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 2013

HIGHLIGHTS

	For the six-month period ended 30 June 2013 (unaudited)	For the six-month period ended 30 June 2012 (unaudited)	% Change
Turnover	HK$4,403,352,000	HK$4,045,144,000	+9%
Net profit attributable to Owners of the Company	HK$128,770,000	HK$123,875,000	+4%
Earnings per share	HK 22.9 cents	HK 22.3 cents	+3%
Interim dividend	HK 10 cents	HK 10 cents	-

CHAIRMAN'S STATEMENT - REVIEW & PROSPECTS

It is my pleasure to present to all our shareholders with a business overview of the Group in the first half of 2013. During the period, our turnover hit a record high once again by reaching HK$4,403,352,000, which was a growth of 9% from the same period last year. In terms of sales volume, the growth was even as high as 10%. For the period, profit attributable to shareholders was HK$128,770,000, representing a modest growth of 4% on the year. Though the Group's overall results fell slightly short of expectations, operations in all areas proceeded in accordance with plans and payoffs of our business quality improving measures were getting noticeable. In the last few years, as the Group's business grew continuously at an accelerated pace, the demand for capital also increased. But under the Group's relentless efforts in adhering to prudent financial management and maintaining robust development, gearing ratio in the first half was still kept at less than 60%. Therefore, in accordance with the Group's established dividend policy of rewarding shareholders actively, the Board of Directors proposed an interim dividend of HK 10.0 cents per share, which remained the same from the same period of 2012.

REVIEW

During the reporting period, the business environment at large was grimmer and more challenging than expected. With the exception of the US, in countries with large real GDP, growth momentum was still lacking, demand remained sluggish and the economy was sickly. Furthermore, the rise in Renminbi exchange rate during the period had led to substantial increases in costs and drastic reduction in export competitiveness, giving a significant negative impact to China's export business. On another front, factors such as the continuous faltering domestic real estate market, the languid securities market, the tightening money supply and the slow progress of structural transformation of the economy had all greatly affected the consumption sentiments. As both internal and external demand fell sharply, the problem of serious overcapacity spanning different industries became all the more pronounced. As a result, competition among industry peers was more brutal. As the share of the Group's business in the mainland has reached as much as 96%, that our business managed to gain a small step forward under such turbulent operating conditions was not at all easy.

PROSPECTS

The listless global economy as well as the problems of slacking demand and serious overcapacity in the mainland are challenges that cannot be overcome in the short-term and will probably take two or three years before there is any hope of abating gradually. Figures recently released by the Chinese government indicate that the economy will continue its downward slide in the second half of this year. Therefore, to make the annual growth target of 7.5%, the government will introduce some appropriate administrative measures at appropriate moments to stimulate the revival of the economy. In spite of all the uncertainties and challenges in the overall business environment, the Group is more determined to turn the challenges into opportunities. In addition to striving to realise sales targets according to the business development strategies it has drawn up, the Group will continue to intensify its business quality improvement measures including business restructuring, plant consolidation, R&D boosting and cost controls. Moreover, in view of the possibility that the US economy may continue to improve, the Group expects that the quantitative easing policy that has a large impact on the whole world may then be tightened gradually, a rate-hike cycle may start in advance and the capital supply situation may turn for the worse. To meet business development needs, the Group's borrowing in the next two years will still be kept at a relatively high level. In this area, the Group will maintain a high degree of vigilance and will implement more stringent and preventive monitoring measures to strike a nice balance between prudent applications of funds and continued steady development of its businesses. Overall, I am fully confident and expectant that the Group will achieve in advance its HK$10 billion sales target in 2013 and that its operational efficiency will see gradual improvements. I would like to take this opportunity to convey my sincere thanks to the Board of Directors for its leadership, to the executive teams for their endeavours, to all our employees for their hard work and to all our partners for their trust and support.

REPORT OF THE CHAIRMAN OF THE GROUP EXECUTIVE COMMITTEE

In the first half of 2013, the Group's business situation was affected by less than desirable overall business conditions. In view of the prevailing circumstances, the Group Executive Committee formulated and implemented a business strategy of "Soundness First; Optimisation Focused" that led to a continued growth in the Group's results. In particular, in the area of "prudent applications of funds", a series of facilitating measures were taken and results should be increasingly evident.

Three major developments during the reporting period were worth noting:

1. Due to a slowdown in China's economic growth, demand for chemical products slipped and supply was in excess. Nevertheless the turnover of the Group hit historical high once again, albeit growth over the same period last year was a mere 9%;
2. Labour costs and operating expenses kept rising;
3. Through prudent control of capital expenditure and close monitoring of working capital, the Group Executive Committee was able to keep the Company's gearing ratio from soaring.

The Group's three core businesses are reported as follows:

SOLVENTS

Sales of our flagship products, acetate solvents, achieved a breakthrough again as sales volume reached the 300,000 metric ton mark in the first half. With the turnover of the mixed solvents business maintaining a growth of 5% and the new product butyl acrylate going into production successfully in May, the solvents business recorded an overall turnover of HK$2,714,291,000 or a year-on-year growth of 13% for the reporting period. In this period, competition in the acetate solvents market was intense. In addition, as butyl acrylate just entered the market, and its sales were in line with expectation, there were still rooms for improvement in terms of raw material sourcing, production costs and integrative logistics, so its profit contribution for the solvents business as a whole was yet to be seen. Operating profit for the period was HK$117,373,000 or a decline of 5.9% from the same period last year.

Because of the weak overall demand for acetate solvents, there was fierce competition and generally under-utilisation of capacity in the industry. The management of the Group will stick to its proven business strategies: maintaining economy of scale, increasing the number of direct-sales customers and improving the Group's overall competitiveness.

COATINGS

Turnover of our coatings business hit a new high in the first half and reached HK$1,552,698,000 or a year-on-year growth of 4%. In the reporting period, because of such factors as a slackening in China's real estate market and a slowdown in domestic demand, sales growth was only in the single-digit range while operating profit was down 26.3% from the same period last year to HK$50,484,000.

In this period, this business met several major challenges including:

1. As the new Jinshan plant came into operation, sales and capacity were not growing in lockstep, making expense growth of this plant greater than its profit;
2. Though business restructuring within this division brought about fluctuations in the short-term, long-term business quality will be improved;
3. In the period, the profitability of the coatings business was affected by the one-off additional expenses from plant consolidation.

The management is convinced that, as the capacity of the coatings business is increased continually, surges in sales will be a critical factor in driving performance upwards. Subsequent to the various optimisation measures implemented last year, gross profit margin edged up steadily in the first half of this year. The effects of such measures should be further apparent in the traditional peak season in the second half. Meanwhile, the management has come to the consensus that it would not be easy to change the business environment, so the alternative is to make self-improvements and explore rooms for cutting expenses. In other words, while endeavouring to boost our incomes, we should cut down our operating expenses so that we can see the double benefits of achieving sales growth externally and becoming lean and nimble internally.

The Group's R&D centre has been running smoothly. In June this year, the purchase of the R&D building in Zhangjiang, Shanghai was announced, underscoring the Group's high priority and determination in product research and development.

LUBRICANTS

This business was run under two brand names and two companies. Combination of both has resulted in evident consolidation effect. In the reporting period, turnover increased slightly from the same period last year to HK$203,266,000. Also, the achievement of an operating profit of HK$1,294,000 marked the turning around of the division from its operating loss of HK$7,373,000 in the same period last year.

Our lubricants business has already gone through the worst of its time. Now, under one company, one big plant and one unified leadership, it will no doubt be able to overcome any difficulty and bring profits to the Group.

As we enter the traditional peak season in the second half of 2013, we are pleased to see improvements in our business situations. The management is confident that there will be further growth in our businesses.

CORPORATE SOCIAL RESPONSIBILITY

1. WORKPLACE PRACTICE

SAFETY FIRST

The Group's policies and systems related to safety production responsibility was established last year with the objectives of strengthening management in safety production and devolving the responsibility of meeting safety production requirements to different functional units for production, technology, transportation, etc within their respective business scopes. In the reporting period, the safety production responsibility system was in force in all subsidiaries. Under the system, personnel in different posts in every subsidiary will take up responsibility for safety production — each person will be responsible for safety management in addition to regular duties in management, production or business operations.

In the period, the preparation work of root cause analysis of safety incidents was started. This involved carrying out in-depth analysis of safety incidents to determine and analyse their causes, find out solutions and formulate corresponding preventive measures.

Through regular plant safety checks and specific inspections, the Group's Health, Safety and Environment Department has been making continuous improvements in safety management. In the first half of 2013, a total of eight safety inspections were carried out to all mainland plants. The Group's safety management personnel attended 1,212 hours of safety training offered by related mainland bodies.

2. ENVIRONMENTAL PROTECTION

The efforts of "Bauhinia Variegata" inks in developing green products have been seeing positive results with the launch of aromatic-free cum ketone-free inks, soy inks, alcohol-based inks and water-based inks. The Group's household paints under the Bauhinia brand are also committed to providing consumers with eco-friendly coating products. In the reporting period, Bauhinia Paints launched an all-new premium odour-absorbing glossy wall paint that employs Bauhinia Paints' innovative technology in odour absorption and is completely free of harmful substances such as benzene, mercury, lead. All emulsion paints, wood paints and engineering paints produced by Bauhinia Paints have been inspected and approved by specialists and relevant regulatory bodies. Since all product indices are in compliance with related Chinese standards, they have been recognised by China Association of Decorative Building Materials as "Green, Eco-friendly and Energy-saving Products".

3. OPERATING PRACTICES

Last year, a set of "Ethics and Capability Emphasising" codes of conducts were drawn up. In the period, to better promote continually such a culture among employees, an essay competition named "Ethics and Capability Emphasising around Us" was run. All employees were invited to express their understanding and insights on ethical and capability emphasising behaviours around them. In order to encourage submission of essays, road shows about the competition were successively carried out in various subsidiaries and the number of employees attending was close to 900.

4. COMMUNITY INVOLVEMENT

MOBILE EYE SURGERY CENTRE DONATION PROGRAMME

The Group has been actively supporting the eyesight restoration and poverty alleviation programme in the mainland since 2008 through the donation of mobile eye surgery centre amounting to over HK$2 million each. The programme is to provide surgeries for poor cataract patients in the remote areas of the mainland to restore eyesight. Up to 2013, the Group has donated a total of 5 surgery centres to Ningxia Hui Autonomous Region, Jiangsu, Shandong, Inner Mongolia Autonomous Region and Yunan respectively and the total donation amount exceeded HK$10 million. The Group will donate an additional of 7 mobile centres before 2020 under the mobile eye surgery centre donation programme to benefit more underprivileged cataract patients in the mainland.

Up to 30 June 2013, the four mobile eye surgery centres donated by the Group to Ningxia Hui Autonomous Region, Jiangsu, Shandong and Inner Mongolia Autonomous Region have performed cataract removal surgery to almost 20,000 patients living in remote areas.

CORPORATE VOLUNTEER TEAM

In 2013, Yip's Chemical Volunteers, the corporate volunteer team, has set children and teenagers as its main service targets and the team has also participated in social welfare activities concerning environmental protection. For example, in conjunction with Produce Green Foundation, a Hong Kong non-profit environmental organisation, the team has run a programme that combines organic farming with donating the produce to charity bodies. Besides organising visits to children with intellectual disabilities in Hong Chi Association and donating cookies to special schools, the team is promoting green and healthy lifestyle by participating in World Wide Fund for Nature's Earth Hour energy conservation activity, Friends of the Earth Hong Kong's Tree Planting Challenge and the Standard Chartered Marathon. Community services organised by the mainland volunteers include tree planting, community clean-up and visiting solitary elders and people with disabilities.

For the period ended 30 June 2013, Yip's Chemical employees in Hong Kong and their relatives and friends contributed 114 hours of volunteer services involving 61 participants. The contribution of their mainland counterparts is 489 hours involving 122 participants.

STUDENT SPONSORSHIP AND SCHOLARSHIP

For eight consecutive years since 2006, Yip's Chemical has been running a student sponsorship programme in Jiangmen, Guangdong. This year, around RMB600,000 was donated to sponsor 93 needy students who are qualified for university studies. In addition, the top 15 students from the arts stream and science stream respectively who have excelled in the college entrance examination as well as 22 teachers who have contributed to the performance of outstanding graduating classes were awarded.

LIQUIDITY AND FINANCIAL RESOURCES

In recent years, in order to meet its medium and long term targets, the Group has constructed new plants for fuelling business expansion. Leveraging on the low interest rate environment, the Group obtained additional bank loans and resulted in subsisting increase of gearing ratio. As at 30 June 2013, the Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was 58.8% (31 December 2012: 51.5%). The increase in gearing ratio was mainly attributable to the continuous investment of capital expenditures on capacity expansion, increase in working capital for substantial growth in sales and the rise in receipts of banker's acceptances (i.e. bills receivables) in new expanded markets. The Group has always been highly concerned about continuous uprising of gearing ratio and applied a series of measures to monitor cash flow and ensure efficient usage of working capital, such as setting up management policies and indicators to monitor account receivables, account payables and inventory turnover days as well as banker's acceptances. The Group also periodically reviewed all capital investment projects, splitting the project investments in phases or delaying non-crucial items whenever possible. The Group through these measures ensures a balance between prudent application of funds and business development.

As at 30 June 2013, the gross bank borrowings of the Group amounted to HK$2,515,025,000 (31 December 2012: HK$2,374,277,000). After deduction of short-term bank deposits, bank balances and cash amounting to HK$839,911,000 (31 December 2012: HK$966,300,000), the net bank borrowings amounted to HK$1,675,114,000 (31 December 2012: HK$1,407,977,000). Out of the gross bank borrowings, HK$1,079,064,000 (31 December 2012: HK$923,027,000) were short-term loans and repayable within one year. Such loans were denominated in three currencies, namely HK$965,834,000 in Hong Kong Dollar, HK$54,176,000 in Australian Dollar and HK$59,054,000 in US Dollar (31 December 2012: HK$694,584,000 in Hong Kong Dollar and HK$228,443,000 in US Dollar). Long-term loans repayable after one year amounted to HK$1,435,961,000 (31 December 2012: HK$1,451,250,000), of which HK$1,312,084,000 were denominated in Hong Kong Dollar and HK$123,877,000 in Australian Dollar (31 December 2012: all were denominated in Hong Kong Dollar).

Since 2011, the Group has obtained 5-year bilateral long-term loans in total of HK$1,500,000,000, 3-year bilateral mid-term loans in total of HK$300,000,000 and 3-year bilateral mid-term loan of AUD$24,800,000 to support the capital expenditure and working capital requirement for the Group's expected future growth. The Group is arranging refinancing of some of its maturing 3-year mid-term loans for the capital need of future development. As at 30 June 2013, mid to long-term loans accounted for 76% of the total bank loans. Since some of the borrowings of the Group carry interests at floating rate, our funding costs are subject to interest rate fluctuation. The Group used interest rate swaps to convert HK$1,500,000,000 of its entire 5-year bilateral long-term loans and HK$100,000,000 of its 3-year bilateral mid-term loans to fixed interest rate loans to hedge against the risk of interest rate fluctuation. Furthermore, the Group used currency swap to convert its entire AUD$24,800,000 3-year bilateral mid-term loan to Hong Kong Dollar denominated repayment loan at the drawdown date to hedge against the risk of exchange rate fluctuation.

As at 30 June 2013, a total of 15 banks in Hong Kong, Macau and PRC granted banking facilities totaling HK$4,374,086,000 to the Group and provided sufficient funds to meet its present working capital and expansion requirement. 78%, 14%, 4% and 4% of these banking facilities were denominated in Hong Kong Dollar, Renminbi, US Dollar and Australian Dollar respectively. The Group arranges most of its bank loans in Hong Kong for its China operations to enjoy the relatively low borrowing rate and enhance performance. Following the adoption of continuous series of measures to combat the debt crisis in Europe, and the ongoing quantitative easing measures by the United States, the three months or shorter Hong Kong Dollar inter-bank interest rate is maintained at a low level. Furthermore, the inflation rate in the Mainland is under control, which also benefits the Group to lower its borrowing costs. Besides, the Group is exposed to Renminbi exchange rate risk as the Group's assets are mainly located in the Mainland and most of its income is generated in Renminbi. Since it is expected that there shall not be sharp depreciation of Renminbi against Hong Kong Dollar in near future, the management considers that no hedging measure against Renminbi exchange rate exposure is necessary at this stage but will closely monitor its fluctuations. The Group will strike a balance between lowering borrowing costs and minimizing currency exposure by structuring an optimal combination of Hong Kong Dollar, US Dollar, Renminbi or other foreign currency bank loans.

EMPLOYEES

As of 30 June 2013, the Group has a total number of 4,792 employees. 113 employees are from Hong Kong and Macau while 4,679 of them are from different provinces in 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 excellent platform for development of highly committed and capable employees, regardless of their background, geographical region or educational levels. Through versatile experience in challenging roles, the current leadership of the Group has come through the ranks to advance to positions of management. Besides the focus of developing employees internally, the Group seeks not only to attract talent from outside but also recruit top graduates from the best tertiary institutions in Hong Kong, Mainland China, and abroad as well as 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 excellence capabilities and been advanced to positions of leadership within the Group.

The Group offers a challenging 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 the review of remuneration policy so as to ensure reasonable and competitive compensation and benefits. 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 2013, 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 2013, subject to as disclosed below, 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 (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 of Directors to perform the functions of the nomination committee.

AUDIT COMMITTEE

The Audit Committee was formed in November 1998 and comprises three non-executive Directors and four independent non-executive Directors 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 15 August 2013 to review the Group's unaudited interim financial statements for the six months ended 30 June 2013. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the Group's unaudited interim financial statements for the six months ended 30 June 2013, 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 Directors' securities transactions. 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 2013.

UNAUDITED INTERIM RESULTS

The Board of Directors of Yip's Chemical Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013, 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 30.6.2013 (Unaudited) HK$'000	30.6.2012 (Unaudited) HK$'000
Turnover	3	**4,403,352**	4,045,144
Cost of sales		**(3,713,724)**	(3,387,431)
Gross profit		**689,628**	657,713
Other income	4(a)	**84,131**	30,815
Other gains and losses	4(b)	**(13,328)**	(3,328)
Selling and distribution expenses		**(171,579)**	(163,427)
Administrative and general expenses		**(385,834)**	(328,138)
Interest expense		**(24,084)**	(18,406)
Profit before taxation	5	**178,934**	175,229
Taxation	6	**(17,998)**	(24,513)
Profit for the period		**160,936**	150,716
Other comprehensive income (expense):			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**63,559**	(25,758)
Revaluation of leasehold properties for own use upon transfer to investment properties		**-**	38,321
		63,559	12,563
Item that may be reclassified subsequently to profit or loss:			
Net adjustment on cash flow hedges		**11,233**	(5,075)
Other comprehensive income for the period		**74,792**	7,488
Total comprehensive income for the period		**235,728**	158,204
Profit for the period attributable to:			
Owners of the Company		**128,770**	123,875
Non-controlling interests		**32,166**	26,841
		160,936	150,716

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended 30.6.2013 (Unaudited) HK$'000	30.6.2012 (Unaudited) HK$'000
Total comprehensive income attributable to:			
Owners of the Company		**196,836**	134,097
Non-controlling interests		**38,892**	24,107
		235,728	158,204
Earnings per share	8		
- Basic		**HK 22.9 cents**	HK 22.3 cents
- Diluted		**HK 22.8 cents**	HK 22.2 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30.6.2013 (Unaudited) HK$'000**	31.12.2012 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	9	**1,572,930**	1,453,531
Prepaid lease payments		**219,896**	212,809
Investment properties	9	**66,300**	66,300
Goodwill		**69,574**	69,574
Intangible assets		**10,813**	13,215
Available-for-sale investment		**23,777**	23,421
Deposits paid for acquisition of property, plant and equipment and land use rights		**82,067**	73,723
Other non-current asset		**4,600**	4,600
		2,049,957	1,917,173
Current assets			
Inventories		**1,136,038**	870,332
Trade and bills receivables	10	**3,131,057**	3,073,440
Other debtors and prepayments	10	**333,581**	310,819
Prepaid lease payments		**5,029**	4,990
Short-term bank deposits			
-with original maturity within three months		**251,633**	218,540
-with original maturity more than three months		**42,324**	19,128
Bank balances and cash		**545,954**	728,632
		5,445,616	5,225,881
Current liabilities			
Creditors and accrued charges	11	**1,569,384**	1,566,672
Dividend payables to owners of the Company		**84,317**	-
Taxation payable		**37,029**	71,990
Derivative financial instruments		**3,159**	7,451
Bank borrowings - amount due within one year		**1,079,064**	923,027
		2,772,953	2,569,140
Net current assets		**2,672,663**	2,656,741
Total assets less current liabilities		**4,722,620**	4,573,914
Non-current liabilities			
Derivative financial instruments		**24,530**	8,120
Bank borrowings - amount due after one year		**1,435,961**	1,451,250
Deferred tax liabilities		**12,079**	11,273
		1,472,570	1,470,643
		3,250,050	3,103,271
Capital and reserves			
Share capital		**56,211**	56,186
Reserves		**2,792,425**	2,677,010
Equity attributable to owners of the Company		**2,848,636**	2,733,196
Non-controlling interests		**401,414**	370,075
		3,250,050	3,103,271

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

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 new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA that are mandatorily effective for the current interim period.

Except as described below, the accounting policies used and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) - INT 12 "Consolidation - Special purpose entities". HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 will result in more extensive disclosures in the Group's annual consolidated financial statement for the year ending 31 December 2013.

The directors of the Company reviewed and assessed the application of these five standards in the current interim period and concluded that they have 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. In particular, the directors of the Company have assessed the impact on HKFRS 10 which changes the definition of control over an investee, and concluded that no material effect on the condensed consolidated financial statements.

HKFRS 13 Fair value measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. The application of this HKFRS in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income
The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Group has outstanding derivative financial instruments presented as financial liabilities in the condensed consolidated statement of financial position which are under master netting agreements.

The amendments have been applied retrospectively. For the purpose of preparing the condensed consolidated financial statements, the additional disclosures are not presented but will be included in the Group's annual consolidated financial statements for the year ending 31 December 2013.

Amendments to HKAS 34 Interim financial reporting
(as part of the annual improvements to HKFRSs 2009-2011 Cycle)
The Group has applied the amendments to HKAS 34 "Interim financial reporting" as part of the annual improvements to HKFRSs 2009 - 2011 cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (the "CODM") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since there has been no material change from the amounts disclosed in the last annual financial statements for the Group's reporting segment, the Group has not included total assets and liabilities information as part of segment information as disclosed in note 3.

The application of the other new or revised 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 the following business divisions, namely solvents, coatings, lubricants and others. 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 solvents and related products
Coatings - manufacture of and trading in coatings and related products
Lubricants - manufacture of and trading in lubricants products

Segment result represents the profit earned or loss incurred by each segment without allocation of interest income, dividend income, net exchange gain or loss at corporate level, fair value change on derivative financial instruments, fair value change of investment properties, gain or loss on disposal of corporate assets, central administration costs and interest expense. This is the information reported to the Chairman of Group Executive Committee of the Company, the Group's CODM, for the purposes of resource allocation and performance assessment.

Segment revenue and results

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

	Solvents HK$'000	**Coatings HK$'000**	**Lubricants HK$'000**	**Reportable segment total HK$'000**	**Others HK$'000**	**Elimination HK$'000**	**Consolidated HK$'000**
Six-months ended 30 June 2013							
Segment revenue							
External sales	**2,605,920**	**1,552,698**	**202,371**	**4,360,989**	**42,363**	**-**	**4,403,352**
Inter-segment sales	**108,371**	**-**	**895**	**109,266**	**-**	**(109,266)**	**-**
Total segment revenue	**2,714,291**	**1,552,698**	**203,266**	**4,470,255**	**42,363**	**(109,266)**	**4,403,352**
Results							
Segment results	**117,373**	**50,484**	**1,294**	**169,151**	**8,067**	**4,503**	**181,721**
Fair value change on derivative financial instruments							**(23,351)**
Unallocated income							**66,958**
Unallocated expenses							**(22,310)**
Interest expense							**(24,084)**
Profit before taxation							**178,934**

	Solvents HK$'000	**Coatings HK$'000**	**Lubricants HK$'000**	**Reportable segment total HK$'000**	**Others HK$'000**	**Elimination HK$'000**	**Consolidated HK$'000**
Six months ended 30 June 2012							
Segment revenue							
External sales	2,329,488	1,486,247	202,890	4,018,625	26,519	-	4,045,144
Inter-segment sales	65,000	-	-	65,000	-	(65,000)	-
Total segment revenue	2,394,488	1,486,247	202,890	4,083,625	26,519	(65,000)	4,045,144
Results							
Segment results	124,714	68,490	(7,373)	185,831	1,102	(1,757)	185,176
Fair value change on derivative financial instruments							(1,610)
Increase in fair value of investment properties							15,600
Unallocated income							9,250
Unallocated expenses							(14,781)
Interest expense							(18,406)
Profit before taxation							175,229

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30.6.2013 HK$'000	30.6.2012 HK$'000
a) The Group's other income mainly comprises:		
Interest income	**6,762**	8,537
Dividend income from available-for-sale investment	**31,539**	-
Government compensation for a factory relocation (Note (i))	**18,288**	-
Government grants recognised	**6,664**	2,016

Note:

i. The amount represents compensation received from the relevant PRC governement authority as a result of a factory relocation in PRC which was completed in 2012.

	Six months ended 30.6.2013 HK$'000	30.6.2012 HK$'000
b) The Group's other gains and losses comprise:		
Exchange gain arising from a foreign currency bank loan (Note (i))	**22,481**	-
Fair value loss on derivative financial instruments of a cross currency swap contract (Note (i))	**(23,351)**	-
Sub-total	**(870)**	-
Net exchange gain (loss) arising from other foreign currency balances and transactions	**17,373**	(14,843)
Fair value loss on derivative financial instruments of foreign exchange forward contracts	**-**	(1,610)
Increase in fair value of investment properties	**-**	15,600
Allowance for bad and doubtful debts (Note (ii))	**(28,241)**	(6,012)
Net (loss) gain on disposal of property, plant and equipment and land use rights	**(1,590)**	3,537
	(13,328)	(3,328)

Notes:

i. In April 2013, the Group raised a new bank loan in Australian dollar ("AUD") of AUD24,800,000 (equivalent to HK$198,648,000). In order to minimise the exposure to foreign currency risk, the Group entered into a cross currency contract to hedge economically against the foreign currency bank loan.

ii. During the period, the directors assess the recoverability of the trade receivables on a regular basis and determine 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 30.6.2013 HK$'000	30.6.2012 HK$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**2,471**	3,114
Depreciation of property, plant and equipment	**52,679**	41,844
Release of prepaid lease payments	**2,229**	1,653

6. TAXATION

	Six months ended	
	30.6.2013	30.6.2012
	HK$'000	HK$'000
The charge comprises:		
Current tax - Hong Kong		
Current period	**-**	74
Underprovision in prior periods	**595**	556
	595	630
Current tax - Mainland China		
Current period	**41,077**	35,249
Overprovision in prior periods	**(24,480)**	(13,680)
	16,597	21,569
	17,192	22,199
Deferred taxation		
Current period	**806**	2,314
	17,998	24,513

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

The Company's subsidiaries operating in Mainland China are eligible for certain tax holidays and concessions. Pursuant to the relevant laws and regulations in Mainland China, certain subsidiaries of the Company in Mainland China were entitled to exemption from EIT of Mainland China for the first two years commencing from their first profit-making year of operation and thereafter, these subsidiaries in Mainland China were entitled to a 50% relief from EIT of Mainland China for the following three years up to the year ended 31 December 2012. Certain subsidiaries of the Company operating in Mainland China are eligible as High and New Technology Enterprise and the income tax rate of these subsidiaries is 15% for three years up to 2015. EIT of 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 Mainland China starting from 1 January 2008 under the Implementation Regulation of the EIT Law of Mainland China that requires withholding tax with tax rate ranging from 5% to 10% upon the distribution of such profits to the shareholders which are not residents in 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$1,751,028,000 (31 December 2012: HK$1,592,280,000) 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 HK15.0 cents per share totalling HK$84,317,000 (with share alternative of HK$886,000) in respect of the year ended 31 December 2012 were declared and paid in July 2013.

For the six months ended 30 June 2012, a final dividend of HK12.0 cents per share totalling HK$66,699,000 (with share alternative of HK$35,420,000) was paid for the year ended 31 December 2011.

Subsequent to 30 June 2013, the directors of the Company resolved to declare an interim dividend of HK10.0 cents per share totalling not less than HK$56,000,000 for the six months ended 30 June 2013 (six months ended 30 June 2012: HK10.0 cents per share totalling HK$56,187,000). The interim dividend is payable on 16 October 2013 to the shareholders of the Company whose names appear on the Company's register of members on 5 September 2013.

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 30.6.2013 HK$'000	30.6.2012 HK$'000
Earnings for the purposes of calculating basic and diluted earnings per share	**128,770**	123,875
	Number of shares '000	'000
Weighted average number of shares for the purpose of calculating basic earnings per share	**561,933**	555,833
Effect of dilutive potential ordinary shares: Share options	**2,894**	1,731
Weighted average number of shares for the purpose of calculating diluted earnings per share	**564,827**	557,564

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

During the period, the Group incurred approximately HK$163,012,000 (six months ended 30 June 2012: HK$147,578,000) mainly for additions to manufacturing plant in Mainland China to expand its manufacturing capacity.

The fair value of the Group's investment properties as at the end of the current interim period does not differ from their fair value as at 31 December 2012 and were both valued by an independent qualified professional valuer, Roma Appraisal Limited, which is not connected with the Group. The valuations by the independent qualified professional valuer were arrived at by reference to recent market prices for similar properties in similar locations and conditions in Hong Kong.

During the period ended 30 June 2012, the resulting increases in fair value of investment properties of HK$15,600,000 had been recognised directly in profit or loss.

10. TRADE AND BILLS RECEIVABLES, OTHER DEBTORS AND PREPAYMENTS

	30.6.2013 HK$'000	31.12.2012 HK$'000
Trade receivables	**2,059,393**	1,912,901
Bills receivables	**1,071,664**	1,160,539
	3,131,057	3,073,440

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$63,339,000 (31 December 2012: HK$36,949,000) at the end of the reporting period is as follows:

	30.6.2013 HK$'000	31.12.2012 HK$'000
0 - 3 months	**1,715,252**	1,525,139
4 - 6 months	**268,409**	340,158
Over 6 months	**75,732**	47,604
	2,059,393	1,912,901

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 銀行承兌匯票("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 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.

11. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of HK$1,204,542,000 (31 December 2012: HK$1,142,535,000). Remaining balances mainly consist of receipts in advance from customers, payable of staff salaries and benefits, sales commission, storage, dividend payable to a non-controlling shareholder of a subsidiary and transportation, etc.

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

	30.6.2013 **HK$'000**	31.12.2012 HK$'000
0 - 3 months	**1,100,846**	1,002,226
4 - 6 months	**90,986**	128,929
Over 6 months	**12,710**	11,380
	1,204,542	1,142,535

12. EVENT AFTER THE END OF THE REPORTING PERIOD

In July 2013, Best Lubricant Blending Limited and Primer Limited, subsidiaries of the Company, entered into a conditional agreement with an independent third party to dispose 80% equity interests in Zhanjiang Best Lubricant Blending Limited, which is engaged in manufacturing and trading in lubricants, at a total cash consideration of RMB26,500,000 (approximately HK$33,480,000). At the date of this report, the transaction has not yet become unconditional. The directors of the Company considered the financial impact of the disposal to the Group will not be significant.

INTERIM DIVIDEND

The directors of the Company are pleased to declare an interim dividend of HK 10.0 cents per share for the six months ended 30 June 2013 (six months ended 30 June 2012: HK10.0 cents per share). The interim dividend will be payable on or about 16 October 2013 to shareholders whose names appear on the register of members (the “Register of Members”) of the Company on 5 September 2013.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 4 September 2013 to 5 September 2013 (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, 26/F., Tesbury Centre, 28 Queen’s Road East, Hong Kong not later than 4:00 p.m. on 3 September 2013.

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 2013 interim report containing all the information required by the Rules Governing the Listing of Securities on the Stock Exchange will be published on the HKEx website and the Company's website in due course.

By Order of the Board
Ip Chi Shing
Chairman

Hong Kong, 20 August 2013

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

Non-executive Directors :
Mr. Ip Chi Shing (Chairman)
*Mr. Wong Kong Chi**
*Mr. Au-Yeung Tsan Pong, Davie**
*Mr. Li Chak Man**
*Mr. Ku Yuen Fun**
Mr. Tong Wui Tung
Mr. Ng Siu Ping

Executive Directors :
Mr. Yip Tsz Hin (Deputy Chairman)
Mr. Wong Kam Yim
Mr. Li Wai Man, Peter
Mr. Ho Sai Hou

**Independent non-executive Directors*