment and prepaid lease payments	**188**	1,417
Placement of short-term bank deposits with original maturity more than three months	**–**	(100,000)
Withdrawal of short-term bank deposits with original maturity more than three months	**–**	24,363
	(156,252)	(116,029)
Net cash from (used in) financing activities		
New borrowings raised	**894,093**	1,072,950
Proceeds from issue of shares	**151**	195
Repayment of borrowings	**(738,136)**	(1,337,624)
Interest paid	**(27,061)**	(30,622)
Dividends paid to non-controlling shareholder of a subsidiary	**(18,829)**	(12,416)
	110,218	(307,517)
Net decrease in cash and cash equivalents	**(134,031)**	(334,392)
Cash and cash equivalents at beginning of the period	**971,103**	1,349,905
Effect of foreign exchange rate changes	**21,169**	(5,863)
Cash and cash equivalents at end of the period	**858,241**	1,009,650
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**726,381**	926,159
Short-term bank deposits with original maturity within three months	**131,860**	83,491
	858,241	1,009,650

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments and investment properties, which are measured at fair values.

In the current interim period, the Company and its subsidiaries (collectively referred as the "Group") have applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

For management purposes, the Group's operations are currently classified under following business divisions, namely solvents, coatings, inks and lubricants. These divisions are the basis on which the Group reports its operating segment information.

Principal activities of the Group's reportable segments are as follows:

Solvents	–	manufacture of and trading in raw solvents and related products
Coatings	–	manufacture of and trading in coatings and related products
Inks	–	manufacture of and trading in inks and related products
Lubricants	–	manufacture of and trading in lubricants products

Segment results represent the profit earned or loss incurred by each segment without allocation of interest income, net exchange gain or loss at corporate level, fair value change on derivative financial instruments, gain on fair value change on investment properties, central administration costs and interest expense. This is the information reported to the Co-Chief Executive Officers of the Company, the Group's chief operating decision makers, for the purposes of resource allocation and performance assessment.

Segment revenue and results

An analysis of the Group's revenue and results by operating segments for the period under review is as follows:

	Solvents *HK$'000*	**Coatings** *HK$'000*	**Inks** *HK$'000*	**Lubricants** *HK$'000*	**Reportable segment total** *HK$'000*	**Elimination** *HK$'000*	**Consolidated** *HK$'000*
Six months ended 30 June 2017 (unaudited)							
Segment revenue							
External sales	**2,934,101**	**770,833**	**627,269**	**146,137**	**4,478,340**	**–**	**4,478,340**
Inter-segment sales	**50,371**	**5,096**	**180**	**41**	**55,688**	**(55,688)**	**–**
Total segment revenue	**2,984,472**	**775,929**	**627,449**	**146,178**	**4,534,028**	**(55,688)**	**4,478,340**
Results							
Segment results	**132,432**	**4,566**	**19,654**	**(448)**	**156,204**	**(107)**	**156,097**
Gain on fair value change on investment properties *(Note 4(b))*							**8,675**
Unallocated income							**4,735**
Unallocated expenses							**(16,161)**
Interest expense							**(27,061)**
Profit before taxation							**126,285**

	Solvents *HK$'000*	Coatings *HK$'000*	Inks *HK$'000*	Lubricants *HK$'000*	Reportable segment total *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Six months ended 30 June 2016 (unaudited)							
Segment revenue							
External sales	2,179,447	812,487	658,534	161,195	3,811,663	–	3,811,663
Inter-segment sales	52,362	1,809	1,376	29	55,576	(55,576)	–
Total segment revenue	2,231,809	814,296	659,910	161,224	3,867,239	(55,576)	3,811,663
Results							
Segment results	104,524	15,046	48,235	(1,325)	166,480	(267)	166,213
Exchange loss arising from a foreign currency bank loan *(Note 4(b))*							(10,583)
Fair value gain on derivative financial instruments of a cross currency swap contract and foreign exchange forward contracts *(Note 4(b))*							9,686
Unallocated income							20,632
Unallocated expenses							(23,194)
Interest expense							(30,622)
Profit before taxation							132,132

Inter-segment sales are charged at the similar terms as external sales.

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(a) The Group's other income mainly comprises:		
Interest income	**4,507**	9,859
Government grants recognised	**7,718**	10,781
(b) The Group's other gains and losses comprise:		
Exchange loss arising from a foreign currency bank loan *(Note (i) and Note 3)*	**–**	(10,583)
Fair value gain on derivative financial instruments of a cross currency swap contract and foreign exchange forward contracts *(Note (i) and Note 3)*	**–**	9,686
Sub-total	**–**	(897)
Allowance for bad and doubtful debts *(Note (ii))*	**(2,855)**	(9,063)
Loss on disposal of property, plant and equipment and land use rights	**(1,555)**	(2,861)
Net exchange loss arising from other foreign currency balances and transactions	**(1,324)**	(5,798)
Gain on fair value change of investment properties *(Note 3)*	**8,675**	–
	2,941	(18,619)

Notes:

(i) In April 2013, the Group raised a bank loan in Australian dollar ("AUD") of AUD24,800,000. In order to minimise the exposure to foreign currency risk, the Group entered into a cross currency swap contract to hedge economically against the foreign currency bank loan. The bank loan and the cross currency swap had been fully settled during the six months ended 30 June 2016.

(ii) During the period, the directors of the Company assess the recoverability of the trade receivables on a regular basis and determine to provide the allowance for bad and doubtful debts after taking into accounts of the repayment history and settlement situation of the relevant debts.

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**569**	609
Cost of inventories recognised as an expense	**3,849,308**	3,106,159
Depreciation of property, plant and equipment	**67,808**	68,907
Release of prepaid lease payments	**3,392**	2,853

6. TAXATION

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax – Mainland China		
Enterprise Income Tax	**35,251**	39,492
Withholding Tax	**7,557**	16,153
	42,808	55,645
Deferred taxation		
Current period	**(80)**	(1,262)
	42,728	54,383

Hong Kong Profits Tax has been provided at the rate of 16.5% of the assessable profit for the period under review.

Under the law of the People's Republic of China ("PRC") on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of EIT Law, the tax rate of the subsidiaries in the Mainland China is 25% from 1 January 2008 onwards.

Certain of the Company's subsidiaries operating in the Mainland China are eligible as High and New Technology Enterprise and are entitled to an income tax rate of 15%. Enterprise Income Tax of the Mainland China has been provided for after taking these tax incentives into account.

Deferred taxation on undistributed profits of subsidiaries has been recognised taking into accounts the dividends to be distributed from profits earned by certain subsidiaries in the Mainland China starting from 1 January 2008 under the Implementation Regulation of the EIT Law of the Mainland China that requires withholding tax with tax rate of 5% upon the distribution of such profits to the shareholders which are not residents in the Mainland China. Deferred taxation has not been recognised in respect of certain undistributed retained profits earned by the subsidiaries in the Mainland China starting from 1 January 2008 amounting to HK$1,619,588,000 (31 December 2016: HK$1,491,194,000) as the directors of the Company are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

7. DIVIDENDS

During the period, a final dividend of HK10.0 cents per share totalling HK$56,389,000 in respect of the year ended 31 December 2016 were declared and subsequently paid in July 2017.

For the six months ended 30 June 2016, a special dividend of HK4.5 cents per share totalling HK$25,371,000 in respect of the year ended December 2015 was paid to the owners of the Company.

Subsequent to 30 June 2017, the directors of the Company resolved to declare an interim dividend of HK5.0 cents per share totalling approximately HK$28,194,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK5.0 cents per share totalling HK$28,191,000). The interim dividend is payable on or about 11 October 2017 to the owners of the Company whose names appear on the Company's register of members on 8 September 2017.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings for the purposes of calculating basic and diluted earnings per share	**53,628**	56,389

	Number of shares	
	'000	*'000*
Weighted average number of shares for the purpose of calculating basic earnings per share	**563,858**	563,809
Effect of dilutive potential ordinary shares:		
Share options	**71**	45
Weighted average number of shares for the purpose of calculating diluted earnings per share	**563,929**	563,854

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group incurred approximately HK$147,281,000 (six months ended 30 June 2016: HK$63,730,000) mainly for additions to a property for self-use as its office premises and manufacturing plant in the Mainland China to expand its manufacturing capacity.

During the period, certain properties with fair value at the date of transfer of HK$34,600,000 (2016: certain properties and prepaid lease payments with fair value at the date of transfer of HK$43,678,000) were transferred to investment properties due to change of use as a result of commencement of relevant leases. The fair value at the date of transfer was determined by an independent valuer and the excess over the carrying amount was recognised in other comprehensive income and increased property revaluation reserve at the date of transfer.

During the period, the Group incurred approximately HK$21,620,000 (six months ended 30 June 2016: nil) for acquisition of an investment property which have been leased to Ip Chi Shing Charitable Foundation Limited, a related company controlled by a director of the Company, for the use as an office premise in Hong Kong.

During the period, an increase in fair value of investment properties of HK$8,675,000 (2016: nil) had been recognised directly in profit or loss. The valuations are carried out by independent qualified professional valuers, which are not connected with the Group. The valuations by the independent qualified professional valuers are arrived by direct comparison approach with reference to recent market prices for similar properties in similar locations and conditions, investment approach with reference to market rent and depreciated replacement cost approach with reference to current cost of replacement in Hong Kong and the Mainland China.

10. DEPOSITS

	30.6.2017 ***HK$'000*** **(Unaudited)**	31.12.2016 *HK$'000* (Audited)
Deposits paid for acquisition of property, plant and equipment	**22,918**	36,089
Deposit paid for acquisition of an equity investment *(Note)*	**5,753**	–
	28,671	36,089

Note: During the period, the Group entered into a sale and purchase agreement with an independent third party to acquire 3.33% equity interest in the registered capital of 深圳市補優優網絡科技有限公司 ("Target"), a company incorporated in the Mainland China, for a cash consideration of RMB5,000,000 (equivalent to HK$5,753,000). The principal activity of the Target is providing indoor renovation and maintenance services. The consideration was fully paid and the acquisition has not been completed as at 30 June 2017.

11. TRADE AND BILLS RECEIVABLES, OTHER DEBTORS AND PREPAYMENTS

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**1,704,872**	1,671,012
Bills receivables	**1,194,298**	1,133,598
	2,899,170	2,804,610

Other debtors and prepayments mainly consist of payments in advance to suppliers, commission receivable from suppliers and value-added tax receivable.

An aged analysis of trade receivables presented based on the invoice date, net of allowance for bad and doubtful debts of HK$60,019,000 (31 December 2016: HK$68,075,000) at the end of the reporting period is as follows:

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 3 months	**1,433,055**	1,374,642
4 – 6 months	**195,234**	226,663
Over 6 months	**76,583**	69,707
	1,704,872	1,671,012

The Group allows a credit period ranging from 30 to 90 days to its trade customers generally. A longer credit period may be granted to large or long established customers with good payment history.

Bills receivables represent 銀行承兑匯票 ("banker's acceptances"), i.e. time drafts accepted and guaranteed for payment by PRC banks. The Group accepts the settlement of trade receivables by customers using banker's acceptances accepted by PRC banks on a case by case basis.

These banker's acceptances are issued to or endorsed to the Group and with due date in general not longer than six months from the date of issuance. The banker's acceptances will be settled by the banks, which are mainly state-owned banks or commercial banks in the PRC, on the due date of such banker's acceptances.

12. CREDITORS AND ACCRUED CHARGES

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade creditors	**1,205,542**	1,362,338
Other creditors and accrued charges	**363,892**	409,539
	1,569,434	1,771,877

Other creditors and accrued charges mainly consist of receipts in advance from customers, payable of staff salaries and benefits, sales commission, storage and transportation, etc.

An aged analysis of trade creditors at the end of the reporting period based on the invoice date is as follows:

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 3 months	**1,016,673**	1,139,905
4 – 6 months	**177,255**	218,760
Over 6 months	**11,614**	3,673
	1,205,542	1,362,338

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK5 cents per share for the six months ended 30 June 2017 (six months ended 30 June 2016: HK5 cents per share). The interim dividend will be payable on or about 11 October 2017 to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 8 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 6 September 2017 to 8 September 2017 (both dates inclusive) for the purpose of determining the entitlements of the members of the Company to the interim dividend. No transfer of shares may be registered during the said period. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Share Registrars in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 5 September 2017.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the HKEx website (http://www.hkex.com.hk) and the Company's website (http://www.yipschemical.com). The 2017 interim report containing all the information required by the Listing Rules will be published on the HKEx website and the Company's website in due course.

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

Hong Kong, 15 August 2017

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

Non-executive Directors:
Mr. Ip Chi Shing *(Chairman)*
Mr. Tong Wui Tung
Mr. Wong Kong Chi*
Mr. Ku Yuen Fun*
Mr. Ng Siu Ping*

Executive Directors:
Mr. Yip Tsz Hin *(Deputy Chairman and Co-Chief Executive Officer)*
Mr. Wong Yuk *(Co-Chief Executive Officer)*
Mr. Ho Sai Hou *(Chief Financial Officer)*
Mr. Kwong Kwok Chiu

* *Independent Non-executive Directors*