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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 2014

HIGHLIGHTS

	For the six-month period ended 30 June 2014 (unaudited)	For the six-month period ended 30 June 2013 (unaudited)	% Change
Turnover	HK$4,723,530,000	HK$4,403,352,000	+7%
Net profit attributable to owners of the Company	HK$51,381,000	HK$128,770,000	-60%
Earnings per share	HK 9.1 cents	HK 22.9 cents	-60%
Interim dividend	HK 10 cents	HK 10 cents	-
Gearing ratio *	54.0%	58.8%	-4.8% points

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

CHAIRMAN'S STATEMENT - REVIEW & PROSPECTS

It is my pleasure to present to all our shareholders with a business overview of Yip's Chemical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the first half of 2014. In the period, though turnover was slightly lower than expected, it still grew 7% from the same period last year to hit an all-time high of HK$4,723,530,000. In terms of sales volume, there was a growth of 10%. Profit attributable to owners fell 60% on the year to HK$51,381,000 mainly because of the adverse impacts from a material depreciation of Renminbi ("RMB") exchange rate and a lack of special dividend income. After excluding the above two factors, however, the operating profit of the Group's core businesses registered a growth of 12% from the same period last year. On the other hand, thanks to the Group's strict adherence to the principles of steady development and prudent financial management, at a time when all-out efforts were made to expand the businesses and turnover was hitting new high records consistently, the Group's gearing ratio and working capital turnover period were still maintained at healthy levels. So even though the Group's profit attributable to owners suffered a setback in the first half, given the unrealised exchange loss is a non-cash item, it did not constitute a material impact to the Group's cash flow. More importantly, a review of the Group's various core businesses indicated that a good development momentum was still maintained and the operating profit was higher as compared to the corresponding period last year after adjusting for RMB exchange rate changes. Therefore, in line with the Group's long-held dividend policy of rewarding shareholders earnestly, the board of directors of the Company (the "Board") proposed an interim dividend of HK10 cents per share, the same as last year.

REVIEW

In the period, under the impacts of two main factors, the Group's results showed a decline from the same period last year. First, there was a dividend income of HK$31.5 million from an available-for-sale investment last year but there was no such income this year. Second, unusual fluctuations in RMB exchange rate in the period had resulted in an accounting exchange loss of HK$38 million whereas there was an exchange gain of HK$17 million last year.

As far as the Group's various core businesses were concerned, a common difficulty they were still facing was an extremely dire overall operating environment. On top of the weak global economy and China's declining exports, the mainland market was laden with challenges. The economic downturn which first appeared last year was more evident than expected in the first half of this year, so much so that the development of different industries was hindered and the country's dismal consumer sentiment was a rare sight in recent years. As a result, the problem of overcapacity was exacerbated and intra-industry competition became all the more fierce. Consequently, the Group's core businesses were affected to one extent or another and their turnovers all fell slightly short of growth expectations, resulting in one of the lowest turnover growths for the Group in recent years. On the other hand, the results of the various business optimisation measures such as business and plant consolidation and cost control the Group has been implementing in earnest in recent years gradually precipitate and are becoming apparent. In the period, the operating profit of the Group's core businesses recorded a rise of 12% after excluding the above-mentioned effects from dividend and fluctuations in RMB exchange rate.

PROSPECTS

All along, the Group has been adhering to its operating policy of never involving itself in investment activities unrelated to core businesses. Yet in recent years, with the relentless rapid growth of our businesses in the mainland, due to actual operating needs, we inevitably will still have to deal with the risk of RMB exchange rate fluctuations in the foreseeable future. In the medium to long term, in the course of its internationalisation, RMB's gradual evolution into a strong currency is predictable. But during this process, for reasons of economics, politics or otherwise, fluctuations to a certain degree or another are well-nigh unavoidable. For this, the Group has started studying the implementation of all feasible measures to ensure that the effects of such fluctuations on the Group's core profitability will diminish gradually.

Though in the first half of this year the Group's turnover fell slightly short of expectation, in the second half, as mainland's economy shows signs of warming up and sales are soon entering the traditional peak season, the Group's various core businesses are all expanding their capacities step by step while strengthening their cost control and maintaining their dominant market shares. The Group is therefore confident that turnover for the whole year will still be able to demonstrate a stable growth. On another front, the Group will continue to constantly optimise operational efficiency through internal business and plant consolidation. This year, while in-depth work on the consolidation of the lubricants division was completed, a bigger consolidation project—the establishment of a Coatings Group—was carried out on course, and it is expected that this new group will be completed according to schedule and will be operational by next year. As mentioned earlier, the Group is determined to appropriately step up investment in its coatings business so as to raise its market share and its contribution to the Group's profit in the shortest time possible. On the whole, the adverse operating environment this year is in fact the best test for the Group's management. Whatever small gains the Group has made are attributable to the leadership of the Board, the efforts of the executive team, the toil and moil of the employees as well as the support and trust offered by our partners from various quarters. For this I am conveying to them my sincerest gratitude.

IN DEEP MEMORY OF MR. AU-YEUNG TSAN PONG, DAVIE

Mr. Au-Yeung Tsan Pong, Davie, an independent non-executive director of the Company, passed away on 16 March 2014.

Mr. Au-Yeung Tsan Pong, Davie started to serve as an independent non-executive director of the Company in 2004 and later assumed the chair of the remuneration committee of the Company. During his service, he had contributed outstandingly in optimising the Group's comprehensive corporate governance and human resources policy. For this we will forever be grateful to and in deep memory of him.

REPORT OF THE CHAIRMAN OF THE GROUP EXECUTIVE COMMITTEE

On 18 June, the Group issued an announcement stating that profit for the first half of this year would be expected to be significantly dragged down by (1) the depreciation of RMB and (2) not receiving any dividend income from the available-for-sale investment it was holding. In fact, though business environment was disappointing and supply exceeded demand for the Group's various products, turnover in the period still rose 7% to hit a historical high of HK$4,723,530,000. Though profit attributable to owners declined 60% to only HK$51,381,000, after excluding the above two negative factors, it actually grew 12% year-on-year.

On the other hand, the executive team's prudent use of funds had reaped in good results: the Group's gearing ratio had been dropping sustainably to 54%, which was a further decline from the same period last year.

The Group's three main lines of businesses are reported as follows:

SOLVENTS

While sales of the Group's flagship acetate solvents reached a new high, the new product, butyl acrylate, had smoothly undergone trial production and trial sales. In the period, the total sales volume of the overall solvents business was in excess of 350,000 tonnes while turnover reached HK$2,958,820,000. The plant utilisation rate of both acetate solvents and butyl acrylate basically reaches the target of 90%.

For this business segment, competition had remained intense, so much so that all players in the industry had lowered profit margins to push sales. As a result, operating profit was down 14% to HK$100,626,000. But as the management kept to the two principles of making profit through volume sales and improving consolidated costs continuously, gross profit margin only dropped slightly while operating profit after excluding exchange difference actually edged up 2.7%.

The new production line for 300,000 tonnes of acetate solvents in the Taixing plant in Jiangsu is under construction on schedule and is expected to be operational by early next year. With the employment of newer production technology, this new line should offer exceptional savings in raw materials and energy consumption. Meanwhile, the original production lines in the Taixing plant will be converted for manufacturing several mature acetate solvents to enrich the acetates product portfolio of the solvents division.

COATINGS

In the first half of this year, the turnover of this division grew 3% to reach a new high of HK$1,596,454,000, this was a slower half-yearly growth in recent years. There were several reasons. First, for household paints, growth was mainly in water-based paints which have lower unit prices than oil-based ones. So even a double-digit growth in sales volume tonnage was recorded, the growth in overall sales dollar amount was pulled down. Second, there was a slowdown in the export markets with a simultaneous slowdown in the demand for furniture paints, particularly in the South China region. Third, in the inks business, significant declines in the beverage market and the publishing market as compared to last year were affecting the growth of the inks market.

Initial results were obtained from the reviewing of expenses and optimisation of operation carried out last year. Though the business was facing the above-mentioned difficult operating circumstances, with sales growing while corresponding expenses were not increasing concomitantly, there was still a slight improvement in operating profit when exchange difference was excluded. For the inks business in particular, upon carrying out equipment upgrading, wear-and-tear reduction and personnel expenses alleviation recently, effects were apparent and the business results of the inks business were among the brightest in the Group. In the period under review, operating profit after excluding exchange difference of the coatings division increased 4.6%.

The management well understands that, for the sustained growth of the coatings business, the key lies in hefty increases in sales. Recently, a business analysis department has been set up not only to gain an understanding of the market dynamics but also to analyse the strengths and weaknesses of competitors in order to formulate different targeted approaches to achieve the strategic goal of product diversification.

After half a year of restructuring since its acquisition by the inks business, Huacai Resins (華彩樹脂) is now producing all types of resins for making offset printing inks which are to be used by the three factories under the business. This should offer robust support for the development of offset printing inks business.

The second-phase construction of the coatings plant in Jinshan, Shanghai is underway as planned and commissioning for operation is expected to take place in the first quarter of next year. The project is expected to facilitate internal plant consolidation, further optimise businss operations and create new synergic effects.

LUBRICANTS

In the period, turnover of the lubricants division grew 6% year-on-year to HK$214,937,000, while operating profit not counting exchange difference showed a significant growth from the same period last year.

Internal restructuring in the division has now been completed and synergies from various departments are emerging as the two companies have gradually come out from their consolidation phase. The management is confident that the division is now on a profit track.

A key task during the period is the formation of a "Coatings Group". Under the leadership of a task group, after more than three months of repeated discussions, all main works on the formation have basically been completed and the target of getting the group operational by next year should be achievable. Riding on the success of the restructuring of the lubricants division and on the experience of getting considerable benefits from the exercise, the current formation of the "Coatings Group" aims at merging three relevant coating companies (Hang Cheung Coatings, Da Chang Polymers and Bauhinia Paints) into one which is headed by a newly established "Bauhinia Coatings Group". The management expects that after establishing the "Coatings Group", whether in procurement or logistics, there would be synergic and combinational effects resulting from increases in scale, reduction of costs and sharing of personnel resources through the consolidation of plants. This is one of the Group's largest internal consolidation projects in recent years and should also be one producing the greatest benefits.

The second half of each year is a traditional peak season for the Group. As we entered late July this year, there was a hint of an early arrival of the peak season. Noting that market situations have improved, all divisions are now actively stocking up. The management is convinced that there will be further improvements in the results of the second half.

CORPORATE SOCIAL RESPONSIBILITY

1. WORKPLACE PRACTICE

SAFETY FIRST

In the first half of 2014, to monitor safety operations within the Group, safety inspections of the Group's mainland plants were carried out by the Group's Health, Safety and Environment Committee formed under the Board. Regular safety inspections and special examinations were also conducted by the Group's Health, Safety and Environment Department (the "HSE Department") in order that safety management could be improved continuously. In the period under review, a total of nine safety inspections were carried out by the HSE Department and suggestions for corrective actions were given to various plants. As for safety training, staff of the Group and its subsidiaries attended a total of 49,958 hours of training in the period under review.

STAFF DEVELOPMENT AND WELFARE

As part of the personnel training and development programme in Yip's Chemical, the Yip's Management Training Programme (the "Programme") has been developed and launched. While the Programme provides management personnel with the necessary skills and knowledge to improve daily work efficiency, it also boosts management skills and reinforces management knowledge commonly used by these personnel in order to support the long-term development of the Group's businesses. These aims are achieved through the four modules of the Programme: the New Managers Module, the Core Management Competence Module, the Specialist Functions Module and the Leadership Module. In the six months ended 30 June 2014, a total of 527 management personnel of the Group and its subsidiaries attended the Programme.

In addition to sponsoring education, the independently-run Yip's Care Extension Foundation (the "Foundation") also wants to offer more protection to every retiring employee. In education sponsorship, this year the Foundation has decided to reckon all mainland sponsorships in RMB instead of Hong Kong dollars, thereby raising the sponsorship level by more than 20%. Besides, the Foundation has decided to start giving out retirement gratuities to recognise the contribution of retiring employees. All retiring employees of the Group and its subsidiaries who reach statutory retirement age from Hong Kong and mainland are eligible for gratuity payment. There is no service period restriction—the one-time payment is calculated by multiplying the qualified continuous years of service by a designated amount in RMB.

2. ENVIRONMENTAL PROTECTION

The Group's "Bauhinia Paints" brand has been selected into the 13th edition of China's government procurement list for environmental labelling products (the "Green List"). As a way to increase the government's effort in the procurement of environmental labelling products, the Ministry of Finance and the Ministry of Environmental Protection have posted the Green List on China's government procurement website, which is designated by the Ministry of Finance as the only website for the release of information on government procurement. A number of Bauhinia Paints products, including interior and exterior wall emulsion paints, as well as a full range of water-based household wood paints, have successfully achieved China environmental labelling certification.

Bauhinia Paints has been unceasingly developing and producing quality eco-friendly coating products for the China market. In the first half of this year, a new super-odourless anti-formaldehyde wall paint was launched. Adopting Bauhinia Paints' innovative odour removal technology, formaldehyde removal technology and no-additive technology, this new product can effectively adsorb and eliminate indoor harmful substances such as formaldehyde and toluene. The introduction of this new product attests to Bauhinia Paints' efforts in bringing consumers greener and healthier products while enhancing product performance continuously.

In response to rising market demand for eco-friendly printing materials, relevant authorities have issued environmental protection standards for processes from printing ink manufacturing to printing. Seeing that the development of green printing inks is an unstoppable trend, Bauhinia Variegata Inks as a market leader has been active in the research and development of various eco-friendly products and a NV offset ink has been subsequently launched. This is a 100% vegetable oil-based printing ink with a volatile organic compound content that meets top international standards (less than 1%). It is in compliance with the latest international environmental laws and regulations.

3. COMMUNITY INVOLVEMENT

MOBILE EYE SURGERY CENTRE DONATION PROGRAMME

Yip's Chemical has been collaborating with Asian Foundation for the Prevention of Blindness and China Disabled Persons' Federation since 2010 in running a "Yip's Chemical 10-Year Mobile Eye Surgery Centre Donation Project" to help restore vision for cataract patients in the mainland through the donation of a number of mobile eye surgery centres equipped with advanced ophthalmological equipments. Up until 2013, the Group has donated a total of five such mobile units respectively to Ningxia Hui Autonomous Region, Jiangsu Province, Shandong Province, Inner Mongolia Autonomous Region and Yunnan Province, representing more than HK$12 million in total donation.

In the first half of this year, Shanxi Province has received the Group's sixth mobile eye surgery unit which should be in operation in the second half of the year. Moreover, since the number of new cataract cases in Ningxia Hui Autonomous Region has been decreasing gradually, the Group has decided to pass on Ningxia's mobile unit to Heilongjiang Province. Up till 30 June 2014 since the launch of the project, the five mobile eye surgery units donated by the Group have already helped remove cataract in some 34,778 patients.

CORPORATE VOLUNTEER TEAM

Beginning in 2014, "Yip's Chemical Volunteers", (the "Volunteer Team") extends its service target to the elderly—through concerning themselves with the living situation of this group, the Volunteer Team provides services to those who are in need. During the period, in conjunction with Hong Kong Lutheran Social Service ("HKLSS"), the Volunteer Team has carried out dementia assessment for some 30 seniors. In addition, a charity bazaar has been held to raise funds for the renovation of HKLSS's elderly centre. The Volunteer Team has also participated in a visiting programme organised by the Senior Citizen Home Safety Association to help pass on home safety tips.

Other than providing services to the elderly, the Volunteer Team also engages in environmental protection activities. By mobilising their Eastern China colleagues to participate in a beach clean-up activity in Shanghai, they were contributing their humble efforts to improve and protect the living environment of some of the world's rarest birds. In the period, the Volunteer Team has also participated in the Tree Planting Challenge held by Friends of the Earth Hong Kong and the Earth Hour activity run by World Wildlife Fund Hong Kong.

In the six months ended 30 June 2014, Yip's Chemical employees in Hong Kong and mainland and their relatives and friends have contributed 544 hours in volunteer services involving 191 participants.

STUDENT SPONSORSHIP AND SCHOLARSHIP

For nine consecutive years since 2006, Yip's Chemical has been running a student sponsorship and scholarship programme in Jiangmen, Guangdong. This year, the Group has donated about RMB600,000 for the programme. The sum was used to sponsor 94 needy students who have excelled in the 2014 college entrance examination, to provide scholarship to 15 top students graduating respectively from the arts stream and science stream, and to reward 22 teachers who have taught in the best performing graduating classes.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was 54.0% (30 June 2013: 58.8%), a decrease of 4.8 percentage points compared to the same period in last year but an increase of 7.3 percentage points compared to last year end due to seasonal reasons. Similar to last year end, the year-on-year gearing ratio continued to decline, which reflects the Group's series of measures to monitor and improve cash flow have started to take effect. The Group would continue to effectively control its working capital, stringently monitor and shorten the accounts receivables and inventory turnover days, and effectively using its banker's acceptances to lengthen the accounts payables turnover days. As for projects of capital expenditures, after the substantial investments in previous few years, the Group has now remaining major projects of new production lines of plant in Taixing, Jiangsu, phase 2 of plant in Jinshan, Shanghai and the R&D Centre in Zhangjiang, Shanghai to be completed within next year. Such projects after completion should enable the Group to sufficiently meet its business development needs in coming few years and hence the impact on cash flow could be gradually relieved.

As at 30 June 2014, the gross bank borrowings of the Group amounted to HK$2,825,889,000 (31 December 2013: HK$2,758,348,000). After deduction of short-term bank deposits, bank balances and cash amounting to HK$1,289,837,000 (31 December 2013: HK$1,369,134,000), the net bank borrowings amounted to HK$1,536,052,000 (31 December 2013: HK$1,389,214,000). Out of the gross bank borrowings, HK$1,524,968,000 (31 December 2013: HK$1,506,177,000) were short-term loans and repayable within one year. Such loans were denominated in three currencies, namely HK$1,447,000,000 in Hong Kong Dollar, HK$65,838,000 in Australian Dollar and HK$12,130,000 in US Dollar (31 December 2013: HK$1,377,667,000 in Hong Kong Dollar, HK$35,236,000 in RMB, HK$62,392,000 in Australian Dollar and HK$30,882,000 in US Dollar). Long-term loans repayable after one year amounted to HK$1,300,921,000 (31 December 2013: HK$1,252,171,000), of which HK$1,235,083,000 were denominated in Hong Kong Dollar and HK$65,838,000 in Australian Dollar (31 December 2013: HK$1,158,582,000 were denominated in Hong Kong Dollar and HK$93,589,000 in Australian Dollar).

In order to support the capital expenditure and working capital requirement for the Group's expected future growth, as well as the needs of refinancing some of its maturing term loans, the Group has obtained 4 to 5-year bilateral long-term loans in total of HK$650,000,000 in the first half of 2014. As at 30 June 2014, mid to long-term loans accounted for 70% 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 fix the interest rate of some of the 4 to 5-year bilateral long-term loans and 3-year bilateral mid-term loans to hedge against the risk of interest rate fluctuation. Furthermore, as stated in last year annual report, the Group used currency swap to convert its 3-year bilateral mid-term Australian dollar 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 2014, a total of 20 banks in Hong Kong and PRC granted banking facilities totaling HK$5,366,761,000 to the Group and provided sufficient funds to meet its present working capital and expansion requirement. 80%, 13%, 5% and 2% of these banking facilities were denominated in Hong Kong Dollar, RMB, US Dollar and Australian Dollar respectively. The Group arranges most of its Hong Kong Dollar bank loans in Hong Kong for its China operations to enjoy the relatively low borrowing rate and enhance performance. The Federal Reserve of United States has gradually tapering its quantitative easing, the three months or shorter Hong Kong Dollar inter-bank interest rate still 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 RMB exchange rate risk as the Group's assets are mainly located in the Mainland and most of its income is generated in RMB. Although RMB against Hong Kong Dollar has been depreciated about 2.5% during the first half in 2014, it is expected that there shall not be continuously sharp depreciation of RMB against Hong Kong Dollar in near future, the management considers that no costly hedging measure against RMB 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, RMB or other foreign currency bank loans.

EMPLOYEES

As of 30 June 2014, the Group has a total number of 4,285 employee. 103 employees are from Hong Kong while 4,182 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 2014, 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 2014, 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 and comprises two non-executive directors of the Company and four 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 auditor.

An Audit Committee meeting was held on 14 August 2014 to review the Group's unaudited interim financial statements for the six months ended 30 June 2014. 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 2014, 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. After making specific enquiry, all directors of the Company 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 2014.

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 2014, 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 30.6.2014 HK$'000 (Unaudited)**	Six months ended 30.6.2013 HK$'000 (Unaudited)
Turnover	3	**4,723,530**	4,403,352
Cost of sales		**(4,018,162)**	(3,713,724)
Gross profit		**705,368**	689,628
Other income	4(a)	**37,220**	84,131
Other gains and losses	4(b)	**(49,732)**	(13,328)
Selling and distribution expenses		**(182,071)**	(171,579)
General and administrative expenses		**(378,198)**	(385,834)
Interest expense		**(29,641)**	(24,084)
Profit before taxation	5	**102,946**	178,934
Taxation	6	**(29,721)**	(17,998)
Profit for the period		**73,225**	160,936
Other comprehensive (expenses) income:			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(108,960)**	63,559
Items that may be reclassified subsequently to profit or loss:			
Net adjustment on cash flow hedges		**855**	11,233
Exchange differences arising on translation		**(3,609)**	-
		(2,754)	11,233
Other comprehensive (expenses) income for the period		**(111,714)**	74,792
Total comprehensive (expenses) income for the period		**(38,489)**	235,728
Profit for the period attributable to:			
Owners of the Company		**51,381**	128,770
Non-controlling interests		**21,844**	32,166
		73,225	160,936
Total comprehensive (expenses) income attributable to:			
Owners of the Company		**(47,458)**	196,836
Non-controlling interests		**8,969**	38,892
		(38,489)	235,728
Earnings per share	8		
- Basic		**HK 9.1 cents**	HK 22.9 cents
- Diluted		**HK 9.1 cents**	HK 22.8 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.6.2014 HK$'000 (Unaudited)	31.12.2013 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**1,577,158**	1,625,958
Prepaid lease payments		**258,857**	268,359
Investment properties	9	**66,300**	66,300
Goodwill		**69,574**	69,574
Intangible assets		**4,917**	6,111
Available-for-sale investment		**23,522**	24,113
Deposits paid for acquisition of property, plant and equipment and land use rights		**93,501**	56,731
Other non-current asset		**4,600**	4,600
		2,098,429	2,121,746
Current assets			
Inventories		**789,504**	980,245
Trade and bills receivables	10	**3,412,554**	3,317,777
Other debtors and prepayments	10	**355,022**	323,146
Prepaid lease payments		**6,049**	6,193
Short-term bank deposits			
-with original maturity within three months		**196,044**	288,999
-with original maturity more than three months		**24,998**	51,252
Bank balances and cash		**1,068,795**	1,028,883
		5,852,966	5,996,495
Asset classified as held for sale		**-**	10,259
		5,852,966	6,006,754
Current liabilities			
Creditors and accrued charges	11	**1,694,722**	1,861,610
Dividend payables to owners of the Company		**84,413**	-
Taxation payables		**40,441**	57,600
Derivative financial instruments		**2,682**	3,063
Bank borrowings - amount due within one year		**1,524,968**	1,506,177
		3,347,226	3,428,450
Net current assets		**2,505,740**	2,578,304
Total assets less current liabilities		**4,604,169**	4,700,050
Non-current liabilities			
Derivative financial instruments		**14,233**	27,353
Bank borrowings - amount due after one year		**1,300,921**	1,252,171
Deferred tax liabilities		**11,752**	12,114
		1,326,906	1,291,638
		3,277,263	3,408,412
Capital and reserves			
Share capital		**56,276**	56,228
Reserves		**2,787,804**	2,916,814
Equity attributable to owners of the Company		**2,844,080**	2,973,042
Non-controlling interests		**433,183**	435,370
		3,277,263	3,408,412

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 Group has 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.

The application of the 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 results represent 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, central administration costs and interest expense. This is the information reported to the Chairman of Group Executive Committee of the Company, the Group's chief operating decision maker, 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 2014 (unaudited)							
Segment revenue							
External sales	**2,872,749**	**1,596,454**	**214,806**	**4,684,009**	**39,521**	**-**	**4,723,530**
Inter-segment sales	**86,071**	**-**	**131**	**86,202**	**-**	**(86,202)**	**-**
Total segment revenue	**2,958,820**	**1,596,454**	**214,937**	**4,770,211**	**39,521**	**(86,202)**	**4,723,530**
Results							
Segment results	**100,626**	**45,264**	**(1,329)**	**144,561**	**8,887**	**(166)**	**153,282**
Fair value change on derivative financial instruments							**12,646**
Unallocated income							**16,936**
Unallocated expenses							**(50,277)**
Interest expense							**(29,641)**
Profit before taxation							**102,946**

	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 (unaudited)							
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

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30.6.2014 HK$'000 (Unaudited)	30.6.2013 HK$'000 (Unaudited)
a) The Group's other income mainly comprises:		
Interest income	**15,987**	6,762
Government grants recognised	**4,990**	6,664
Dividend income from available-for-sale investment	**-**	31,539
Government compensation for a factory relocation (Note (i))	**-**	18,288

Note:

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

	30.6.2014	30.6.2013
b) The Group's other gains and losses comprise:		
Exchange (loss) gain arising from a foreign currency bank loan (Note (i))	**(11,814)**	22,481
Fair value gain (loss) on derivative financial instruments of a cross currency swap contract (Note (i))	**12,646**	(23,351)
Sub-total	**832**	(870)
Net exchange (loss) gain arising from other foreign currency balances and transactions	**(38,263)**	17,373
Allowance for bad and doubtful debts (Note (ii))	**(19,282)**	(28,241)
Gain on disposal of asset classified as held for sale	**11,214**	-
Loss on disposal of property, plant and equipment and land use rights	**(4,233)**	(1,590)
	(49,732)	(13,328)

Notes:

i. In April 2013, the Group raised a new 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.

ii. During the period, the directors of the Company 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 30.6.2014 HK$'000 (Unaudited)	30.6.2013 HK$'000 (Unaudited)
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**1,101**	2,471
Depreciation of property, plant and equipment	**65,036**	52,679
Release of prepaid lease payments	**3,210**	2,229

6. TAXATION

	Six months ended 30.6.2014 HK$'000 (Unaudited)	30.6.2013 HK$'000 (Unaudited)
The charge comprises:		
Current tax - Hong Kong		
Underprovision in prior periods	**-**	595
	-	595
Current tax - Mainland China		
Current period	**38,619**	41,077
Overprovision in prior periods	**(8,536)**	(24,480)
	30,083	16,597
	30,083	17,192
Deferred taxation		
Current period	**(362)**	806
	29,721	17,998

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.

Certain of the Group's subsidiaries operating in Mainland China are eligible as High and New Technology Enterprise and are entitled to an income tax rate of 15%. 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 of 5% 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$1,910,807,000 (31 December 2013: HK$1,822,620,000) 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$84,413,000 in respect of the year ended 31 December 2013 were declared and subsequently paid in July 2014.

For the six months ended 30 June 2013, a final dividend of HK15.0 cents per share totalling HK$84,317,000 (with share alternative of HK$886,000) was paid for the year ended 31 December 2012.

Subsequent to 30 June 2014, the directors of the Company resolved to declare an interim dividend of HK10.0 cents per share totalling approximately HK$56,000,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: HK10.0 cents per share totalling HK$56,228,000). The interim dividend is payable on or about 15 October 2014 to the shareholders of the Company whose names appear on the Company's register of members on 4 September 2014.

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	
	30.6.2014	30.6.2013
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Earnings for the purposes of calculating basic and diluted earnings per share	**51,381**	128,770

	Number of shares	
	'000	'000
Weighted average number of shares for the purpose of calculating basic earnings per share	**562,482**	561,933
Effect of dilutive potential ordinary shares: Share options	**1,411**	2,894
Weighted average number of shares for the purpose of calculating diluted earnings per share	**563,893**	564,827

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

During the period, the Group incurred approximately HK$60,580,000 (six months ended 30 June 2013: HK$163,012,000) mainly for additions to manufacturing plant in Mainland China to expand its manufacturing capacity.

There are no changes in the fair value of the Group's investment properties for the current and prior interim periods. The valuations are carrried out by an independent qualified professional valuer, Roma Appraisal Limited, which is not connected with the Group. The valuations by the independent qualified professional valuer are arrived at by reference to recent market prices for similar properties in similar locations and conditions in Hong Kong.

10. TRADE AND BILLS RECEIVABLES, OTHER DEBTORS AND PREPAYMENTS

	30.6.2014	31.12.2013
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Trade receivables	**2,162,007**	2,054,679
Bills receivables	**1,250,547**	1,263,098
	3,412,554	3,317,777

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$80,604,000(31 December 2013: HK$65,340,000) at the end of the reporting period is as follows:

	30.6.2014 HK$'000 (Unaudited)	31.12.2013 HK$'000 (Audited)
0 - 3 months	**1,838,627**	1,680,229
4 - 6 months	**250,663**	315,608
Over 6 months	**72,717**	58,842
	2,162,007	2,054,679

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$1,305,243,000 (31 December 2013: HK$1,426,764,000). 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:

	30.6.2014 HK$'000 (Unaudited)	31.12.2013 HK$'000 (Audited)
0 - 3 months	**1,159,434**	1,257,189
4 - 6 months	**132,195**	159,460
Over 6 months	**13,614**	10,115
	1,305,243	1,426,764

INTERIM DIVIDEND

The Board are pleased to declare an interim dividend of HK10 cents per share for the six months ended 30 June 2014 (six months ended 30 June 2013: HK10 cents per share). The interim dividend will be payable on or about 15 October 2014 to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 4 September 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 3 September 2014 to 4 September 2014 (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 Registrar 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 2 September 2014.

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 2014 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
Ip Chi Shing
Chairman

Hong Kong, 19 August 2014

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. Li Chak Man*
Mr. Ku Yuen Fun*
Mr. Ng Siu Ping*

Executive Directors :
Mr. Yip Tsz Hin (Deputy Chairman)
Mr. Wong Kam Yim
Mr. Ho Sai Hou
Mr. Kwong Kwok Chiu

**Independent non-executive Directors*