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 2018

HIGHLIGHTS

Records New High in Overall Revenue and Sales Volume

- Total sales tonnage increased by 10.5% year-on-year to record high at around 650,000 metric tons.
- Revenue up 37.3% year-on-year to a new high also at nearly HK$6.15 billion.
- Gross profit rose 26% to HK$791 million. But since prices of raw materials continued to climb, gross profit margin dropped 1.1 percentage points year-on-year to 12.9%.
- Benefitting from growth of solvents business, increased contribution from sales and value increment of properties, profit attributable to owners up 62.7% to HK$87.26 million.
- The Board recommended payment of an interim dividend of HK6 cents per share.

	For the six-month period ended 30 June 2018 (unaudited)	For the six-month period ended 30 June 2017 (unaudited)	% change
Revenue	**HK$6,149,526,000**	HK$4,478,340,000	+37%
Profit attributable to owners of the Company	**HK$87,260,000**	HK$53,628,000	+63%
Earnings per share	**HK15.5 cents**	HK9.5 cents	+63%
Interim dividend	**HK6.0 cents**	HK5.0 cents	+20%
	As of 30 June 2018 (unaudited)	As of 30 June 2017 (unaudited)	
Gearing ratio*	**66.2%**	57.3%	+8.9% points

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

CHAIRMAN'S STATEMENT – REVIEW & PROSPECTS

Review

It gives me great pleasure to present to all shareholders of Yip's Chemical Holdings Limited (the "Company") and its subsidiaries (collectively "Yip's Chemical" or the "Group") a business overview of the Group for the first half of 2018.

An overview to the period, with sustained strong growth in the solvents business, the Group's sales revenue and sales volume both achieved historical highs of close to HK$6.15 billion and around 650,000 metric tons, which were respectively up 37.3% and 10.5% from the same period last year. Nevertheless, as raw material prices continued to increase during the period and some business segments were not able to pass on the increase to the market entirely and immediately, gross profit margins of our products were still on the low side. Meanwhile, the increasingly stringent regulation imposed on the chemical industry by various levels of mainland government had led to a continuous surge in related investments, thereby impeding the overall profit performance of the Group. The Group's profit attributable to owners recorded HK$87.26 million or a 62.7% growth year-on-year, thanks to an increase in the value of properties and gains from property sales, or otherwise fell short of expectations. The steady growth of sales revenue in the first half had inevitably led to a corresponding increase in demand for working capital. Although constant improvements in credit monitoring, inventory turnover and capital investment had been achieved, the depreciation of the Renminbi and high capital expenditure had raised the gearing ratio to 66.2% as of interim end, which was higher than the 57.3% recorded as of the same date last year. Upon a comprehensive evaluation, the Board of Directors, based on a cautiously optimistic view of business prospects and its long-held practice of earnestly rewarding shareholders, resolved to declare an interim dividend of HK6 cents per share to all shareholders, as compared with HK5 cents per share for the same period last year.

Outlook

It is expected that there will be considerable uncertainties in the macro environment in the second half. Factors such as unstable geopolitics, financial market volatility, tight money supply and hiking interest rates will all be very challenging. Further compounding the situation is the possibility that the Sino-US trade friction in recent months may elevate to the strategic level of curbing China's rapid rise on the world stage. The Group has full confidence and aspiration that the Chinese government can resolve conflicts effectively and orderly, and that the mainland economy will keep on growing steadily. Yet, at this juncture, it is particularly important that we should weigh circumstances, remain unruffled and conserve strength for development opportunities. Therefore, the Group has determined to step up efforts in enhancing the quality of its existing businesses through a series of "keep the cage, but change the bird" measures, while carefully identify merger and acquisition targets that will help strengthen existing core businesses upon integration. Meanwhile, the Group will also deal seriously with the reality that the operating environment has changed. Thus, it will actively explore new business growth points. To this end, a dedicated department has been set up and it is expected that concrete results will appear. To summarise, whether it is the consolidation of existing business segments or the expansion into new ones, the Group will stick to the concepts of going service oriented, environmentally friendly and end-user oriented.

The Group also anticipates that, with the Chinese government stepping up its efforts to regulate the chemical industry and with stringent standards on the emissions of volatile organic compounds, industry consolidation will be speeded up within a short time. The Group therefore will not only increase investment to ensure its compliance, but will also keep an eye on the development of the situation to identify areas where it can turn crises into opportunities so as to seek greater benefits for its shareholders.

On behalf of the Board of Directors, I would like to convey heartfelt thanks to the Group's senior leadership team for their relentless efforts, to the entire staff for their hard work and dedication and to all our partners for their support and trust.

Retirement and Appointment of Directors

Mr. Tong Wui Tung, experienced Non-executive Director of the Group, retired on 5 June this year while Mr. Ho Pak Chuen, Patrick, a seasoned executive, was appointed as an Independent Non-executive Director. On behalf of the Board of Directors, I would like to extend our sincere gratitude to Mr. Tong for his exceptional contributions over the last 20 years while expressing our warmest welcome to Mr. Ho for joining the Board.

REPORT OF THE CO-CHIEF EXECUTIVE OFFICERS

Key points on the Group's performance in the first half of 2018 include:

1. Overall sales volume continued to grow by 10.5% year-on-year to around 650,000 metric tons. Sales revenue was up 37.3% to close to HK$6.15 billion. Though this increase of revenue was mainly brought by the solvents business, double-digit growth was also recorded by the coatings and inks businesses while sales dipped slightly by 5% for lubricants.

2. Overall gross profit margin saw a gradual stabilisation, resulting in only a drop of 1.1 percentage points from the same period last year to 12.9%.

3. Thanks to phenomenal growths in both sales volume and profit of the solvents business and increased contribution from sales and value increment of properties, profit attributable to owners jumped 62.7% to HK$87.26 million despite a decrease in operating profit in the inks business and losses recorded in the coatings and lubricants businesses.

4. About HK$36.65 million in provisions were made for fixed assets affected by the replanning change of plants of the solvents business.

5. Contribution from the properties segment was mainly from the approximately HK$28 million in earnings from the sales of the original site of the resin plant in Huizhou and the HK$12 million increase in the value of Yip's Chemical Building in Fanling.

6. Early this year, about RMB102 million was spent on acquiring "Camel", a well-known coating brand in Hong Kong. Furthermore, increases in the costs of raw materials and selling prices of products drove up overall working capital. The Group's gearing ratio was 66.2%, up by 8.9 percentage points year-on-year.

Contribution from the properties segment is outlined separately in this period, while the Group's four main businesses are reviewed as follows:

Solvents

Sales volume continued to grow, that it was up 9.7% year-on-year to almost 520,000 metric tons, exceeding the 500,000 metric tons milestone for the first time in a half-year period. Meanwhile, sales revenue jumped 47% to close to HK$4.4 billion. As a result of coping with latest environmental protection trends, corresponding expenses increased slightly, resulting in an operating profit margin on par with that in the previous first half. Operating profit, however, grew markedly by 38.8% to nearly HK$184 million.

Applications for expanding the production capacity of the Taixing Plant in Eastern China by additional 550,000 metric tons have almost completed. It is expected that on-site construction work can begin in the third quarter of this year and production can commence in the first quarter of next year, this schedule is slightly behind the original plan.

In line with prevailing environmental protection trends, the Taixing Plant will buy maize-made ethanol instead of using cassava to produce ethanol. Since the value of the cassava-made ethanol production process accounts for less than 2% of the procurement cost of the solvents business, the influence on the operating profit is minimal.

Major achievement has been made by the management who has been seeking support of various levels of the Jiangmen Municipality Government in identifying a site for building the Group's new Southern China plant. Hopefully, a final decision on the site can be reached in the second half so that planning on the construction of the new plant can be kicked off.

On the whole, the solvents business has performed outstandingly in the period. Addition of new production lines in the Taixing Plant and planning on the construction of a new plant in Southern China will add capacities to existing saturated ones and provide new momentum for the further growth of the business.

Coatings

Coatings saw notable growth in sales tonnage, sales revenue and gross profit by 19.2%, 22.2% and 21% respectively year-on-year. The results signify early positive developments after years of effort in re-building business fundamentals including consolidation of business, shifting to environmentally friendly product portfolio, structural cost reduction, streamlining organisation structure and opportunistic acquisition.

Unfortunately, gross margin continued to hover at relatively low level due to sustained high raw material prices and higher depreciation and working capital arising out of volatile organic compound ("VOC") investment at Jinshan plant. This resulted in an operating loss of HK$4.9 million compared to an operating profit of HK$4.6 million in the first half of 2017.

Challenging operating environment has led to fast consolidation of the coatings industry across the country. According to a China's coatings association, over the past 12 to 18 months, up to 30% (or around 4,000 coatings companies) exited market or suspended operations. The Group remains confident that with 36 years of foothold in the market, prudent business strategies adopted over past few years, continuous investment into meeting higher HSE standards, good progress of integration after acquiring "Camel" at the beginning of this year and not least solid organisation muscle so built, the business is set to lift off again after bumpy transition cross these few years.

Inks

As market leader in the industry, management of the business has been working very hard to lead price increase so as to catch up with the cost curve in the first six months of the year. This led to a good increase of sales revenue by 16.5% while sales tonnage recorded a marginal increase of 1.5% compared to same period last year.

Notwithstanding the tremendous effort, gross margin of 17.9% registered in the period was still 1.4 percentage points lower than that of last year, resulting in a lower operating profit of HK$10.1 million compared to HK$19.7 million in the first half of last year.

As credit risk is escalating in overall B2B business in China, management has adopted a more prudent approach in selectively exiting some low quality businesses. With sluggish growth expected, management has launched a series of cost control measures, including structural optimisation of production capacity to enhance profitability and control of investments on VOC emission treatment.

Lubricants

As the smallest business in the Group, the lubricants business is agile enough in making bold steps against the Group's strategic intent of being environmentally friendly, end-user and service oriented.

Particular focus is thus made to develop the four automobile maintenance chain stores in Dongguan since end of last year, where visits per shop and spending per visit are trending in the right direction. Decision is therefore made to expand fast in Guangdong province and more shops would be opened. Initial years of investment would bear negative impact to its overall business profitability, but the Group is confident that, as a service sector of automobile aftermarket, this business will support the "keep the cage, but change the bird" strategic transformation of lubricants business, also the sales of higher tier automotive lubricants.

As for industrial lubricants, hard decision is made to depart from low margin and long credit customers in order to free up precious resources to support growth in other potential customers or business segments.

All in all, lubricants registered both reductions in sales revenue of 5% to HK$139 million and an operating loss of HK$8.4 million, compared to HK$0.5 million loss in the same period of last year.

Properties

In response to changes in the market and regulatory requirements in safety and environmental protection in recent years, the Group consolidates its production facilities every now and then and has relocated its headquarters. Properties not utilised for the Group's production or headquarters are held either for rental and/or capital appreciation purpose. In the period, contribution from the properties segment amounted to HK$39.55 million, which is a five-fold increase from the same period last year, due to earnings derived from the sale of the plot of land at which the original resin plant was located and the increase in value of the headquarters building in Fanling.

Outlook

Prevailing business challenges in China are expected to persist in foreseeable future. With robust steps and necessary inputs made through recent years, it is expected solvents would remain the key margin contributor, other three traditional businesses have already adjusted their respective strategies according to actual situation and performed transformation duly, the Group will be ready for next wave of quality growth. Coupled with the contribution brought by continuous consolidation of properties, the overall business performance will continue to improve.

Strategic investments in related segments like automobile maintenance chain would continue to support the transformation journey from asset oriented to more service and end-user oriented, thus establishing a new platform of growth for the Group's businesses and staff members.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was 66.2% (30 June 2017: 57.3%). The increase in gearing ratio was a result of an increase in net bank borrowings of the Group for the acquisition of the "Camel" and "Aquapro" brands, more working capital required to finance trade receivables and inventories for increased sales growth as well as rise in receipts of bankers' acceptances (i.e. bills receivables). The "Camel" brand is one of the leading brands in the coatings market in Hong Kong and Macao whereas the "Aquapro" brand is a high-end architectural coatings brand with a solid market share in Hong Kong. During the first half of 2018, the RMB depreciated 1.2%. The RMB is expected to fluctuate in the second half of 2018 due to the ongoing Sino-US trade conflict. The Group remains prudent in managing foreign exchange exposure, in order to minimise the impact of RMB fluctuation on its results. As for operating cash flow, the Group recorded a net cash outflow of HK$192,740,000 (six months ended 30 June 2017: net cash outflow of HK$87,997,000). The increase in the operating cash outflow was mainly attributable to the increase in stock and bills receivables (mostly from the solvents business which recorded a 47% increase in sales revenue compared with the last period).

As at 30 June 2018, the gross bank borrowings of the Group amounted to HK$2,503,319,000 (31 December 2017: HK$2,468,405,000). After the deduction of short-term bank deposits, bank balances and cash amounting to HK$547,712,000 (31 December 2017: HK$946,074,000), net bank borrowings amounted to HK$1,955,607,000 (31 December 2017: HK$1,522,331,000). Out of the gross bank borrowings, HK$1,177,519,000 (31 December 2017: HK$1,208,148,000) were short-term loans repayable within one year. Such loans were denominated in two currencies, HK$1,070,914,000 in Hong Kong Dollars and HK$106,605,000 in RMB (31 December 2017: HK$1,136,214,000 in Hong Kong Dollars and HK$71,934,000 in RMB). Long-term loans repayable after one year amounted to HK$1,325,800,000 (31 December 2017: HK$1,260,257,000), and they were all denominated in Hong Kong Dollars (31 December 2017: all in Hong Kong Dollars). The short-term bank deposits, bank balances and cash were denominated in the following currencies: HK$45,124,000 in Hong Kong Dollars, HK$371,140,000 in RMB, HK$131,427,000 in US Dollars and HK$21,000 in other currencies (31 December 2017: HK$72,706,000 in Hong Kong Dollars, HK$720,158,000 in RMB, HK$152,734,000 in US Dollars and HK$476,000 in other currencies).

To refinance previous mid-to-long-term loans which are due for repayment, the Group obtained bilateral long-term (three to four years) loans of HK$710,000,000 in the first half of 2018. As at 30 June 2018, mid-to long-term loans (including portions repayable within one year of HK$780,914,000) accounted for 84% of the total bank loans. Since some of the borrowings of the Group carry interest at floating rates, borrowing costs are subject to interest rate fluctuation. As the US interest rate continues its upward cycle during the first half of 2018, the one-month Hong Kong Dollar HIBOR rate rose significantly and it is expected to continue its rising trend. To mitigate the impact of interest rate fluctuations on the Group's financing costs, the Group, from time to time, makes arrangements with banks such as interest rate swaps to fix the interest rates of some of its bilateral mid-to-long-term loans and to hedge against the risk of such fluctuations. As at 30 June 2018, the Group's loans under fixed rate arrangement made up 38% and 40% of its total and non-current bank borrowings respectively.

As at 30 June 2018, a total of 20 banks in Hong Kong and Mainland China granted banking facilities of HK$6,403,486,000 to the Group, providing it with sufficient funds to meet present working capital and expansion requirements. Of these banking facilities, 62%, 36% and 2% were denominated in Hong Kong Dollars, RMB and US Dollars respectively. As explained in previous reports, the Group has been expanding its RMB loan portfolio to address exposure to potential RMB exchange rate fluctuation and impact from interest rate rises in Hong Kong. As at 30 June 2018, the Group's RMB revolving loan facilities increased to RMB770,000,000 (31 December 2017: RMB620,000,000) and several drawdowns in the total amount of RMB90,000,000 had been made (31 December 2017: RMB60,000,000). The Group also works closely with its major banks to set up a cross-border RMB cash pool to facilitate management of capital flow between Hong Kong and the mainland. The Group will continue to strike an optimal balance between lowering borrowing costs and minimising currency exposure by structuring a favourable combination of Hong Kong Dollars, US Dollars, RMB or other foreign currency bank loans in Hong Kong and the mainland.

HUMAN RESOURCES

As of 30 June 2018, the Group has total number of 3,409 employees. 82 employees are from Hong Kong while 3,327 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 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 Group offers a desirable work environment, sets up different programs for motivating employees to strive for improvement and to upgrade their skills in order to sustain the development of business. From time to time, the Group will make reference to market trends for 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 2018, 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 2018, 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. As of 30 June 2018, the Audit Committee comprised 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 auditors.

An Audit Committee meeting was held on 9 August 2018 to review the Group's unaudited interim financial statements for the six months ended 30 June 2018. 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 2018, 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 OF A LISTED COMPANY

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 enquiries, 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 2018.

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 2018, 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 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**6,149,526**	4,478,340
Cost of sales		**(5,358,898)**	(3,849,308)
Gross profit		**790,628**	629,032
Other income	*4a*	**31,392**	29,645
Other gains and losses	*4b*	**18,882**	2,941
Selling and distribution expenses		**(229,775)**	(187,973)
General and administrative expenses		**(393,003)**	(320,299)
Finance costs		**(29,775)**	(27,061)
Profit before taxation	*5*	**188,349**	126,285
Taxation	*6*	**(64,825)**	(42,728)
Profit for the period		**123,524**	83,557
Other comprehensive (expenses) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(61,683)**	151,873
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(956)**	–
Revaluation of property, plant and equipment upon transfer to investment property		**–**	31,702
		(62,639)	183,575

	Note	Six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Items that may be reclassified subsequently to profit or loss:			
Fair value change on hedging instruments in cash flow hedge		**2,570**	(7,076)
Exchange differences arising on translation of foreign operations		**(3,387)**	10,009
		(817)	2,933
Other comprehensive (expenses) income for the period		**(63,456)**	186,508
Total comprehensive income for the period		**60,068**	270,065
Profit for the period attributable to:			
Owners of the Company		**87,260**	53,628
Non-controlling interests		**36,264**	29,929
		123,524	83,557
Total comprehensive income attributable to:			
Owners of the Company		**32,170**	222,318
Non-controlling interests		**27,898**	47,747
		60,068	270,065
Earnings per share	*8*		
– Basic		**HK15.5 cents**	HK9.5 cents
– Diluted		**HK15.5 cents**	HK9.5 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30.6.2018**	31.12.2017
		HK$'000	*HK$'000*
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	*9*	**1,652,650**	1,688,920
Prepaid lease payments		**245,539**	261,017
Investment properties	*9*	**343,899**	332,771
Available-for-sale investment		**–**	3,992
Equity instruments at fair value through other comprehensive income		**12,862**	–
Goodwill		**112,568**	69,574
Intangible assets		**80,639**	488
Deposits paid for acquisition of an equity instrument		**11,773**	–
Deposits paid for acquisition of property, plant and equipment		**47,074**	31,865
Other non-current asset		**4,600**	4,600
Derivative financial instruments		**3,971**	3,449
		2,515,575	2,396,676
Current assets			
Inventories		**1,282,771**	914,032
Trade and bills receivables	*10*	**3,605,124**	3,444,933
Other debtors and prepayments	*10*	**513,609**	352,994
Prepaid lease payments		**6,731**	7,179
Derivative financial instruments		**5,571**	3,592
Short-term bank deposits – with original maturity within three months		**28,655**	57,723
Bank balances and cash		**519,057**	888,351
		5,961,518	5,668,804
Non-current assets held for sale		**–**	2,666
		5,961,518	5,671,470
Current liabilities			
Creditors and accrued charges	*11*	**2,194,040**	1,917,464
Contract liabilities		**59,680**	–
Taxation payables		**56,818**	88,720
Dividend payables		**56,389**	–
Derivative financial instruments		**–**	68
Borrowings – amount due within one year		**1,177,519**	1,208,148
		3,544,446	3,214,400
Net current assets		**2,417,072**	2,457,070
Total assets less current liabilities		**4,932,647**	4,853,746

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current liabilities		
Derivative financial instruments	**–**	2
Borrowings – amount due after one year	**1,325,800**	1,260,257
Deferred tax liabilities	**51,990**	42,309
	1,377,790	1,302,568
	3,554,857	3,551,178
Capital and reserves		
Share capital	**56,389**	56,389
Reserves	**2,898,309**	2,922,528
Equity attributable to owners of the Company	**2,954,698**	2,978,917
Non-controlling interests	**600,159**	572,261
	3,554,857	3,551,178

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended 30 June	
		2018	2017
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Net cash used in operating activities		**(192,740)**	(87,997)
Net cash used in investing activities			
Acquisition of business	*12*	**(125,181)**	–
Deposits paid for acquisition of property, plant and equipment		**(61,004)**	(19,752)
Purchases of property, plant and equipment		**(50,283)**	(117,481)
Deposits paid for acquisition of an equity instrument		**(11,773)**	–
Acquisition of equity instruments at fair value through other comprehensive income		**(9,902)**	–
Acquisition of intangible assets		**(1,355)**	–
Net proceeds from disposal of a subsidiary	*13*	**38,281**	–
Proceeds from disposal of assets classified as non-current assets held for sale		**5,377**	–
Interest received		**5,247**	4,507
Proceeds from disposal of property, plant and equipment		**874**	188
Acquisition of investment properties		**–**	(17,961)
Deposit paid for acquisition of an equity investment		**–**	(5,753)
		(209,719)	(156,252)

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from financing activities		
Borrowings raised	**1,020,189**	894,093
Repayment of borrowings	**(985,275)**	(738,136)
Interest paid	**(29,775)**	(27,061)
Dividends paid to non-controlling shareholder of a subsidiary	**–**	(18,829)
Proceeds from issue of shares	**–**	151
	5,139	110,218
Net decrease in cash and cash equivalents	**(397,320)**	(134,031)
Cash and cash equivalents at beginning of the period	**946,074**	971,103
Effect of foreign exchange rate changes	**(1,042)**	21,169
Cash and cash equivalents at end of the period	**547,712**	858,241
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**519,057**	726,381
Short-term bank deposits with original maturity within three months	**28,655**	131,860
	547,712	858,241

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 on the historical cost basis except for derivative financial instruments, equity instruments at fair value through other comprehensive income ("FVTOCI") and investment properties, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, a number of new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements.

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of solvents
- Sales of coatings
- Sales of inks
- Sales of lubricants
- Rental income from properties

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue", HKAS 11"Construction Contracts" and the related interpretations.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	**Carrying amounts under HKFRS 15 at 1 January 2018***
	HK$'000	*HK$'000*	***HK$'000***
	(Audited)		
Current liabilities			
Creditors and accrued charges	1,917,464	(54,428)	**1,863,036**
Contract liabilities	–	54,428	**54,428**

As at 1 January 2018, advances from customers of HK$54,428,000 in respect of sales contracts previously included in creditors and accrued charges were reclassified to contract liabilities.

* *The amounts in this column are before the adjustments from the application of HKFRS 9.*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

In addition, the Group applied the hedge accounting prospectively.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Key changes in accounting policies resulting from application of HKFRS 9

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other debtors, short-term bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bills receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Summary of effects arising from initial application of HKFRS 9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

Reclassification from available-for-sale investment to equity investments at FVTOCI

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investments previously classified as available-for-sale investment, of which approximately HK$3,992,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$3,992,000 were reclassified from available-for-sale investment to equity instruments at FVTOCI, of which HK$3,992,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. No fair value adjustment relating to this unquoted equity investment previously carried at cost less impairment was adjusted to equity instrument at FVTOCI and investment revaluation reserve as at 1 January 2018 because carrying value under HKAS 39 was materially equal to the fair value as at 1 January 2018.

The reclassification of available-for-sale investment as at 31 December 2017 reconcile to the opening balance of equity instruments at FVTOCI as at 1 January 2018 is as follows:

	Available-for-sale investment *HK'000*	**Equity instruments at FVTOCI** *HK'000*
Closing balance at 31 December 2017		
– HKAS 39	3,992	–
Effect arising from initial application of HKFRS 9		
Reclassification from available-for-sale investment	(3,992)	3,992
Opening balance at 1 January 2018	–	3,992

Impairment under ECL model

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In the current period, the Group applied the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables.

Loss allowances for other financial assets at amortised cost mainly comprise of other debtors, short term bank deposits and bank balances, and are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

The directors of the Company considered the additional expected credit loss allowance as at 1 January 2018 measured under the ECL model is insignificant.

Hedge accounting

The Group applies the hedge accounting requirements of HKFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with HKAS 39 are regarded as continuing hedging relationship if all qualifying criteria under HKFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition.

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

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017	HKFRS 15	HKFRS 9	**1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
	(Audited)			**(Restated)**
Available-for-sale investment	3,992	–	(3,992)	–
Equity instruments at FVTOCI	–	–	3,992	3,992
Creditors and accrued charges	1,917,464	(54,428)	–	1,863,036
Contract liabilities	–	54,428	–	54,428

3. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represents the amount received and receivable for goods sold to customers, net of discounts and sales related taxes, and rental income received and receivable from tenants during the period.

Segment Information

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

During the current interim period, in view of the continuing significance of the operation of the properties segment, the Group revised the organisation of segments that are used to allocate resources and assess performance, and considered to include a new segment, namely properties. The basis of measurement of segment results has been changed by including the segment results attributable to these properties.

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
Properties	–	property investment and holding of the Group's properties not used for production plants, research and development, central administration office, and not used for other operating segments, including but not limited to properties for rental

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

Segment revenue and results

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

	Solvents	**Coatings**	**Inks**	**Lubricants**	**Properties**	**Reportable segment total**	**Elimination**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
					(note)			
Six months ended 30 June 2018 (unaudited)								
Segment revenue								
External revenue	**4,323,313**	**948,547**	**730,567**	**139,013**	**8,086**	**6,149,526**	**–**	**6,149,526**
Inter-segment revenue	**63,926**	**24**	**348**	**81**	**200**	**64,579**	**(64,579)**	**–**
Total	**4,387,239**	**948,571**	**730,915**	**139,094**	**8,286**	**6,214,105**	**(64,579)**	**6,149,526**
Results								
Segment results	**183,753**	**(4,868)**	**10,085**	**(8,367)**	**39,548**	**220,151**	**(81)**	**220,070**
Unallocated income								**8,278**
Unallocated expenses								**(10,224)**
Finance costs								**(29,775)**
Profit before taxation								**188,349**

	Solvents	Coatings	Inks	Lubricants	Properties	Reportable segment total	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(note)			
Six months ended 30 June 2017 (unaudited)								
Segment revenue								
External revenue	2,934,101	770,833	627,269	146,137	–	4,478,340	–	4,478,340
Inter-segment revenue	50,371	5,096	180	41	–	55,688	(55,688)	–
Total	2,984,472	775,929	627,449	146,178	–	4,534,028	(55,688)	4,478,340
Results								
Segment results	132,432	4,566	19,654	(448)	6,165	162,369	(107)	162,262
Unallocated income								4,735
Unallocated expenses								(13,651)
Finance costs								(27,061)
Profit before taxation								126,285

Note: During the six months ended 30 June 2018, the Group revised the organisation of segments and properties segment was shown. Rental income of HK$8,286,000 was now presented as segment revenue for the six months ended 30 June 2018. Rental income of HK$6,272,000 for the six months ended 30 June 2017 was not restated as segment revenue for that period as the amount was not significant.

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(a) The Group's other income mainly comprises:		
Interest income	**5,247**	4,507
Government grants recognised	**8,886**	7,718
(b) The Group's other gains (losses) comprise of:		
Written off of property, plant and equipment	**(20,291)**	–
Allowance for bad and doubtful debts *(note)*	**(4,182)**	(2,855)
Loss on disposal of property, plant and equipment	**(1,729)**	(1,555)
Impairment loss recognised on goodwill	**(642)**	–
Gain on disposal of a subsidiary *(note 13)*	**28,406**	–
Gain on fair value change of investment properties	**12,225**	8,675
Gain on disposal of assets classified as non-current assets held for sale	**2,727**	–
Net exchange gain (loss) arising from other foreign currency balances and transactions	**2,368**	(1,324)
	18,882	2,941

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

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**1,532**	569
Cost of inventories recognised as an expense	**5,358,898**	3,849,308
Depreciation of property, plant and equipment	**95,280**	67,808
Release of prepaid lease payments	**3,518**	3,392

6. TAXATION

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax – the People's Republic of China ("PRC")		
Current period	**48,745**	35,251
Withholding Tax	**12,434**	7,557
	61,179	42,808
Deferred taxation		
Current period	**3,646**	(80)
	64,825	42,728

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. The two-tiered profits tax rate applies to years of assessment commencing on or after 1 April 2018.

Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporation will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. For the relevant period in the six months ended 30 June 2018, Hong Kong profits tax of the qualifying corporation in the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other corporations in the Group which are not qualified for the two-tiered profits tax rates regime will continue to be taxed at the rate of 16.5% (six months ended 30 June 2017: 16.5%).

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

Certain of the Company's subsidiaries operating in the PRC are either be eligible as High and New Technology Enterprise or operating in encouraged industries in Western Region of China, and are entitled to an income tax rate of 15%. EIT of the PRC has been provided for after taking these tax incentives into account.

The withholding tax represented taxation recognised in respect of the dividends to be distributed from profits earned by certain subsidiaries in the PRC starting from 1 January 2008 under the Implementation Regulation of the EIT Law of the PRC that requires withholding tax with tax rate ranging from 5% to 10% upon the distribution of such profits to the shareholders. During the period ended 30 June 2017, the Group recognised the withholding tax amounting to HK$3,817,000 (six months ended 30 June 2018: nil) in respect of the gain on transfer of a subsidiary in the PRC with tax rate of 10% under the EIT Law.

Deferred taxation has not been recognised in respect of certain undistributed retained profits earned by the subsidiaries in the PRC starting from 1 January 2008 amounting to HK$1,524,554,000 (31 December 2017: HK$1,753,566,000) as the directors of the Company are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

7. DIVIDENDS

During the period, a final dividend of HK10.0 cents per share totalling HK$56,389,000 in respect of the year ended 31 December 2017 were declared and subsequently paid in July 2018.

Subsequent to 30 June 2018, the directors of the Company resolved to declare an interim dividend of HK6.0 cents per share totalling approximately HK$33,833,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: HK5.0 cents per share totalling HK$28,194,000). The interim dividend is payable on or about 10 October 2018 to the owners of the Company whose names appear on the Company's register of members on 7 September 2018.

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	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings for the purposes of calculating basic and diluted earnings per share	**87,260**	53,628

	Number of shares	
	'000	*'000*
Weighted average number of shares for the purpose of calculating basic earnings per share	**563,889**	563,858
Effect of dilutive potential ordinary shares:		
Share options	**44**	71
Weighted average number of shares for the purpose of calculating diluted earnings per share	**563,933**	563,929

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

During the period, the Group incurred approximately HK$95,627,000 (six months ended 30 June 2017: HK$147,281,000) mainly for additions to a manufacturing plant in the PRC to expand its manufacturing capacity.

During the period ended 30 June 2017, a property with fair value at the date of transfer of HK$34,600,000 (six months ended 30 June 2018: nil) was transferred to investment properties due to change of use as a result of commencement of relevant leases. The fair value at the date of transfer was determined by an independent valuer and the excess over the carrying amount was recognised in other comprehensive income and increased property revaluation reserve at the date of transfer.

During the period ended 30 June 2017, the Group incurred approximately HK$21,620,000 (six months ended 30 June 2018: nil) for acquisition of an investment property which has been leased to Ip Chi Shing Charitable Foundation Limited, a related company controlled by a director of the Company, for the use as an office premise in Hong Kong.

During the period, a net increase in fair value of investment properties of HK$12,225,000 (six months ended 30 June 2017: HK$8,675,000) has been recognised directly in profit or loss. The valuations are carried out by an independent qualified professional valuer, which is not connected with the Group. The valuations by the independent qualified professional valuer are arrived by direct comparison approach with reference to recent market prices for similar properties in similar locations and conditions, investment approach with reference to market rent and depreciated replacement cost approach with reference to current cost of replacement in Hong Kong and the PRC.

10. TRADE AND BILLS RECEIVABLES, OTHER DEBTORS AND PREPAYMENTS

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**2,006,225**	1,786,024
Bills receivables	**1,598,899**	1,658,909
	3,605,124	3,444,933

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$78,649,000 (31 December 2017: HK$73,564,000) at the end of the reporting period is as follows:

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 3 months	**1,737,010**	1,479,359
4 – 6 months	**202,972**	241,779
Over 6 months	**66,243**	64,886
	2,006,225	1,786,024

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

Bills receivables represent 銀行承兑匯票 ("banker's acceptances"), i.e. time drafts accepted and guaranteed for payment by the 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 twelve 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

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade creditors	**1,802,177**	1,483,112
Other creditors and accrued charges	**391,863**	434,352
	2,194,040	1,917,464

Other creditors and accrued charges mainly consist of payables 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:

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 3 months	**1,446,155**	1,171,286
4 – 6 months	**350,752**	295,793
Over 6 months	**5,270**	16,033
	1,802,177	1,483,112

12. ACQUISITION OF BUSINESS

On 2 January 2018, two indirect wholly-owned subsidiaries of the Company, entered into an agreement with certain independent third parties, of which principal business activities are manufacture, sale, distribution and marketing of coatings, to acquire the business ("Camel") at a cash consideration of RMB111,741,000 (equivalent to HK$136,813,000) ("Camel Acquisition"). The acquisition of business was completed on 1 February 2018 and has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$43,636,000.

Acquisition-related costs amounting to HK$817,000 have been excluded from the cost of Camel Acquisition and have been recognised as an expense in the current period, and included in the "general and administrative expenses" line item in the condensed consolidated statement of profit or loss.

Assets acquired and liabilities recognised at the date of acquisition are as follows (determined on a provisional basis):

	HK$'000
Property, plant and equipment	993
Intangible assets	78,796
Inventories	7,191
Trade receivables	13,306
Deferred tax liabilities	(7,109)
	93,177

Consideration transferred

	HK$'000
Purchase consideration paid	125,181
Contingent consideration arrangement *(note)*	11,632
	136,813

Note: At the date of acquisition, the directors consider that the contingent consideration payable to the vendors of Camel is estimated to be probable at approximately RMB9,500,000 (equivalent to approximately HK$11,632,000) with reference to the estimated sales performance forecast of Camel and possible settlement of the outstanding contractual obligations. The contingent consideration arrangement required the Group to pay the vendors of Camel by reference to the operating performance of Camel for the 12-month from 1 January to 31 December 2018, and if the vendors have fulfilled their outstanding contractual obligations to customers accrued prior to the completion date.

Goodwill arising on acquisition (determined on a provisional basis):

	HK$'000
Consideration transferred	136,813
Less: net assets acquired	(93,177)
Goodwill arising on acquisition	43,636

The fair value of the identified net assets acquired was estimated by applying an income approach. The key model inputs used in determining the fair value were assumed discount rate of 13.1% and assumed long-term sustainable growth rates of 1.36% and 3.0% for the businesses in Hong Kong and the PRC, respectively.

The fair value of trade receivables at the date of acquisition amounted to HK$13,306,000. The gross contractual amount of those trade receivables acquired amounted to HK$33,263,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$19,957,000.

Goodwill arose in the acquisition because the cost of the combination includes a control premium. In addition, the consideration paid for the combination effectively included an amount in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Camel. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

13. DISPOSAL OF A SUBSIDIARY

On 1 March 2018, the Group disposed of the entire equity interest of its indirect wholly-owned subsidiary, Base Rich Development Limited ("Base Rich"), to an independent third party at a total cash consideration of approximately USD4,911,000 (equivalent to approximately HK$38,305,000). Base Rich held the prepaid lease payments of a land located in the PRC.

The net assets of Base Rich at the date of disposal were as follows:

	HK$'000
Prepaid lease payments	9,451
Property, plant and equipment	414
Bank balances and cash	24
Other payables	(24)
Net assets disposed of	9,865
Gain on disposal of a subsidiary:	
Consideration received	38,305
Net assets disposed of	(9,865)
Transaction cost for disposal	(34)
Gain on disposal	28,406
Net cash inflow arising on disposal:	
Cash consideration received	38,305
Bank balances and cash disposed of	(24)
	38,281

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK6 cents per share for the six months ended 30 June 2018 (six months ended 30 June 2017: HK5 cents per share). The interim dividend will be payable on or about 10 October 2018 to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 7 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 5 September 2018 to 7 September 2018 (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 4 September 2018.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited ("HKEx") (http://www.hkex.com.hk) and the Company (http://www.yipschemical.com). The 2018 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, 14 August 2018

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

Non-executive Directors:
Mr. Ip Chi Shing *(Chairman)*
Mr. Wong Kong Chi*
Mr. Ku Yuen Fun*
Mr. Ng Siu Ping*
Mr. Ho Pak Chuen, Patrick*

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)*

* *Independent Non-executive Directors*