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Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 408)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS

**Profit Attributable to Owners Increased by 11% year-on-year to HK\$303 million
Total Dividend for the Year Increased to HK22 Cents Per Share**

- As the pandemic came under control in Mainland China, economic activities resumed gradually. Coupled with the interruptions to the global supply chain caused by the pandemic creating heavier reliance on Mainland China, the Group's sales revenue increased by 3% year-on-year to approximately HK\$10.78 billion, while sales volume rose by 8% year-on-year to 1.49 million metric tons;
- Profit attributable to owners amounted to approximately HK\$303 million, representing a growth of 11% year-on-year. Excluding the one-off items, net profit surged by more than 50%;
- Operating profit for the solvents business amounted to HK\$470 million, representing a significant increase of 70% year-on-year, which is the best result in the 27-year history since the business has started;
- Capital utilisation continued to improve, with the gearing ratio decreased to 31.1%, representing a drop of 1.9 percentage points year-on-year;
- The Board recommended payment of a final dividend of HK16 cents per share. Total dividend payment for the year amounted to HK22 cents per share, representing an increase of 10% year-on-year.

	For the year ended 31 December 2020 (audited)	For the year ended 31 December 2019 (audited)	% change
Revenue	HK\$10,776,026,000	HK\$10,464,834,000	+3%
Profit attributable to owners of the Company	HK\$302,575,000	HK\$272,907,000	+11%
Earnings per share	HK53.8 cents	HK48.4 cents	+11%
Final dividend	HK16.0 cents	HK13.0 cents	+23%
Dividend for the year	HK22.0 cents	HK20.0 cents	+10%
	As of 31 December 2020	As of 31 December 2019	
Gearing ratio*	31.1%	33.0%	-1.9% points
* Measured by net bank borrowings as a percentage of equity attributable to owners of the Company			

CHAIRMAN’S STATEMENT — REVIEW AND OUTLOOK

It is my pleasure to present to the shareholders (“Shareholders”) of Yip’s Chemical Holdings Limited (the “Company”) and its subsidiaries (collectively “Yip’s Chemical” or the “Group”) an overview of the Group’s annual results for the year 2020 (“year under review”). In the year under review, the Group’s overall business was rattled and hit by the sweeping escalation of the Sino-US trade conflict and, more seriously, by a sudden outbreak of Coronavirus Disease 2019 (“COVID-19”) which swept through the world. When COVID-19 first struck in early 2020, many places in Mainland China were locked down for almost two months, bringing almost all economic activities to a standstill. Consequently, the Group’s various business segments, including domestic sales or exports, suffered inevitably to one extent or the other, thus negatively impacting the Group’s performance in the first half of the year under review. However, it is encouraging that under the highly effective and strong administrative measures implemented by respective authorities of the Chinese government, and with the concerted efforts of the entire population, the pandemic in Mainland China was soon under control. Economic activities in Mainland China have resumed gradually since the second quarter and even rebounded quickly in the second half of the year under review. Meanwhile, as the pandemic remained out of control in Europe and the US, factories suspended operations, which led to interruptions in supply chains and thus an even heavier reliance on Mainland China. This translated to a greater impetus for economic activities in Mainland China. Attributable to such a turn of events, the Group’s performance for the year under review as a whole was much improved: the sluggish results in the first half turned around and the sales revenue and sales volume for the year under review were respectively HK\$10.78 billion and 1.49 million metric tons, which resulted in a growth of 3% and 8% respectively from that in the preceding year. As to profit attributable to owners of the Company, since the solvents division managed the fluctuations in raw material prices more effectively, gross profit margin surged substantially and profit attributable to owners of the Company rose 11% year-on-year to HK\$303 million. Excluding the one-off items such as the gain from the sale of the Qingpu plant in Shanghai, as well as the expenses related to the proposed spin-off and separate listing of Bauhinia Ink Company Limited (“Bauhinia Ink”) on the Shenzhen Stock Exchange, the net profit for the Group surged by more than 50% from that in the preceding year.

The Group would also like to report on its robust financial performance. Although the macro operating environment was extremely harsh in the year under review, we were able to achieve a rise in profit while capital utilisation was well under control, overall credit status remained sound and bad debts were maintained at a normal level. The Group’s gearing ratio fell further from 33% in the preceding year end to 31.1% at the end of the year under review. Upon summing up various assessments and giving due consideration to the long-held policy of actively rewarding Shareholders, the Company’s Board of Directors (the “Board”) recommended to pay a final dividend of HK16 cents per share which, together with the interim dividend of HK6 cents per share already paid out, amounted to a total dividend for the year under review of HK22 cents per share, representing an increase of 10% year-on-year.

Review

The year under review was an extremely unusual one. An unprecedented COVID-19 pandemic that ravaged the whole world and the all-round escalation of the Sino-US strife were indeed stirring for every day of the year. However, this was also a year in which the Group had not only gone through with its planned strategies and pacing but had also achieved satisfactory results. First, though as of this moment, the pandemic is still hovering upon us and the crisis is far from over, all employees of the Group have fortunately stayed largely unaffected. All production bases and departments were able to resume production and operation in an orderly manner. Furthermore, at the beginning of the outbreak, we demonstrated the spirit of philanthropy through donating a certain quantity of sanitizing alcohol, which was an anti-pandemic resource that was in urgent need, to various organizations in Mainland China. For this, we received much appreciation from the public. Second, under the relentless efforts of our management team at all levels, the Group's core businesses were able to respond quickly to the fast-evolving changes in the markets by nimbly adjusting their strategies, thereby basically achieving various targets. The performance of solvents segment, in particular, reached a new height, which was never an easy task. The Group also accomplished some meaningful results in terms of maximising Shareholders' investment value. During the year under review, the Group bought back 7,370,000 shares of the Company ("Shares") from the market, thereby increasing earnings per share by 1.32%. Bauhinia Ink, a subsidiary of the Group, received acknowledgement of the listing application from the Shenzhen Stock Exchange for the proposed spin-off and separate listing. We hope that Bauhinia Ink can be listed successfully in year 2021, thus providing favourable conditions for the further development of its business. Furthermore, after years of planning, the Group's Strategic Investment Department has been formed and is commencing operation this year. Its mandate is to work in concert with the Group's Corporate Development Department to create new values for future by leveraging the Group's advantages and focusing on identifying and tapping business opportunities in the fields of environmental protection, new energy and advanced materials. This will be an important step for the Group to consolidate and carry on its past heritage and open up its future.

Outlook

I believe that the business environment of year 2021 will still be ridden with uncertainties and challenges. The COVID-19 pandemic is still raging around the world and far from being contained. Minor outbreaks were reported recently in some areas in Mainland China. Though universal vaccination can be expected to be underway in the first half of the year, its effects are yet to be seen. What is certain is that the pandemic has inflicted severe and far-reaching damage to the global economy. On another front, as the reins of the US presidency changed hands early this year, the new administration's adjustments in US policy towards China have become a major concern. But on the whole, I am still optimistic about the business prospects of the Group for the year. Dealing with the pandemic and clashing with various Western countries have made the resilience and tenacity of China's model of economic development all the more evident. It has also made China more determined to expand domestic demand continuously so that, to ensure the stability and sustainability of its economy, it can adopt a "dual circulation" development approach that is based primarily on the domestic economic cycle to drive the international economic cycle. With this national strategy in place, we believe that the Group's various business segments that have taken root in Mainland China for years would be benefitted in the long-term under this favourable external environment. Concurrently, the Group has been unflinching to set up targets and development strategies both in strengthening its existing businesses and in opening up new horizons. So far, progress towards the targets has been increasingly clear. The Group is in a good position to expand its business by riding on the success of the country and create bigger returns for the Shareholders.

2021 is the golden jubilee year of the Group, for which we have set the theme of "50 Years of Resilience and Progression". Due to the uncertainties brought about by the pandemic, related celebration activities have yet to be confirmed. Still, the Group's "50th Anniversary Task Force" will strive to run a host of activities and campaigns so that all staff as well as Shareholders can share the pride of the past and the promise of the future.

On behalf of the Board, I would like to convey our heartfelt thanks to all our staff for their hard work and dedication, to our Shareholders for their staunch support and guidance and to the Directors and senior leadership team ("SLT") for their leadership, endeavours and cooperation.

Retirement of Independent Non-executive Directors and New Appointment

Two of the Company's senior non-executive directors, Mr. Ku Yuen Fun and Mr. Wong Kong Chi, retired respectively on 1 July 2020 and 1 January 2021. Both of them have been with us for years and during their tenure, they have contributed tremendously to the Group's business development, corporate governance and the nurturing of talents. On behalf of the Board, I would like to express our deepest gratitude to them and wish them a happy and healthy retired life.

Mr. Ku Yee Dao, Lawrence was invited to join our Board as an independent non-executive director on 1 July 2020. As a certified accountant with high professional qualifications and extensive experience in financial management as well as marketing, Mr. Ku is currently serving in a senior management position with a listed European corporation. On behalf of the Board, I would like to extend our warmest welcome to Mr. Ku.

Ip Chi Shing

Chairman

17 March 2021

REPORT OF THE CHIEF EXECUTIVE OFFICER

Key aspects of the Group's performance for the year ended 31 December 2020 are as follows:

1. In the year, as the Group implemented anti-pandemic measures properly, our employees recorded zero case of COVID-19 infection;
2. Total operating profit was HK\$580 million, which was a slight growth of 0.8% year-on-year. Profit attributable to owners of the Company increased by 11% from the same period in the preceding year to HK\$303 million, the second-highest audited profit in the Group's history. Excluding the one-off items, the Group's net profit actually surged more than 50%;
3. Total sales revenue was HK\$10.78 billion, which was a slight growth of 3% from the preceding year. Sales breakdown and profit analysis for the key business segments are detailed below;
4. With capital utilisation improving over time, the Group's gearing ratio declined continuously to 31.1%, which was a drop of 1.9 percentage points year-on-year; and
5. Raising capital in the Mainland China's capital markets for sustained development in Mainland China is a new strategy for the Group. It is hoped that this will maximize shareholder investment value and enhance their return. In the year, the Group has completed certain necessary procedures for the proposed spin-off of the inks business of the Group, including obtaining the approval from the Hong Kong Stock Exchange for the proposed spin-off, share restructuring (股改), as well as obtaining verification from China Securities Regulatory Commission. Subsequently, an application for a separate listing of Bauhinia Ink was submitted to the Shenzhen Stock Exchange on 27 January 2021.

The review and outlook of the Group's five business segments are as follows:

Solvents

Sales volume of 1.22 million metric tons and sales revenue of HK\$7.87 billion were achieved in 2020, representing a year-on-year growth of 8.5% and 6.3% respectively. Sales have been demonstrating a positive growth trend. Specifically, export sales volume leapt 30% to surpass the 300,000 metric-ton mark. This was in part made possible by the full operation of the new production line in the Taixing plant to ensure adequate supply to the frontline.

In the year under review, the operating profit rose sharply by 70% year-on-year to HK\$470 million, attributable to the continuous increase in the prices of key raw materials in the second half, particularly in the fourth quarter, despite a considerable amount of provision was made to prepare for relocating our plant from Jiangmen to Zhuhai.

The solvents business was slightly affected by the pandemic in the first quarter for the year. However, with the pandemic gradually under control in Mainland China, business resumed growth. Buoyed by our export business in which the Company's brand is well-received and its reputation is well-trusted by overseas clients, the solvents division saw a simultaneous soaring of its domestic and export sales. As the Zhuhai plant will commence operation in the new financial year, it is expected that there will be additional production capacity to meet the demand from frontline sales.

The newly established Market Committee has demonstrated its effectiveness in marketing, procurement and logistics which are centrally managed and coordinated, and this is manifested in the accurate forecast of and quick response to the market. In the year under review, notwithstanding the severe volatility of raw material prices, our management team demonstrated strong capability in managing such volatility, leading the solvents business to make the year the most profitable one since it was started 27 years ago.

The management was of the view that the top initiative in the new financial year would be the construction of the new plant in Zhuhai. According to the current progress, we are confident that by the fourth quarter in 2021, the plant can be put into operation, and there will be a seamless migration from the Jiangmen plant to the Zhuhai plant. The second initiative would be the implementation of the strategy of "global sourcing" of raw materials and the "global selling" of products while continuing to make effective use of the Market Committee to ensure effective operation. The third initiative is to look for new growth drivers by injecting new projects into the solvents business to boost profit growth.

Coatings

The coatings business achieved a sales revenue of HK\$1.44 billion in 2020, which was a decrease of 10.4% from the preceding year. During the pandemic in the first half of the year, all construction projects large and small, as well as home renovation and industrial production were negatively affected, leading to a sales decline for the business. As the pandemic was under control in Mainland China, the revival of economic activities has driven up sales of the business in the second half. Though sales efforts have been redoubled, the shortfall in sales has not been fully recovered.

In the year under review, the architectural coatings business signed up more distributors across the country through its "Bauhinia" and "Camel" brands, thereby building up a more robust sales network. Simultaneously, we fostered strategic partnerships with renowned property developers to expand the sales of coatings for construction projects. Regarding the furniture coatings, industrial coatings and resins businesses, we continued with our strategy of focusing on quality customers and deals to maintain profit quality.

In operations, benefitted by the stable raw material prices and the ongoing optimisation of our internal supply chain, gross profit margin edged up 0.6 percentage point to 29.4%. The operating profit fell 9.6% year-on-year to HK\$51.16 million.

Looking forward to 2021, the management will focus on expanding market shares. In view of the huge coatings market in Mainland China, our architectural coatings, furniture coatings, industrial coatings and resin products all have considerable room for development in their respective market segments. Leveraging on our long-established brands as well as our stable and high-performance products, we will continue to expand our sales network and develop new product technology and services in related business lines to pave the way for sustainable and long-term growth. To cope with this development strategy, “Bauhinia Coatings Group” was renamed as “Bauhinia Advanced Materials Group” from 2021.

Inks

Sales performance of our food packaging inks (gravure printing inks) was satisfactory as the Chinese domestic market grew strongly. On the other hand, sales of our offset printing inks, another major product, were negatively affected by a drastic reduction in export of printed products to the US and Europe. Under these two factors, the inks business still registered a growth of 0.7% in sales volume while sales revenue slightly slipped by 3.3% to HK\$1.24 billion due to a decline in unit selling price. Operating profit was HK\$60.77 million, down by 22.7% from the preceding year.

We are an industry leader in the gravure printing inks market. In the year, to further consolidate and strengthen the current market-leading position, we recruited experienced management, sales and technical personnel. The inks team will continue to cultivate the domestic market with a particular focus on household products with strong demand and fast growth.

As the approval for production capacity expansion for the Tongxiang plant has been granted, the expansion project would be completed by the first half of 2021 so that more products will be available to the frontline sales team. Hopefully, by the second half of 2021, the business can be listed on the ChiNext Board of the Shenzhen Stock Exchange and the proceeds raised would be used for improving and enhancing the existing technology, setting up a testing centre, and constructing production plant for water-based inks. In the fourth quarter of 2020, land acquisition, permit applications and the designs for the testing centre and the new plant were all completed. 2021 will be the year in which the inks business will build itself up comprehensively and lay a firm foundation for striding development in future.

Lubricants

In the year under review, the lubricants business managed to expand the market for its automotive lubricants steadily. This is achieved on the one hand by rolling out mid- to high-end products to replace existing ones through current distribution channels. On the other hand, we enhanced automation to raise production efficiency while lowering operation costs. This enabled us to increase market shares for our low- to mid-end products while developing the OEM business. Compared to the preceding year, sales revenue grew 8.0% to HK\$220 million. Meanwhile, though the price of base oil rose relentlessly in the year, by improving operating efficiency, gross profit margin only dipped slightly by 1.8 percentage points to 26.5% while operating profit grew 17.9% to HK\$7.59 million.

In the last two years, the management has already managed to turn around the loss-making position of the business while building a more robust development platform. Going forward in 2021, we will continue to concentrate on expanding the sales network for automotive lubricants and will also introduce various new products to secure a larger market share.

Other Businesses

The Group has been consistently striving to become more environmentally-friendly, end-user oriented and service-oriented, and is actively pursuing “household” and “automobile” related business opportunities. In early 2020, we completed an additional investment in Damai, a car maintenance chain, increasing our shareholding to 61%, to support Damai in offering professional, convenient and cost-effective car maintenance services to the huge population of car owners in China. In the year under review, Damai has slowed down its new store opening due to the pandemic. The number of its service points in Shandong, Guangdong, Hebei, Hunan and Jiangsu still increased 21 to reach 107, altogether serving more than 210,000 cars since its establishment. In 2021, the management will continue to expand the business prudently. While focusing on scaling up the service network in the five provinces where there is an existing presence, it will speed up the rate of attracting new customers and boost single-store profitability through community promotion and advertising through radio and the like.

In response to the pandemic, the Group established its own sanitizing brand, “EUCA” in the year to offer sanitizing products to meet the demand for personal care and disinfection in Hong Kong. We will carry on the R&D related to personal and environment sanitization products with an aim to safeguard the health and enhance the quality of life of the public.

For the properties segment, the revenue dropped 37% to HK\$8.9 million, which was the revenue from leasing the former R&D building in Zhangjiang, Shanghai. In the year, the Group's former headquarters in Fanling, Hong Kong was left vacant and application has been made to the relevant government department for renovating several floors for the Group's own use. It is expected that approval will be obtained within 2021 in order to facilitate the development of our coatings business in Hong Kong. As the fair value of properties was reduced by HK\$6.77 million and there was no major income such as the sale of the Qingpu plant in Shanghai as in the preceding year, operating profit for the properties division was only HK\$980,000.

Outlook

The Group has undertaken the challenging task of restructuring its businesses and the benefits of its efforts are in evidence. The steady improvement in performance in 2019 and 2020, particularly the jump in profit in 2020, has imparted much confidence to the management team. Though the pandemic has not subsided and the trade conflicts between China and the US have yet to be resolved, the Group's core businesses are all going from strength to strength. Banking on the steady growth of the China market and benefiting from the strong and positive brand reputation of Yip's Chemical in the chemical industry, the Group's core businesses are constantly summing up their respective experience and each giving play to their own strengths. This is especially important for the key objectives this year, including exploring new projects for the solvents business, boosting sales for the coatings business and advancing the separate listing of the inks business. The management is in earnest anticipation of a more fruitful year.

Yip Tsz Hin

Chief Executive Officer

17 March 2021

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was 31.1% (31 December 2019: 33.0%), representing an improvement of 1.9 percentage points. The Group continued to maintain a healthy operating cash flow this year. Although the Group's net bank borrowings increased slightly due to the investment in the solvents' new plant, the equity attributable to owners of the Company improved more thanks to the contribution from current year profits and exchange gain as a result of the 6.6% appreciation of the Renminbi ("RMB"), leading to the decline of the Group's gearing ratio. Over the past few years, the Group arranged to repatriate funds from Mainland China by means of dividend payments in order to reduce its foreign exchange exposure. The bank borrowings in Hong Kong and net interest expenses were thus substantially reduced. The net interest expenses during the year under review were reduced by 36.5% to HK\$32,216,000 (2019:HK\$50,719,000).

As for operating cash flow, the Group recorded a net cash inflow of HK\$222,200,000 (2019: net cash inflow of HK\$618,414,000). The decrease in operating cash inflow compared with the preceding year was mainly attributable to an increase in trade and bills receivables, after offsetting the effect of increased creditors and accrued charges.

As at 31 December 2020, gross bank borrowings of the Group amounted to HK\$1,624,487,000 (31 December 2019: HK\$1,979,400,000). After the deduction of short-term bank deposits, bank balances and cash amounting to HK\$565,302,000 (31 December 2019: HK\$1,009,542,000), net bank borrowings amounted to HK\$1,059,185,000 (31 December 2019: HK\$969,858,000). Of the gross bank borrowings, HK\$706,887,000 (31 December 2019: HK\$805,700,000) were short-term loans repayable within one year. Such loans were denominated in two currencies, HK\$671,100,000 in Hong Kong Dollars and HK\$35,787,000 in RMB (31 December 2019: all in Hong Kong Dollars). Long-term loans repayable after one year amounted to HK\$917,600,000 (31 December 2019: HK\$1,173,700,000), and they were all denominated in Hong Kong Dollars (31 December 2019: all in Hong Kong Dollars). The short-term bank deposits, bank balances and cash were denominated in the following currencies: HK\$24,309,000 in Hong Kong Dollars, HK\$425,408,000 in RMB and HK\$110,879,000 in US Dollars and HK\$4,706,000 in other currencies (31 December 2019: HK\$270,831,000 in Hong Kong Dollars, HK\$623,555,000 in RMB, HK\$114,963,000 in US Dollars and HK\$193,000 in other currencies).

To refinance the previous mid-to-long-term loans due for repayment, the Group obtained bilateral long-term (three to four years) loans of HK\$300,000,000 in 2020. As at 31 December 2020, mid-to-long-term loans (including portions repayable within one year of HK\$556,100,000) accounted for 91% 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. To mitigate the impact of interest rate fluctuations on its financing costs, the Group, from time to time, makes arrangements such as interest rate swaps to fix the interest rates of some of its bilateral mid-to-long-term loans with banks, in order to hedge against the risk of such fluctuations. As at 31 December 2020, the Group's loans under fixed rate arrangement made up 42% of its total bank borrowings.

As at 31 December 2020, a total of 24 banks in Hong Kong and Mainland China granted banking facilities of HK\$6,465,192,000 to the Group, providing it with sufficient funds to meet present working capital and expansion requirements. Of these banking facilities, 51%, 47% and 2% were denominated in Hong Kong Dollars, RMB and US Dollars respectively. As at 31 December 2020, the Group's RMB revolving loan facilities totalled at RMB950,000,000 (31 December 2019: RMB630,000,000). As the interest borrowing rate in the PRC continued to decline in the past few years, the Group has increased its RMB loan portfolio to address the revolving funding needs in the PRC as well as to mitigate the exposure to potential RMB exchange rate fluctuation. 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 Mainland China.

HUMAN RESOURCES

As of 31 December 2020, the Group has a total number of 3,018 employees, among which 82 of them are from Hong Kong while the remaining 2,936 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 programs, job rotations and participation in the Group's educational subsidy programs, 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 location or educational level. The Group regularly identifies talented employees and tailor-makes career plans to support their continuous development. With versatile experience in challenging roles in different areas, the current management team of the Group has risen through the ranks to positions of management. In addition to the focus of developing employees internally, the Group also seeks to attract talent from outside.

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

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

Repurchase of Shares

During the year ended 31 December 2020, the Company repurchased a total of 7,370,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK\$19,206,934. All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	Total no. of shares repurchased	Purchase price per share		Aggregate consideration (before expenses)
		Highest HK\$	Lowest HK\$	HK\$
August	1,606,000	2.50	2.28	3,927,720
September	3,000,000	2.70	2.45	7,648,780
October	1,312,000	2.64	2.55	3,435,914
November	1,122,000	2.90	2.70	3,210,360
December	330,000	3.00	2.95	984,160
	<u>7,370,000</u>			<u>19,206,934</u>

Saved as disclosed above, during the year ended 31 December 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance so as to achieve the Group's objectives of maximising values for its employees, customers, suppliers, business partners and Shareholders, and safeguarding their interests. The Company has complied with "Corporate Governance Code and Corporate Governance Report" contained in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2020 except that the Company does not have a nomination committee. The Company considers it is more beneficial and efficient for the full Board of Directors to perform the functions of the nomination committee.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was formed in November 1998. 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 March 2021 to review the Group's audited consolidated financial statements for the year ended 31 December 2020. As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely Mr. Ku Yee Dao, Lawrence who is also the chairman of the Audit Committee, Mr. Wong Yuk and Mr. Ho Pak Chuen, Patrick.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was formed in June 2005. Major roles and functions of the Remuneration Committee include establishing a formal and transparent procedure for developing remuneration policy, making recommendation to the Board on the Group's policy and structure for the remuneration of Directors and senior management and determining the remuneration packages of all executive Directors and senior management. As at the date of this announcement, the Remuneration Committee comprises two independent non-executive Directors, namely Mr. Ho Pak Chuen, Patrick who is also the chairman of the Remuneration Committee, and Mr. Wong Yuk.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The health, safety and environment committee of the Company (the “HSE Committee”) was formed in January 2012 in order to enhance the awareness of the importance of the health, safety and environment (“HSE”) protection works to the Group. Major duties of the HSE Committee include the adoption of and reviewing of the Group’s HSE policies, reviewing the Group’s appetite for HSE risk and monitoring the Group’s environment for HSE matters, including organisation structure, reward and punishment systems, resource inputs, operation culture, etc. As at the date of this announcement, the HSE Committee comprises two independent non-executive Directors, namely Mr. Wong Yuk who is also the chairman of the HSE Committee, and Mr. Ho Pak Chuen, Patrick.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. After making specific enquiries, all Directors have confirmed that they have fully complied with the required standard as set out in the Model Code during the year ended 31 December 2020.

The Board of Directors of Yip's Chemical Holdings Limited ("the Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2020, together with comparative figures of last year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
	NOTES	HK\$'000	HK\$'000
Revenue	2	10,776,026	10,464,834
Cost of sales		<u>(9,053,128)</u>	<u>(8,988,537)</u>
Gross profit		1,722,898	1,476,297
Other income	3(a)	81,918	67,180
Other gains and losses	3(b)	(69,952)	(67,804)
Gain on disposal of subsidiaries	11	1,500	162,713
Selling and distribution expenses		(465,206)	(425,028)
General and administrative expenses		(686,910)	(644,038)
Finance costs		(48,231)	(73,442)
Share of results of associates		<u>(1,106)</u>	<u>(14,983)</u>
Profit before taxation	4	534,911	480,895
Taxation	5	<u>(131,335)</u>	<u>(143,821)</u>
Profit for the year		403,576	337,074
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		318,906	(88,832)
Fair value changes on investment in equity instrument		(2,597)	9,930
Transfer of property, plant and equipment to investment properties			
– Surplus on revaluation		–	4,113
– Deferred taxation		–	(1,045)
		<u>316,309</u>	<u>(75,834)</u>
Items that may be reclassified subsequently to profit or loss:			
Net adjustment arising from hedging instruments		(12,517)	(3,455)
Exchange differences arising on translation of foreign operations		26,595	(4,340)
		<u>14,078</u>	<u>(7,795)</u>
Other comprehensive income (expense) for the year		<u>330,387</u>	<u>(83,629)</u>
Total comprehensive income for the year		<u><u>733,963</u></u>	<u><u>253,445</u></u>

	<i>NOTE</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit for the year attributable to:			
Owners of the Company		302,575	272,907
Non-controlling interests		101,001	64,167
		<u>403,576</u>	<u>337,074</u>
 Total comprehensive income for the year attributable to:			
Owners of the Company		587,419	200,638
Non-controlling interests		146,544	52,807
		<u>733,963</u>	<u>253,445</u>
 Earnings per share	 7		
– Basic		<u>HK53.8 cents</u>	<u>HK48.4 cents</u>
– Diluted		<u>HK53.8 cents</u>	<u>HK48.4 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	NOTE	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment		2,032,633	1,956,629
Investment properties		344,096	344,001
Interests in associates		5,772	25,133
Investment in equity instrument		19,083	21,680
Investments in debt instruments		62,369	–
Goodwill		148,584	112,776
Intangible assets		82,986	69,044
Deposits paid for acquisition of property, plant and equipment		34,587	17,736
Derivative financial instruments		–	1,144
Deferred tax assets		7,697	–
		<u>2,737,807</u>	<u>2,548,143</u>
Current assets			
Inventories		1,169,493	947,003
Trade receivables	8	3,474,539	2,794,945
Other debtors and prepayments		492,222	372,812
Amounts due from associates		–	22,661
Derivative financial instruments		–	2,261
Investments in debt instruments		–	55,292
Short-term bank deposits			
– with original maturity within three months		34,894	349,292
Bank balances and cash		530,408	660,250
		<u>5,701,556</u>	<u>5,204,516</u>

	<i>NOTE</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current liabilities			
Creditors and accrued charges	9	2,325,974	2,028,678
Contract liabilities		44,028	34,423
Taxation payables		86,772	70,737
Derivative financial instruments		5,761	35
Lease liabilities		27,879	19,271
Borrowings – amount due within one year		706,887	805,700
		<u>3,197,301</u>	<u>2,958,844</u>
Net current assets		<u>2,504,255</u>	<u>2,245,672</u>
Total assets less current liabilities		<u>5,242,062</u>	<u>4,793,815</u>
Non-current liabilities			
Derivative financial instruments		3,755	85
Lease liabilities		64,404	41,979
Borrowings – amount due after one year		917,600	1,173,700
Deferred tax liabilities		30,104	15,854
		<u>1,015,863</u>	<u>1,231,618</u>
		<u>4,226,199</u>	<u>3,562,197</u>
Capital and reserves			
Share capital		55,666	56,403
Reserves		3,350,258	2,885,076
Equity attributable to owners of the Company		<u>3,405,924</u>	<u>2,941,479</u>
Non-controlling interests		<u>820,275</u>	<u>620,718</u>
		<u>4,226,199</u>	<u>3,562,197</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Net cash from operating activities		222,200	618,414
Cash flows used in investing activities			
Purchase of property, plant and equipment		(145,615)	(254,267)
Acquisition of investments in debt instruments		(61,783)	(55,686)
Proceeds from investments in debt instruments		59,539	–
Refund of deposits paid for acquisition of property, plant and equipment		5,359	–
Capital injection on/acquisition of interest in an associate		(5,750)	(34,461)
Net cash outflow on acquisition of subsidiaries	10	(20,514)	–
Settlement of contingent consideration arising from acquisition of business		–	(11,154)
Deposits paid for acquisition of property, plant and equipment		(44,543)	(6,475)
Advance to associates		–	(1,214)
Net proceeds from disposal of subsidiaries	11	1,500	298,523
Interest received		16,015	22,723
Proceeds from disposal of property, plant and equipment		11,390	3,769
Net cash used in investing activities		(184,402)	(38,242)
Cash flows used in financing activities			
Borrowings raised		840,757	1,645,044
Repayment of borrowings		(1,195,670)	(2,306,021)
Dividends paid		(107,030)	(95,885)
Interest paid		(44,325)	(75,291)
Dividends paid to non-controlling shareholders of subsidiaries		(24,448)	(29,789)
Payment of lease liabilities		(38,209)	(24,190)
Proceeds received from partial disposal of a subsidiary		70,852	–
Shares repurchase		(19,206)	–
Cash (paid)/received from the settlement of the derivative financial instruments used to hedge interest rate risk		(3,184)	1,849
Net cash used in financing activities		(520,463)	(884,283)
Net decrease in cash and cash equivalents		(482,665)	(304,111)
Cash and cash equivalents at beginning of the year		1,009,542	1,335,154
Effect of foreign exchange rate changes		38,425	(21,501)
Cash and cash equivalents at end of the year		565,302	1,009,542
Analysis of balances of cash and cash equivalents			
Short-term bank deposits with original maturity within three months		34,894	349,292
Bank balances and cash		530,408	660,250
		565,302	1,009,542

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

1.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

1.2 Impacts on application of Amendments to HKFRS 3 *Definition of a Business*

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The Group has not applied the optional concentration test during the year. The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

1.3 Impacts on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 *Interest Rate Benchmark Reform*

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

The amendments had no impact on the consolidated financial statements of the Group as the Group intends to continue using Hong Kong Interbank Offered Rate (“HIBOR”) for its bank borrowings and interest rate swap contracts in Hong Kong. Therefore, the Group’s designated hedged items/assessment of hedge effectiveness is not affected by the interest rate benchmark reform.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendment to HKFRS 16	COVID-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non- current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 June 2020

⁵ Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKFRS 3 Reference to the Conceptual Framework

The amendments:

- update a reference in HKFRS 3 *Business Combinations* so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the “Conceptual Framework”) instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010);
- add a requirement that, for transactions and other events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;
- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and
- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several bank borrowings and interest rate swap contracts that the Group intends to continue using HIBOR. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendments to HKFRSs Annual Improvements to HKFRSs 2018–2020

The annual improvements make amendments to the following standards which may be relevant to the Group.

HKFRS 9 Financial Instruments (“HKFRS 9”)

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

HKFRS 16 Leases (“HKFRS 16”)

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

2. REVENUE AND SEGMENT INFORMATION

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

(a) Disaggregation of revenue

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(restated)
Recognised at a point in time:		
Revenue from sales of products		
— Solvents	7,758,881	7,294,264
— Coatings	1,442,662	1,610,154
— Inks	1,244,183	1,285,894
— Lubricants	219,866	203,526
— Car maintenance and other chemical products	70,690	57,281
Recognised over time:		
Car maintenance service	31,248	-
Revenue from contracts with customers	10,767,530	10,451,119
Lease income from properties	8,496	13,715
	<u>10,776,026</u>	<u>10,464,834</u>
Geographical market based on location of customers:		
The People's Republic of China	8,676,930	8,698,464
Hong Kong	66,638	79,237
Overseas (mainly including countries in South East Asia)	2,032,458	1,687,133
	<u>10,776,026</u>	<u>10,464,834</u>

(b) Segment revenue and results

During the year ended 31 December 2020, in view of the proposed separate listing of the subsidiaries engaging in manufacturing and trading of inks and related products on a stock exchange in the People's Republic of China ("PRC") as further detailed in the circular dated 17 August 2020, the Group revised the organisation of segments that are used to allocate resources and assess performance. The inks segment in 2020 includes the manufacture of and trading in inks and related products, excluding other chemical products which were previously reported under the inks segment. As a result, the corresponding segment revenue and results for the year ended 31 December 2019 have been represented.

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

In addition, the Group's operation relating to the manufacture of and trading in other chemical products together with the newly acquired business engaging in car maintenance services do not meet the quantitative threshold for reportable segment in both current and prior year (if applicable). Accordingly these were aggregated and presented in 'Others'.

These divisions are the basis on which the Group reports its operating segment information.

Segment results represent the profit earned or loss incurred for the year by each segment without allocation of share of results of associates, impairment loss on interests in associates, interest income, central administration costs, finance costs and unallocated other income. This is the information reported to the Chief Executive Officer of the Company, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

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

	Solvents HK\$'000	Coatings HK\$'000	Inks HK\$'000	Lubricants HK\$'000	Properties HK\$'000	Reportable segment total HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Year ended 31 December 2020									
Segment revenue									
Revenue from contracts with customers									
External sales	7,758,881	1,442,662	1,244,183	219,866	-	10,665,592	101,938	-	10,767,530
Inter-segment sales	108,992	28	363	107	-	109,490	34,945	(144,435)	-
External rental income									
(under HKFRS 16)	-	-	-	-	8,496	8,496	-	-	8,496
Inter-segment rental income	-	-	-	-	408	408	-	(408)	-
Total	7,867,873	1,442,690	1,244,546	219,973	8,904	10,783,986	136,883	(144,843)	10,776,026
Results									
Segment results	471,454	51,156	60,767	7,593	981	591,951	(12,130)	(316)	579,505
Share of results of associates									
Unallocated income									(1,106)
Unallocated expenses									16,132
Finance costs									(11,389)
									(48,231)
Profit before taxation									534,911
Year ended 31 December 2019 (restated)									
Segment revenue									
Revenue from contracts with customers									
External sales	7,294,264	1,610,154	1,285,895	203,526	-	10,393,838	57,280	-	10,451,119
Inter-segment sales	109,227	67	511	156	-	109,961	47,014	(156,975)	-
External rental income									
(under HKFRS 16)	-	-	-	-	13,715	13,715	-	-	13,715
Inter-segment rental income	-	-	-	-	480	480	-	(480)	-
Total	7,403,491	1,610,221	1,286,406	203,682	14,195	10,517,994	104,294	(157,455)	10,464,834
Results									
Segment results	277,904	56,574	78,616	6,441	140,272	559,807	15,208	31	575,046
Share of results of associates									
Impairment loss on interests in associates									(14,983)
Unallocated income									(12,657)
Unallocated expenses									24,584
Finance costs									(17,653)
									(73,442)
Profit before taxation									480,895

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

3. OTHER INCOME AND OTHER GAINS AND LOSSES

(a) The Group's other income mainly comprises:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest income	16,015	22,723
Government grants recognised (<i>note i</i>)	22,094	16,255
Compensation income (<i>note ii</i>)	<u>10,265</u>	<u>2,287</u>

(b) The Group's other (losses) gains comprise of:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Net exchange loss arising from foreign currency balances and transactions	(29,895)	(10,474)
Net loss on disposal/written off of property, plant and equipment	(14,859)	(30,298)
Impairment loss recognised on interests in associates	–	(12,657)
Loss on fair value change of investment properties	(6,771)	(11,887)
Recognition of impairment loss on trade receivables under ECL model	(13,406)	(1,920)
Gain (loss) from change in fair value of investments in debt instruments	533	(568)
Loss on change in fair value of a foreign exchange forward contract	(282)	–
Gain on deregistration of a subsidiaries	241	–
Written off on deposits paid for acquisition of property, plant and equipment (<i>note iii</i>)	<u>(5,513)</u>	<u>–</u>
	<u>(69,952)</u>	<u>(67,804)</u>

Notes:

- (i) During the year ended 31 December 2020, the Group recognised government grants of HK\$4,877,000 in respect of Covid-19 related subsidies, of which HK\$4,071,000 is related to Employment Support Scheme provided by the government in Hong Kong.

- (ii) The amount mainly represented the compensation from insurance claims in relation to a fire incident amount of HK\$6,221,000 (2019: nil), which was recognised in profit or loss when the compensation became receivable.
- (iii) This represented the not refunded portion of deposit paid on a plant located in the PRC.

4. PROFIT BEFORE TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	212,595	160,949
Less: capitalised in inventories	(113,989)	(96,901)
	98,606	64,048
Staff costs, including directors' remuneration	591,544	604,621
Less: capitalised in inventories	(196,000)	(211,097)
	395,544	393,524
Short term leases expense	6,390	6,866
Amortisation of intangible assets	2,134	2,234
Auditor's remuneration	3,200	3,600
Cost of inventories recognised as expense (<i>note a</i>)	9,042,814	8,976,035
Written off of inventories recognised as expense	10,314	12,502
Other expenses (<i>note b</i>)	6,865	—

Notes:

- (a) During the year ended 31 December 2020, net reversal of allowance recognised on inventories amounting to HK\$7,853,000 (2019: HK\$6,482,000) as certain slow-moving raw materials were utilised for production and inventories sold subsequently at price higher than net realisable value.
- (b) The amount represented the professional fee in relation to the proposed separate listing of the subsidiaries engaging in manufacturing and trading of inks and related products on a stock exchange in the PRC.

5. TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax – the PRC		
Current year	110,806	81,383
Withholding tax	13,188	58,780
	123,994	140,163
Deferred tax charge		
Hong Kong	428	2,149
The PRC	6,913	1,509
	7,341	3,658
	131,335	143,821

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. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

Certain of the Group’s subsidiaries operating in the PRC are either 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 mainly represented taxation recognised in respect of interest income derived from loans to subsidiaries in the PRC and dividends to be distributed from profits earned by certain subsidiaries in the PRC starting from 1 January 2008. The withholding tax is recognised for interest income derived from the PRC at tax rate of 7% and dividends to be distributed from profits earned by certain subsidiaries in the PRC in accordance with the Implementation Regulation of the EIT Law of the PRC that requires withholding tax with tax rate at 5% for dividend upon the distribution of such profits to the shareholders. During the year ended 31 December 2020, the Group recognised the withholding tax of RMB3,049,000 (equivalent to HK\$3,338,000) (2019: nil) in respect of shares transfer of a subsidiary in relation to group reorganisation in the PRC with tax rate of 10% under EIT law. Furthermore, during the year ended 31 December 2019, the Group recognised a withholding tax of RMB22,789,000 (equivalent to approximately HK\$25,864,000), in respect of the gain on disposal of a subsidiary (2020: nil) in the PRC with tax rate of 10% under the EIT Law.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. DIVIDENDS

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Interim dividend for 2020 of HK6.0 cents (2019: HK7.0 cents) per share	33,706	39,482
Final dividend for 2019 of HK13 cents (2019: Final dividend for 2018 of HK10.0 cents) per share	73,324	56,403
	<u>107,030</u>	<u>95,885</u>

Final dividend equivalent to HK16 cents per share totalling not less than HK\$89,065,000, in respect of the year ended 31 December 2020 has been proposed by the directors and is subject to approval by the Shareholders in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit for the year attributable to owners of the Company and earnings for the purposes of calculating basic and diluted earnings per share	<u>302,575</u>	<u>272,907</u>
	Number of shares <i>'000</i>	<i>'000</i>
Weighted average number of shares for the purpose of calculating basis and diluted earnings per share	<u>562,669</u>	<u>564,029</u>

The computation of diluted earnings per share does not assume the exercise of the Company's options of exercise prices of HK\$5.942 (2019: HK\$4.536 and HK\$5.942) because the exercise prices of those options were higher than the average market price for shares for both 2020 and 2019.

8. TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables from contracts with customers	3,533,739	2,849,875
Less: allowance for ECL	<u>(59,200)</u>	<u>(54,930)</u>
	<u>3,474,539</u>	<u>2,794,945</u>

As at 1 January 2019, trade receivables from contracts with customers amounted to HK\$3,250,908,000.

Bills received by the Group, which represent 銀行承兌匯票 (“banker’s acceptances”) i.e. time drafts accepted and guaranteed for payment by the PRC banks, amounting to HK\$1,650,402,000 (2019: HK\$1,373,999,000). The Group accepts the settlement of trade receivables by customers using banker’s acceptances accepted by the PRC banks on a case by case basis.

These banker’s acceptances are issued to or endorsed to the Group and with maturity 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 state-owned banks or commercial banks or financial institutions in the PRC, on the maturity date of such banker’s acceptances.

An aged analysis of trade receivables net of allowance for credit losses (excluding bills held by the Group for future settlement), presented based on the invoice date at the end of the reporting period is as follows:

	2020	2019
	<i>HK\$’000</i>	<i>HK\$’000</i>
0 – 3 months	1,556,828	1,180,883
4 – 6 months	211,846	181,861
Over 6 months	55,463	58,202
	<u>1,824,137</u>	<u>1,420,946</u>

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.

Before accepting any new customers, the Group has an internal credit control system to assess the potential customers’ credit quality and the board of directors has delegated the management to be responsible for determination of credit limits and credit approvals for customers. Limits attributed to customers are reviewed periodically.

As at 31 December 2020, approximately 82% (2019: 79%) of the trade receivables (excluding bills held by the Group for future settlement) are neither past due nor impaired as they were assessed to be of good credit rating attributable under the credit control system used by the Group.

As at 31 December 2020, included in the Group's trade receivables (excluding bills held by the Group for future settlement) are debtors with aggregate carrying amount of HK\$335,083,000 (2019: HK\$298,377,000) which are past due as at the reporting date.

9. CREDITORS AND ACCRUED CHARGES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade creditors	1,888,204	1,620,298
Other creditors and accrued charges	437,770	408,380
	<u>2,325,974</u>	<u>2,028,678</u>

Other creditors and accrued charges mainly consist of payables of acquisition of property, plant and equipment of HK\$30,248,000 (2019: HK\$38,064,000), payables of staff salaries and benefits (including sales commission) of HK\$149,963,000 (2019: HK\$122,138,000) and payable of storage and transportation HK\$87,080,000 (2019: HK\$86,111,000).

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 3 months	1,331,888	1,236,290
4 – 6 months	515,257	341,874
Over 6 months	41,059	42,134
	<u>1,888,204</u>	<u>1,620,298</u>

10. ACQUISITION OF SUBSIDIARIES

On 2 January 2020, the Group entered into two agreements to subscribe for 1,800,000 new shares of 河北大麥汽車維修服務有限公司 (“河北大麥”) at RMB12,130,000 (equivalent to approximately HK\$13,500,000) and to acquire additional interest in 河北大麥 at a consideration of RMB10,000,000 (equivalent to approximately HK\$11,130,000). Upon completion of the transactions, the Group’s equity interest in 河北大麥 increased to 61%, and 河北大麥 and its subsidiaries became indirect non-wholly owned subsidiaries of the Company. The acquisition is considered to be a downstream extension of the Group’s chemical business particularly for the lubricants business of the Group and the acquisition provided an opportunity for the Group to diversify its business and widen its source of income. The amount of goodwill arising as a result of acquisition was HK\$33,298,000.

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	At date of acquisition <i>HK\$’000</i>
Property, plant and equipment	50,082
Intangible assets	14,964
Deferred tax assets	4,297
Inventories	8,067
Trade receivables	245
Amount due from the Group	6,750
Other receivables	5,059
Tax recoverable	274
Bank balances and cash	4,116
Trade payables	(154)
Other payables	(9,565)
Amount due to the Group	(21,370)
Lease liabilities	(33,713)
Deferred tax liabilities	(3,741)
	<hr/>
	25,311
	<hr/> <hr/>

The fair value of trade receivables at the date of acquisition amounted to HK\$245,000. The gross contractual amounts of those trade receivables acquired amounted to HK\$245,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected is nil.

Consideration transferred:

	<i>HK\$’000</i>
Cash	24,630
	<hr/> <hr/>

Goodwill arising on acquisition:

	<i>HK\$'000</i>
Consideration transferred	24,630
Plus: interests in associates	24,108
Plus: non-controlling interests	9,871
Less: net assets acquired	<u>(25,311)</u>
Goodwill arising on acquisition	<u><u>33,298</u></u>

The Group's then existing interests in associates had once been diluted from 38.58% to 30.78%, as a result of increase in paid-up capital of 河北大麥, and together with the newly subscribed in paid-up capital and acquisition of additional interest of 河北大麥, the equity interest in 河北大麥 held by the Group increased to 61%.

The non-controlling interests (39%) in 河北大麥 recognised at acquisition date was measured at the non-controlling interests' proportionate share of the recognised amounts of the identifiable net assets of 河北大麥.

There is no significant gain or loss on remeasurement of fair value of interests in associates on date of acquisition. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of 河北大麥. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising from this acquisition is not expected to be deductible for tax purposes.

Net cash outflows arising on acquisition:

	<i>HK\$'000</i>
Consideration paid in cash	24,630
Less: bank balances and cash acquired	<u>(4,116)</u>
	<u><u>20,514</u></u>

Impacts of acquisition on the results of the Group

Included in the profit for the year, loss amounting of HK\$25,444,000 was attributable to the business operation from 河北大麥. Revenue for the year ended 31 December 2020 included HK\$48,275,000 which was generated from 河北大麥.

Had the acquisition been completed on 1 January 2020, revenue for the year of the Group would have been HK\$10,779,686,000, and profit for the year of the Group would have been HK\$402,178,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor is it intended to be a projection of future results.

11. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2020

- (a) On 15 October 2020, the Group entered into sales and purchase agreement to dispose of the entire equity interest of its indirectly wholly-owned subsidiary, Hang Cheung Petrochemical (International) Limited, to an independent third party. The Group received the total cash consideration of approximately HK\$1,500,000 during the year ended 31 December 2020.

The net assets of Hang Cheung Petrochemical (International) Limited at the date of disposal was nil. A gain amounting to HK\$1,500,000 was recognised during the year ended 31 December 2020.

For the year ended 31 December 2019

- (b) On 18 January 2019, the Group entered into sales and purchase agreement to dispose of the entire equity interest of its indirectly wholly-owned subsidiary, Bauhinia Paints Manufacturing (Shanghai) Company Limited (“Bauhinia Paints”) in the PRC, to an independent third party at a total cash consideration of approximately RMB269,947,000 (equivalent to approximately HK\$298,642,000). The major assets held by Bauhinia Paints were property, plant and equipment and an investment property located in the PRC. The transaction was completed on 7 August 2019.

The net assets of Bauhinia Paints at the date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	5,684
Investment property	191,798
Other receivables	12
Bank balances and cash	117
Other payables	(621)
Tax payables	(2,924)
Deferred tax liabilities	(64,723)
	<hr/>
Net assets disposal of	<u>129,343</u>

HK\$'000

Gain on disposal of Bauhinia Paints:	
Consideration received	298,642
Less: Net assets disposal of	129,343
Transaction cost for disposal	<u>12,947</u>
Gain on disposal	<u><u>156,352</u></u>
Net cash inflow arising on disposal:	
Cash consideration received	298,642
Bank balances and cash disposal of	<u>(117)</u>
	<u><u>298,525</u></u>

- (c) On 29 January 2019, the Group entered into an agreement to dispose of the entire equity interest in 東莞市大嘜趣車汽車服務有限公司 (“東莞趣車”) and its subsidiaries, to an existing associate at a total cash consideration of RMB1,000,000 (equivalent to approximately HK\$1,167,000). The transaction was completed during the year ended 31 December 2019.

The net assets of 東莞趣車 and its subsidiaries at the date of disposal were as follows:

	HK\$'000
Property, plant and equipment	28,704
Inventories	2,338
Trade and other receivables	10,715
Bank balances and cash	1,714
Amount due to a fellow subsidiary	(22,376)
Lease liabilities	(25,049)
Trade and other payables	<u>(4,253)</u>
Net liabilities disposed of	<u><u>(8,207)</u></u>

HK\$'000

Gain on disposal of subsidiaries:	
Consideration received	1,167
Less: Net liabilities disposed of	(8,207)
Gain on disposal relating to the Group's interest in the associate	<u>3,616</u>
Gain on disposal	<u><u>5,758</u></u>
Net cash outflow arising on disposal:	
Cash consideration received	1,167
Bank balances and cash disposed of	<u>(1,714)</u>
	<u><u>(547)</u></u>

- (d) On 2 September 2019, the Group disposed of the entire equity interest of its indirectly wholly-owned subsidiary, Beijing Optimol Trading Co., Ltd (“Beijing Optimol”), to an independent third party at a total cash consideration of RMB480,000 (equivalent to approximately HK\$545,000).

The net assets of Beijing Optimol at the date of disposal were as follows:

HK\$'000

Other payables	(18)
Tax payables	<u>(40)</u>
Net liabilities disposed of	<u><u>(58)</u></u>
Gain on disposal of a subsidiary:	
Consideration received	545
Less: Net liabilities disposal of	<u>(58)</u>
Gain on disposal	<u><u>603</u></u>
Net cash inflow arising on disposal:	
Cash consideration received	<u><u>545</u></u>

12. EVENT AFTER THE REPORTING PERIOD

On 27 January 2021, the Group has submitted an application to the Shenzhen Stock Exchange for the proposed separate listing of Bauhinia Ink which is engaged in the manufacturing and trading of inks and related products of the Group, on the ChiNext Board of the Shenzhen Stock Exchange. Bauhinia Ink was notified by the Shenzhen Stock Exchange on 3 February 2021 that the application was acknowledged.

FINAL DIVIDEND

The Board recommended a final dividend of HK16 cents in cash per Share, payable to Shareholders whose names appear on the register of members of the Company on Friday, 11 June 2021. The recommended final dividend for the year ended 31 December 2020, which will be payable on or around Friday, 16 July 2021, is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company (“AGM”) to be held on Thursday, 3 June 2021.

CLOSURE OF REGISTER OF MEMBERS

The Hong Kong branch register of members of the Company will be closed from Monday, 31 May 2021 to Thursday, 3 June 2021 (both dates inclusive) for the purpose of ascertaining Shareholders’ entitlement to attend and vote at the forthcoming AGM. No transfer of shares may be registered on those dates. In order to qualify for the Shareholders’ entitlement to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates should be lodged with the Company’s Branch Registrar in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 28 May 2021.

The Hong Kong branch register of members of the Company will be closed from Thursday, 10 June 2021 to Friday, 11 June 2021 (both dates inclusive) for the purpose of ascertaining Shareholders’ entitlement to the proposed final dividend. No transfer of Shares may be registered on those dates. In order to qualify for the Shareholders’ entitlement to the proposed final dividend, all transfer forms accompanied by the relevant Share certificates should be lodged with the Company’s Branch Registrar in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 9 June 2021.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the Stock Exchange website (<http://www.hkex.com.hk>) and the Company's website (<http://www.yipschemical.com>). The 2020 annual report containing all the information required by the Listing Rules will be published on the Stock Exchange 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, 17 March 2021

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

Non-executive Directors:

Mr. Ip Chi Shing (*Chairman*)

Mr. Wong Yuk*

Mr. Ho Pak Chuen, Patrick*

Mr. Ku Yee Dao, Lawrence*

Executive Directors:

Mr. Yip Tsz Hin (*Deputy Chairman and
Chief Executive Officer*)

Mr. Ip Kwan (*Deputy Chief Executive Officer*)

Mr. Ho Sai Hou (*Chief Financial Officer*)

* *Independent Non-executive Directors*