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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 2016

HIGHLIGHTS

Overall Sales Volume Grows Steadily by 14%

- Total product sales tonnage grew steadily by 14% year-on-year to approximately 539,000 metric tons.
- Turnover for the first half of 2016 was approximately HK$3,811,663,000, which was mainly attributable to reduction in selling price of various products along with the drop in price of raw materials.
- Profit attributable to shareholders was down 32% from the same period last year to HK$56,389,000, which was still higher than amount of HK$47,847,000 achieved for the whole year last year.
- Capital utilisation continued to improve and net gearing ratio improved by 5.2 percentage points year-on-year to 54.5%.
- The Board recommended the payment of an interim dividend of HK5 cents per share.

	For the six-month period ended 30 June 2016 (unaudited)	For the six-month period ended 30 June 2015 (unaudited)	% change
Turnover	**HK$3,811,663,000**	HK$4,277,244,000	-11%
Net profit attributable to owners of the Company	**HK$56,389,000**	HK$82,795,000	-32%
Earnings per share	**HK10.0 cents**	HK14.7 cents	-32%
Interim dividend	**HK5.0 cents**	HK10.0 cents	-50%

	As of 30 June 2016 (unaudited)	As of 30 June 2015 (unaudited)	
Gearing ratio*	**54.5%**	59.7%	-5.2% points

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

CHAIRMAN'S STATEMENT – REVIEW AND PROSPECTS

Review

I am pleased to present to all shareholders of Yip's Chemical Holdings Limited (the "Company") and its subsidiaries (collectively "Yip's Chemical" or the "Group") a business overview of the Group for the first half of 2016. In the period, two factors which brought considerable negative impacts to the Group's business last year subsided somewhat. One was crude oil prices, which had stabilised at low levels. As a result, the prices of a host of fundamental chemical raw materials stayed at low and stable levels, creating a benign operating environment for our business during the period. The other was the Renminbi exchange rate which, though still falling, was doing so to a lesser degree than before and had a much diminished impact to the Group's results given that a whole range of effective control measures had also been implemented. Yet, in the period, the Group still had to confront an extremely tough macro environment as the depressed global economy and sluggish demand curbed exports from China and there was no sign that the mainland's problem of serious overcapacity was mitigated to any degree. Furthermore, the sustained downturn of the real property and financial markets had tightened money supply to the extent that room for various economic activities was greatly squeezed. In the period, the Group implemented its strategies in an orderly manner and had basically achieved all targets set for the first half of the year. Hence turnover fell to HK$3,811,663,000, down by 11% on the year before. After taking into account differences in unit selling prices in the two periods, however, sales volume grew 14%. Profit attributable to shareholders was down 32% from the same period last year to HK$56,389,000, which was still higher than amount of HK$47,847,000 achieved for the whole year last year. Again, when various special factors have been excluded and comprehensive comparison is made with the same period last year, it is apparent that the Group's overall profit was improving. On the other hand, the Group's persistence in steady development, prudent financial management and asset quality improvement had gradually taken effect. As the Group's gearing ratio was further lowered to 54.5%, the board of directors of the Company (the "Board") has, after careful all-round assessment, resolved to declare an interim dividend of HK5 cents per share to all shareholders.

Outlook

As the overall performance of the Group's business in the first half of the year has conformed to expectation, I am cautiously optimistic that our annual targets will also be met. Nevertheless, as I predicted in my annual report last year, for a long time to come, the Group will still have to cope with a business environment that is both challenging and inundated with uncertainties. Domestically, overcapacity will take time to consolidate; sluggish market demand means that economic downturn pressure will unlikely be checked; the mode of growth has yet to be transformed; and as money supply remains tight, credit risk will get increasingly higher. Internationally, the recent dispute over South China Sea sovereignty has increased geopolitical instability while Brexit is likely to be adverse to matters in global economic revival. All these are deeply ingrained problems that cannot be resolved in short order. The Group will, as always, analyse situations and deal with them calmly in the belief that an ever-changing world is the norm and responding quickly to changes is the way to survive and succeed. Last year, the Board carried out adjustments in the leadership team and reorganisation of the Group's top management structure. In the past half year, I was pleased to note that the Group's top leadership team made a lot of efforts in changing corporate culture and in raising operating efficiency. A lot of measures were implemented and expected results were achieved. Meanwhile, I also noted that the Group's R&D team was reinforced and trained up while their R&D efforts were more focused on environmentally friendly products that mesh well with national needs. Therefore, I am confident in predicting that, as the Group's self-adjustments and self-improvements take their course, their effects will become more apparent and our core competitiveness will be enhanced continuously. As our motherland inevitably realises its dream of becoming a strong nation, business opportunities are abound and the Group will be able to seize the moment and create returns of value to our shareholders continuously. On behalf of the Board, I would like to convey my sincere thanks to unflagging efforts of our Senior Leadership Team, the dedication of the whole staff as well as the trust and support of all our partners.

REPORT OF THE CO-CHIEF EXECUTIVE OFFICERS

The main highlights of the performance of the Group in the first half of 2016 are as follows:

1. Sales quantity rose 14%, but because the selling prices of products were down generally as raw material prices dropped, turnover fell 11% to HK$3,811,663,000;

2. Gross profit margin was further raised to 18.5%, an increase of 1.9 percentage points year-on-year;

3. Profit attributable to shareholders amounted to HK$56,389,000, a year-on-year drop of 32%. Worth mentioning is the fact that, after discounting exchange losses and payment of withholding tax upon profit distribution by the Group's Mainland companies, profits remained more or less the same;

4. Use of funds continued to improve. The Group's gearing ratio as at 30 June 2016 saw a further decline to 54.5%, representing a year-on-year decrease of 5.2 percentage points;

5. Measures to reduce the impact on the Group's results arising from fluctuations in the Renminbi exchange rate (including the continuous remittance of surplus funds from the Mainland) were found to be effective, with the result that the related exchange difference narrowed down significantly from the second half of last year.

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

Solvents

Growth in solvents' sales quantity was satisfactory. In the period, sales volume exceeded 420,000 tonnes, which was a growth of 18% for the same period last year. In the period, export sales volume increased strongly by three folds to approximately 39,000 tonnes, bolstering overall growth in sales quantity and contributing towards a dilution of various operating costs. In the period under report, operating profits improved markedly to HK$104,524,000, representing an increase of 22% year-on-year.

In the second half of this year, management's focus will be on optimising operational efficiency by further tapping economies of scale on the basis of huge turnover and high operating expenses. Also, as land is still available in the Taixing factory in Jiangsu of Eastern China, more acetate products will be developed to enrich the existing product mix.

Coatings

Coatings recorded mild growth in overall sales volume in the first half of the year compared with the same period of 2015. Driven by the Group's mission to provide environmental friendly solutions for households and also catalysed by various government initiatives, the business continuously consolidated to shift its architectural coatings products from solvent-based towards water-based paints with relatively lower unit selling prices. As a result, turnover dropped 18% to HK$814,296,000 though gross margin was healthily improved by 1.7 percentage points. Consequently, gross profit declined 13% or about HK$40,600,000. With further streamlining of the business and an organisational restructuring due to the implementation of business segment focusing strategy, considerable one-off expenses and provision were incurred. All these resulted in a much lower operating profit of HK$15,046,000 compared with same period last year.

Going forward, the coatings division will continue to relentlessly transform the business by working on business fundamentals – i.e. focused development in target segments, building up distribution channels, fast tracking environmental friendly products to the market, uplifting people capabilities and, last but not least, lowering cost of operations. We are confident that such transformation would bring the business back to its normal path of profitability for the many years to come, thus further positioning coatings as the core growth engine in the Group.

Inks

Dedicated effort in executing segmented profitability management and productivity improvements has harvested early success in Inks. Hence, operating profit attained a new high of HK$48,235,000 in the first six months of the year, an increase of 160% compared with same period last year. Though turnover dropped by 9% to HK$659,910,000 with essentially the same sales volume, gross margin improved remarkably in all segments as a result of a margin improvement initiative in food packaging inks and a streamlining of product offerings, thereby lowering supply chain costs for offset printing inks products.

The second half of the year should see early wins in introducing water-based inks to selected food packaging inks customers. The success in the installation of a fully automated line in our Zhejiang plant should also enhance productivity and lower unit cost of production in the business. Overall, Inks has reached a platform of sustainable growth notwithstanding a number of challenges ahead.

Lubricants

Emerging from the very challenging operating environment in the second half of 2015, the new leadership team installed at the end of last year has created a necessary sense of urgency by taking drastic measures to lift the business back to viability. Even though turnover declined 11% to HK$161,224,000, a marginal operating loss of only HK$1,325,000 was recorded, which was mildly increased compared with the first half of 2015. Should various one-off expenses such as employee compensation and asset write-offs be discounted, the operating results would have been positive instead.

After a period of painful consolidation, the Lubricants team has started to focus on growing more profitable segments like upmarket automotive engine oils and on cultivating key industrial accounts. Meanwhile, costs have been driven down continuously. For example, by contracting out logistics requirements to professional services companies, logistics costs have been significantly lowered. We are confident that Lubricants will be able to get back to profitability this year.

Outlook

For the second half of the year, the Group will continue to aim at achieving growth with quality and will bring profitability back on track in the short term by implementing strategies such as a focus on market segments, optimisation of operations and product innovations. We will further raise the professionalism of our staff and build up our core competitiveness to provide a solid foundation on which the corporate vision of realising "A Century of Revered Leadership" will be based.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was 54.5% (31 December 2015: 54.0%). The gearing ratio is maintained at a healthy level with a decline of 5.2 percentage points when compared with last interim period. During the period, the Group has continued to remit back surplus Renminbi ("RMB") fund in China to Hong Kong for repayment of short-term loans in view of the latest market trend of RMB exchange rate. Compared with last year end, both of the total bank borrowings and bank deposits thus decreased while net bank borrowings maintained at a similar level. The translation reserve was affected by the RMB depreciation and resulted in around 1% decrement in the equity attributable to owners of the Company. Thus, the gearing ratio increased slightly by 0.5 percentage point when compared with last year end. The Group continues to generate net cash inflow from its operating activities, which reflects the Group is keeping on to improve its liquidity in operating capital.

As at 30 June 2016, the gross bank borrowings of the Group amounted to HK$2,510,490,000 (31 December 2015: HK$2,775,163,000). After deduction of short-term bank deposits, bank balances and cash amounting to HK$1,109,650,000 (31 December 2015: HK$1,374,268,000), the net bank borrowings amounted to HK$1,400,840,000 (31 December 2015: HK$1,400,895,000). Out of the gross bank borrowings, HK$758,261,000 (31 December 2015: HK$1,171,344,000) were short-term loans and repayable within one year. Such loans were denominated in two currencies, namely HK$756,981,000 in Hong Kong Dollar and HK$1,280,000 in RMB (31 December 2015: HK$1,124,764,000 in Hong Kong Dollar, HK$2,359,000 in RMB, HK$25,535,000 in Australian Dollar and HK$18,686,000 in US Dollar). Long-term loans repayable after one year amounted to HK$1,752,229,000 (31 December 2015: HK$1,603,819,000), and they were all denominated in Hong Kong Dollar. The short-term bank deposits, bank balances and cash were denominated in the following currencies, namely HK$208,332,000 in Hong Kong Dollar, HK$771,668,000 in RMB, HK$129,372,000 in US Dollar and HK$278,000 in other currencies (31 December 2015: HK$61,563,000 in Hong Kong Dollar, HK$1,164,897,000 in RMB, HK$147,767,000 in US Dollar and HK$41,000 in other currency).

In order to refinance previous mid to long-term loans which are now due for repayments, the Group has obtained 4 to 5-year bilateral long-term loans of HK$600,000,000 in the first half of 2016. As at 30 June 2016, mid to long-term loans (including portions repayable within one year) accounted for 96% of the total bank loans as most short-term loans have been repaid by the surplus RMB fund back from China. Since some of the borrowings of the Group carry interests at floating rate, the funding costs are subject to interest rate fluctuation. In anticipation of the rate fluctuation, the Group has used interest rate swaps in previous years to fix the interest rate of most of its bilateral long-term and mid-term loans to hedge against the risk of interest rate fluctuation. As at 30 June 2016, the Group's loans under fixed rate arrangement accounted for 64% and 67% of its total and non-current bank borrowings, respectively. Furthermore, as stated in previous reports, the Group's 3-year bilateral mid-term Australian dollar loan entered in 2013 has been fully repaid in the first half of the year. Since the Group has used currency swap to convert the loan to a Hong Kong Dollar denominated repayment loan at the drawdown date, no material exchange difference is noted throughout the whole loan period.

As at 30 June 2016, a number of banks in Hong Kong and the Mainland China granted banking facilities totaling HK$5,740,493,000 to the Group, providing sufficient funds to meet the present working capital and expansion requirements of the Group. Of these banking facilities, 76%, 22% and 2% were denominated in Hong Kong Dollar, RMB and US Dollar respectively. The Group has been arranging Hong Kong Dollar bank loans in Hong Kong for its China operations to leverage on the lower borrowing rate of Hong Kong Dollar in Hong Kong and higher deposit rate of RMB in the Mainland so as to enhance return of funds. Under this arrangement, the Group has already enjoyed substantial interest borrowing costs saving in the past years. However, as the Group's assets are mainly located in the Mainland and most of its income is generated in RMB, the Group's exposure to RMB exchange rate risk will be worsen when the RMB depreciates against Hong Kong Dollar. The Group has thus adjusted its treasury strategies to cope with the significant depreciation of RMB against Hong Kong Dollar since mid 2015. As stated above, the Group has been remitting back surplus RMB fund in China to Hong Kong for repayment of loans in Hong Kong. RMB depreciated by 5.6% in the second half of 2015 and the Group recorded HK$63,149,000 exchange loss from its financial assets and liabilities. Benefiting from the adjustment in treasury strategies, RMB depreciated by 1.3% in the first half of 2016 while the related exchange loss was substantially reduced to HK$3,511,000. The Group expects the RMB borrowing basic rate in the Mainland will be in decreasing trend while the interest rate in Hong Kong will follow the US Dollar interest rate increment. The interest rate gap between Hong Kong and the Mainland thus has been and is expected to keep narrowing. The Group is now expanding RMB loans portfolio and has already obtained HK$100,000,000 equivalent RMB revolving loan at present. The Group further expects to obtain more RMB facilities for standing by in the future. The Group is also working closely with its major banks to set up cross-border RMB cash pooling to facilitate fund management between Hong Kong and the Mainland. The Group will continue to strike an optimal balance between lowering borrowing costs and minimizing currency exposure by structuring an optimal combination of Hong Kong Dollar, US Dollar, RMB or other foreign currency bank loans.

HUMAN RESOURCES

As of 30 June 2016, the Group has a total number of 3,857 employees. 87 employees are from Hong Kong while the rest of them are from different provinces in Mainland China.

The Group places great emphasis on the management and development of human capital. The employees are encouraged to strive for improvement through internal and external training program, on-the-job training and participation in the Group's educational subsidies, allowing for self-development in knowledge and skills and maximising their potential in their work. We offer suitable 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 management team 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 excellent 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 2016, 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 2016, the Company has complied with "Corporate Governance Code and Corporate Governance Report" (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that the Company does not have a nomination committee (CG Code provisions A.5.1 to A.5.4). The Company considers it is more beneficial and efficient for the full Board to perform the functions of the nomination committee.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was formed in November 1998. During the six months ended 30 June 2016, the Audit Committee comprised one non-executive director and three independent non-executive directors of the Company and is chaired by Mr. Wong Kong Chi. Major duties of the Audit Committee include reviewing financial information of the Group, overseeing the Group's financial reporting system and internal control procedures, and monitoring of the relationship between the Group and its external auditors.

An Audit Committee meeting was held on 12 August 2016 to review the Group's unaudited interim financial statements for the six months ended 30 June 2016. 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 2016, which is prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the securities transactions of the directors of the Company (the "Directors"). After making specific enquiry, all Directors have confirmed that they have fully complied with the required standard as set out in the Model Code during the six months ended 30 June 2016.

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 2016, 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

		Six months ended	
	NOTES	**30 June 2016**	30 June 2015
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**3,811,663**	4,277,244
Cost of sales		**(3,106,159)**	(3,568,123)
Gross profit		**705,504**	709,121
Other income	*4a*	**29,873**	38,072
Other gains and losses	*4b*	**(18,619)**	(15,064)
Selling and distribution expenses		**(196,624)**	(190,083)
General and administrative expenses		**(357,380)**	(371,022)
Interest expense		**(30,622)**	(34,498)
Profit before taxation	*5*	**132,132**	136,526
Taxation	*6*	**(54,383)**	(32,633)
Profit for the period		**77,749**	103,893
Other comprehensive (expenses) income:			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(56,105)**	4,056
Gain on revaluation of properties		**240**	–
		(55,865)	4,056
Items that may be reclassified subsequently to profit or loss:			
Net adjustments on cash flow hedges		**(5,226)**	(4,248)
Exchange differences arising on translation		**(2,005)**	756
		(7,231)	(3,492)
Other comprehensive (expenses) income for the period		**(63,096)**	564
Total comprehensive income for the period		**14,653**	104,457
Profit for the period attributable to:			
Owners of the Company		**56,389**	82,795
Non-controlling interests		**21,360**	21,098
		77,749	103,893
Total comprehensive (expenses) income attributable to:			
Owners of the Company		**(547)**	82,836
Non-controlling interests		**15,200**	21,621
		14,653	104,457
Earnings per share	*8*		
– Basic		**HK10.0 cents**	HK14.7 cents
– Diluted		**HK10.0 cents**	HK14.7 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**30.6.2016** *HK$'000* **(Unaudited)**	31.12.2015 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*9*	**1,670,446**	1,723,360
Prepaid lease payments		**215,239**	225,430
Investment properties	*9*	**135,610**	93,200
Goodwill		**69,574**	69,574
Intangible assets		**1,841**	2,461
Deposits paid for acquisition of property, plant and equipment and land use rights		**163,839**	178,131
Other non-current asset		**4,600**	4,600
Derivative financial instruments		**–**	140
		2,261,149	2,296,896
Current assets			
Inventories		**738,761**	739,286
Trade and bills receivables	*10*	**2,560,613**	2,733,113
Other debtors and prepayments	*10*	**309,059**	288,567
Prepaid lease payments		**5,625**	5,823
Derivative financial instruments		**269**	1,114
Short-term bank deposits			
– with original maturity within three months		**83,491**	22,525
– with original maturity more than three months		**100,000**	24,363
Bank balances and cash		**926,159**	1,327,380
		4,723,977	5,142,171
Current liabilities			
Creditors and accrued charges	*11*	**1,349,768**	1,553,870
Taxation payables		**44,293**	41,200
Dividend payables to the owners of the Company		**25,371**	–
Derivative financial instruments		**5,842**	13,809
Bank borrowings – amount due within one year		**758,261**	1,171,344
		2,183,535	2,780,223
Net current assets		**2,540,442**	2,361,948
Total assets less current liabilities		**4,801,591**	4,658,844
Non-current liabilities			
Derivative financial instruments		**5,606**	3,084
Bank borrowings – amount due after one year		**1,752,229**	1,603,819
Deferred tax liabilities		**22,496**	7,742
		1,780,331	1,614,645
		3,021,260	3,044,199
Capital and reserves			
Share capital		**56,381**	56,371
Reserves		**2,512,355**	2,538,088
Equity attributable to owners of the Company		**2,568,736**	2,594,459
Non-controlling interests		**452,524**	449,740
		3,021,260	3,044,199

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from operating activities	**89,154**	173,777
Net cash used in investing activities		
Withdrawal of short-term bank deposits with original maturity more than three months	**24,363**	69,145
Placement of short-term bank deposits with original maturity more than three months	**(100,000)**	(69,988)
Purchases of property, plant and equipment	**(35,659)**	(156,911)
Deposits paid for acquisition of property, plant and equipment	**(16,009)**	(41,527)
Proceeds from disposal of property, plant and equipment and prepaid lease payments	**1,417**	492
Other investing cash flows	**9,859**	18,713
	(116,029)	(180,076)
Net cash (used in) from financing activities		
New borrowings raised	**1,072,950**	1,915,358
Proceeds from issue of shares	**195**	1,484
Share issue expenses	**–**	(2)
Dividend paid to non-controlling shareholder of a subsidiary	**(12,416)**	(8,740)
Repayment of borrowings	**(1,337,624)**	(1,867,717)
Interest paid	**(30,622)**	(34,498)
	(307,517)	5,885
Net decrease in cash and cash equivalents	**(334,392)**	(414)
Cash and cash equivalents at beginning of the period	**1,349,905**	1,342,723
Effect of foreign exchange rate changes	**(5,863)**	272
Cash and cash equivalents at end of the period	**1,009,650**	1,342,581
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**926,159**	1,130,262
Short-term bank deposits with original maturity within three months	**83,491**	212,319
	1,009,650	1,342,581

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 the 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 following business divisions, namely solvents, coatings, inks and lubricants. These divisions are the basis on which the Group reports its operating segment information.

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

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

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

Segment revenue and results

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

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

	Solvents HK$'000	Coatings HK$'000	Inks HK$'000	Lubricants HK$'000	Reportable segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
Six months ended 30 June 2015 (unaudited)							
Segment revenue							
External sales	2,394,690	980,838	722,189	179,527	4,277,244	–	4,277,244
Inter-segment sales	65,856	8,760	3,344	699	78,659	(78,659)	–
Total segment revenue	2,460,546	989,598	725,533	180,226	4,355,903	(78,659)	4,277,244
Results							
Segment results	85,922	53,634	18,552	(989)	157,119	232	157,351
Exchange loss arising from a foreign currency bank loan							(3,642)
Fair value change on derivative financial instruments							4,052
Unallocated income							27,922
Unallocated expenses							(14,659)
Interest expense							(34,498)
Profit before taxation							136,526

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(a) The Group's other income mainly comprises:		
Interest income	**9,859**	18,713
Government grants recognised	**10,781**	5,778
(b) The Group's other gains and losses comprise:		
Exchange loss arising from a foreign currency bank loan *(Note (i))*	**(10,583)**	(3,642)
Fair value gain on derivative financial instruments of a cross currency swap contract and foreign exchange forward contracts *(Note (i))*	**9,686**	4,052
Sub-total	**(897)**	410
Net exchange (loss) gain arising from other foreign currency balances and transactions	**(5,798)**	2,175
Allowance for bad and doubtful debts *(Note (ii))*	**(9,063)**	(17,040)
Loss on disposal of property, plant and equipment and land use rights	**(2,861)**	(609)
	(18,619)	(15,064)

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 June 2016	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**609**	634
Depreciation of property, plant and equipment	**68,907**	66,848
Release of prepaid lease payments	**2,853**	3,049

6. TAXATION

	Six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax – Mainland China		
Enterprise Income Tax	**39,492**	30,454
Withholding Tax	**16,153**	1,311
	55,645	31,765
Deferred taxation		
Current period	**(1,262)**	868
	54,383	32,633

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%. Enterprise Income Tax 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$1,876,197,000 (31 December 2015: HK$2,032,623,000) 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 special dividend of HK4.5 cents per share totalling HK$25,371,000 in respect of the year ended 31 December 2015 were declared and subsequently paid in July 2016.

For the six months ended 30 June 2015, a final dividend of HK15.0 cents per share totalling HK$84,494,000 was paid for the year ended 31 December 2014.

Subsequent to 30 June 2016, the directors of the Company resolved to declare an interim dividend of HK5.0 cents per share totalling approximately HK$28,191,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: HK10.0 cents per share totalling HK$56,330,000). The interim dividend is payable on or about 12 October 2016 to the shareholders of the Company whose names appear on the Company's register of members on 9 September 2016.

8. EARNINGS PER SHARE

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

	Six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings for the purposes of calculating basic and diluted earnings per share	**56,389**	82,795
	Number of shares	
	'000	*'000*
Weighted average number of shares for the purpose of calculating basic earnings per share	**563,809**	563,132
Effect of dilutive potential ordinary shares:		
Share options	**45**	543
Weighted average number of shares for the purpose of calculating diluted earnings per share	**563,854**	563,675

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

During the period, the Group incurred approximately HK$63,730,000 (six months ended 30 June 2015: HK$208,746,000) mainly for additions to manufacturing plant in Mainland China to expand its manufacturing capacity.

During the current period, certain properties and prepaid lease payments with fair value at the date of transfer of HK$43,678,000 were transferred to investment properties due to change of use as a result of commencement of relevant leases. The fair value at the date of transfer was determined by an independent valuer and the excess over the carrying amount was transferred to property revaluation reserve at the date of transfer.

There are no changes in the fair value of the Group's investment properties for the current and prior interim periods. The valuations are carried 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 and Mainland China.

10. TRADE AND BILLS RECEIVABLES, OTHER DEBTORS AND PREPAYMENTS

	30.6.2016 ***HK$'000*** **(Unaudited)**	31.12.2015 *HK$'000* (Audited)
Trade receivables	**1,642,695**	1,566,326
Bills receivables	**917,918**	1,166,787
	2,560,613	2,733,113

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$85,613,000 (31 December 2015: HK$110,716,000) at the end of the reporting period is as follows:

	30.6.2016 ***HK$'000*** **(Unaudited)**	31.12.2015 *HK$'000* (Audited)
0 – 3 months	**1,348,177**	1,222,008
4 – 6 months	**204,302**	235,534
Over 6 months	**90,216**	108,784
	1,642,695	1,566,326

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

11. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of HK$965,029,000 (31 December 2015: HK$1,161,050,000). Remaining balances mainly consist of receipts in advance from customers, payable of staff salaries and benefits, sales commission, storage and transportation, etc.

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

	30.6.2016 ***HK$'000*** **(Unaudited)**	31.12.2015 *HK$'000* (Audited)
0 - 3 months	**820,911**	982,601
4 - 6 months	**136,297**	169,161
Over 6 months	**7,821**	9,288
	965,029	1,161,050

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK5 cents per share for the six months ended 30 June 2016 (six months ended 30 June 2015: HK10 cents per share). The interim dividend will be payable on or about 12 October 2016 to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 9 September 2016.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 7 September 2016 to 9 September 2016 (both dates inclusive) for the purpose of determining the entitlements of the members of the Company to the interim dividend. No transfer of shares may be registered during the said period. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Share Registrars in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 6 September 2016.

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 2016 interim report containing all the information required by the Listing Rules will be published on the HKEx website and the Company's website in due course.

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

Hong Kong, 19 August 2016

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

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

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

* *Independent Non-executive Directors*