



## 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 2012

<b>HIGHLIGHTS</b>			
	<b>For the six-month period ended 30 June 2012 (unaudited)</b>	<b>For the six-month period ended 30 June 2011 (unaudited)</b>	<b>% Change</b>
Turnover	HK\$4,045,144,000	HK\$3,768,244,000	+7%
Net profit attributable to Owners of the Company	HK\$123,875,000	HK\$103,119,000	+20%
Earnings per share	HK 22.3 cents	HK 18.6 cents	+20%
Interim dividend	HK 10 cents	HK 8 cents	+25%
Special dividend	Nil	HK 4 cents	N/A
Gearing ratio	48.4%	40.4% *	+8 percentage point

\* As at 31 December 2011.

## CHAIRMAN'S STATEMENT - REVIEW & PROSPECTS

### REVIEW

At the end of last year, the Central Government's projection of the country's economic growth rate for 2012 was revised to below the eight per cent level. This was the first time in many years, and was rightly a forewarmer of the harsh business environment this year. In fact, the weakness of the global economy in the first half of this year was worse than expected. In the wake of the European debt crisis and under the effects of globalisation, the economy of virtually no country could escape unscathed. In the Mainland, exports and foreign investments slipped continuously, while domestic demand was anaemic because of feeble consumer confidence and tight money supplies. Although the Group's businesses during this period were inundated with challenges, our confidence was all the more stronger. Even though the overall growth of the Group's businesses was slightly lower than expected, turnover in the first half of this year still rose 7% from last year to HK\$4,045,144,000. Despite the effects of a slight decline in selling prices, there was a 15% growth in tonnage terms. Profit attributable to owners was up by 20% from last year to HK\$123,875,000. The Board of Directors is much encouraged with the Group's performance in the first half of this year and recommends an interim dividend of HK10 cents per share, as compared to the dividend of HK8 cents per share for the same period last year.

## **PROSPECTS**

The Group is cautiously optimistic of its performance in the second half of this year. This is notwithstanding the facts that sluggish global economy and spluttering domestic demand are challenges not surmountable in the short term and that the harsh business environment may yet linger until the end of this year or beyond. The Group expects that the Chinese Government will maintain steady economic growth through measures such as continual cutting of interest rates, lowering of reserve requirement ratio and adjusting of export tax rebates. At the same time, the Group is convinced that the more difficult the business environment, the more evident will be the Group's competitive strength, so the difficulties are as much challenges as they are opportunities. The Group will not make an iota of difference to the short and medium term targets. The Group has been carrying out a whole range of related work for achieving these objectives methodically as originally planned. Among all the tasks, the setting up of a talent pool and the effectiveness of the Group's R&D centre will be vital to success. In addition to widening its net in recruiting talent from wide and afar, the Group is more concerned with the selection, training and tempering of internal talents so that it has a sufficient pool of capable staff to meet its future development needs. Meanwhile, for the foreseeable future, the Group will not concern itself with doubling sales. Instead, it will regard the optimisation of profit quality and the continuous raising of profitability as its top priorities and long-term objectives. Though initial success has been achieved in the implementation of various remedial measures over the first half of this year, there is no doubt that there are still plenty of rooms for these measures to be further intensified and improved. For this, the Group will concentrate more on investing resources in its R&D Centre so that results can be generated soonest for contributing more towards profit quality optimisation. I would like to take this opportunity to convey my heartfelt gratitude to all our employees for their hard work and contribution, and to all our business partners for their support and trust.

## **THE GROUP'S NEW MANAGEMENT STRUCTURE**

In a bid to raise the governance standard of the Group continuously so as to deal with the ever-changing China market and to capitalise on the boundless opportunities it offers, the Group has, at a time when everything is fully prepared, started decisively in setting new designs and new positioning for its management structure. The original three-tier structure consisting of a board of directors, a board executive committee and a group management committee has now been streamlined into a two-tier structure comprising a board of directors and a group executive committee. The current board of directors is responsible for providing leadership and supervision and is becoming increasingly non-executive director dominated; the group executive committee is responsible for daily management affairs and is becoming younger and more specialised. Ever since this new management structure has been up and running, cooperation has been smoother because of the clear positioning and decision making has been quicker because of the compact configuration. The new management structure is a crucial initiative in enhancing the Group's corporate governance standard relentlessly.

## **REPORT OF THE CHAIRMAN OF THE GROUP EXECUTIVE COMMITTEE**

Beginning this year, the Group has been implementing a new management structure in which the Group Executive Committee is responsible for the management of day-to-day operations. After running this new structure for half a year, desired effects have basically been realised. Encouraging progress has been made in the strategies of business expansion and profit quality optimisation. In the period, achievements have been scored in terms of sales and profit growths, the details of which are described in separate sections below:

## **SOLVENTS**

Wide fluctuations in oil prices, sluggish economies at home and abroad and marked slowdown in market demand globally have all contributed to slippage in unit selling prices and profitability of the solvents division. In the period, a turnover of HK\$2,394,488,000 representing a slight increase of 2% from the same period last year was recorded. In sales volume terms, however, 16% growth was still recorded and the half-year sales volume of 288,000 tonnes was a new high. Due to declining selling prices, profit in this period was HK\$124,714,000 representing a decrease of 6% year-on-year.

For the Group's mainstay solvents products butyl acetate and ethyl acetate, sustained efforts in improving production technology, expanding capacity and reducing energy consumption in the past half year are getting results. Total capacity has now reached 700,000 tonnes per annum, still a top in the industry. Due to the ongoing external crisis and a softening in domestic demand, the industry is facing increasing oversupply pressures and profits are falling. The management is currently reviewing the situation and taking matters circumspectly. It will also implement a series of response

measures such as continuous capacity expansion, energy consumption reduction and market share enlargement in peripheral provinces and export markets. The purpose is to raise plant utilisation rates, spread out production costs and use high sales volume to offset the negative effects of fierce competition in the industry. Meanwhile, a high-level strategic focus group has already been formed to identify opportunities of developing upstream and downstream products through expansion of product series. On top of this, as the coatings business improved substantially during the period, the sales and profits of mixed solvents also saw significant increases, compensating some of the profit reduction sustained by raw solvents.

A plant for the production of butyl acrylate, a new focus of the solvents division, is currently under construction and is expected to come on stream by the end of this year.

## **COATINGS**

The half-year results of the coatings division reveal that turnover has reached a new historical high while profitability has improved markedly. Turnover for the period was HK\$1,486,247,000 and operating profit was HK\$68,490,000, up 19% and 272% from the same period last year respectively. After a low ebb of more than two years, the management has applied itself to revive the businesses and adopted a range of effective measures which included:

1. Stimulate a surge in sales in a bid to raise plant utilisation rates;
2. Formulate an internal technology platform for sharing results of formula improvements;
3. Facilitate the gradual realisation of brand effects;
4. Obtain certification for its two laboratories from China National Accreditation Service for Conformity Assessment so that they are qualified to issue different types of immediate “green credential” reports for customer products. As these reports command the same authority as those issued by China Commodity Inspection Bureau, the room for cooperation with the end users and user entities of international brand products has greatly been expanded.

Another encouraging distinction of the business during this period was that, in face of an overall slowdown in the demand of household paints due to the implementation of real estate regulation policies in the Mainland, a 20 per cent growth in turnover was still registered. On the other hand, decent demand for livelihood related products had resulted in continued growth in the sales of ink products and industrial coatings. Furthermore, a modest drop in raw material prices had also resulted in an alleviation of cost pressures. To sum up, in our coatings business capacity is ample and brand effects have been increasingly evident, so it is worth our while to step up our efforts and tempo in expanding the coatings business. The second half of the year is traditionally a busy season for coatings, and the management is already fully prepared to seize the opportunity to propel the business to yet another peak.

After years of preparation, the Group’s R&D Centre was put into operation early this year. Initial success has already been achieved in the areas of equipment acquisition, personnel recruitment and cooperation with related institutions of higher learning. The Group is fully confident that in future the R&D Centre will be another bright spot of the Group’s businesses.

## **LUBRICANTS**

In the period, turnover was up slightly to HK\$202,890,000, representing an increase of 6% from the same period last year. Due to a drop in market demand, competition within the industry was all the more severe, so a slight operating loss of about HK\$7,373,000 was recorded in the period.

With business environment expected to turn for the better in the second half of this year, antifreeze, another key product of the division, will be launched onto the market in due course. The management is confident of turning the situation around to realise an improvement in earnings for the whole year.

## **CORPORATE SOCIAL RESPONSIBILITY**

### **TEN-YEAR DONATION PLAN FOR MOBILE EYE SURGERY CENTRES**

Up to 30 June 2012, the four mobile eye surgery centres donated by the Group have been instrumental in helping restore vision for almost 10,000 cataract patients.

Yip’s Chemical kicked off its 2012 donation programme in May by donating “Vision Restoration Centre No. 24”, a brand-new mobile eye surgery centre worth more than HK\$2 million, to Inner Mongolia Autonomous Region. Thus

Inner Mongolia Autonomous Region has become the second recipient after Shandong province for the Group’s ten-year donation programme.

Vision Restoration Centre No. 24 comes fully with state-of-the-art medical equipment. In donating this mobile eye surgery centre, Yip’s Chemical hopes that every year the centre can go to at least six districts in the Inner Mongolia Autonomous Region and provide convenient and timely medical treatment to about 1,500 cataract patients.

**ENVIRONMENTAL PROTECTION**

The Group’s new plant for eco-friendly Bauhinia Variegata ink in Zhongshan has been completed and come into operation. Since the plant’s independent production process has completely eliminated all sources of pollution, product quality is substantially raised. In the production plant a “6S management system” is strictly enforced for the comprehensive protection of the environment and to comply with the Group’s principle of clean production.

Yip’s Chemical actively supports events run by environmental protection groups. For example, since 2006 it has invariably been a participant of Friends of the Earth Hong Kong’s Tree Planting Challenge, a competition involving tree planting and hiking. This year it participated in World Wide Fund for Nature’s Earth Hour 2012 activity. As a way to encourage environmental protection in everyday life, the Group is a supporter of Friends of the Earth Hong Kong’s toner cartridge recycling programme and Caritas Hong Kong’s Caritas-HK Computer Workshop Programme.

**STUDENT SPONSORSHIP AND SCHOLARSHIP PROGRAMME**

For seven straight years since 2006 Yip’s Chemical has been carrying out a student sponsorship programme in Jiangmen, Guangdong. In 2012, a total of RMB600,000 has been disbursed. This is used for sponsoring approximately 90 needy students from Jiangmen who have succeeded in matriculating, to provide scholarship to the top 15 students respectively from the arts stream and science stream who have excelled in the college entrance examination and to present awards to around 20 class teachers or teachers who have contributed to the performance of outstanding graduating classes.

**SERVING THE COMMUNITY**

The service targets for Yip’s Chemical Volunteer Team in 2012 are children and teenagers. One of the Team’s activities is the extracurricular activity extension cum environmental protection workshop “Love & Share Programme—Noah’s Ark Experience” it ran in conjunction with St. James’ Settlement, a local social service group. The Team has also participated in the “Walk for Children” fund-raising walkathon organised by Plan International. Mainland members of the volunteer team are equally enthusiastic in caring for the disadvantaged. The community events they have organised include the following: visiting school children in impoverished mountain areas in Qingyuan Prefecture, Guangdong and giving out stationery to them; visiting mentally challenged children in welfare institutes in Tianjin and elderly people living alone in Zhejiang.

**AWARDS**

Whether in the areas of corporate management, corporate governance or corporate social responsibility, the Group has received numerous awards for its outstanding performance and the achievements have been widely recognised by different sectors. In the period of review, it was presented with the following awards:

Corporate Governance Asia magazine	Best CSR in the 2nd Asian Excellence Recognition Awards 2012
China WTO Tribune	GoldenBee Sustainable Products & Services Award in GoldenBee CSR China Honour Roll 2011
Corporate Governance Asia magazine	3rd Asian Corporate Director Recognition Awards 2012 to Mr. Ip Chi Shing, Chairman and Non-Executive Director of the Group
Corporate Governance Asia magazine	8th Corporate Governance Asia Recognition Awards 2012
Asia Pacific Coatings Journal	Ranked 11th in Top Asia Pacific Coatings Manufacturers Listing

## LIQUIDITY AND FINANCIAL RESOURCES

The Group will continue to implement prudent financial management policy and adapt necessary measures to maintain its gearing ratio within acceptable level during expansion. As at 30 June 2012, the Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was 48.4% (31 December 2011: 40.4%). The continued increase in gearing ratio over the past 2 years was mainly attributable to the Group's additional long-term bank loans for its investments in new factories and production facilities to capture new market and sales opportunity. The increase in gearing ratio was anticipated to slow down and maintained at a controllable level after the peak of capital investment in this year. The Group's business expansion in Eastern China also required granting longer credit period to customers and increased receipts of banker's acceptances (i.e. bills receivables) as compared to the market practices in Southern China. While such practices have helped to facilitate sales growth in new market development, the Group has applied stringent credit control policies and systems to govern the banker's acceptances issued by various financial institutions to reduce their risks and monitor the Group's liquidity.

As at 30 June 2012, the gross bank borrowings of the Group amounted to HK\$2,077,170,000 (31 December 2011: HK\$2,159,433,000). Out of this amount, HK\$994,253,000 (31 December 2011: HK\$938,600,000) were short-term loans and repayable within one year. Such loans were denominated in two currencies, namely HK\$612,916,000 in Hong Kong Dollar and HK\$381,337,000 in US Dollar (31 December 2011: HK\$617,751,000 in Hong Kong Dollar, HK\$315,925,000 in US Dollar and HK\$4,924,000 in Renminbi). Long-term loans repayable after one year amounted to HK\$1,082,917,000 (31 December 2011: HK\$1,220,833,000) and they were all denominated in Hong Kong Dollar. Both short-term and long-term loans carried interests at floating or fixed rates. As at 30 June 2012, the short-term bank deposits, bank balances and cash of the Group amounted to HK\$829,930,000 (31 December 2011: HK\$1,161,489,000), resulting in net bank borrowings of HK\$1,247,240,000 (31 December 2011: HK\$997,944,000).

As at 30 June 2012, a total of 13 banks in Hong Kong, Macau and PRC granted banking facilities totaling HK\$4,534,838,000 (31 December 2011: HK\$3,991,731,000) to the Group and provided sufficient funds to meet its present working capital and expansion. 72%, 18% and 10% of these banking facilities were denominated in Hong Kong Dollar, Renminbi and US Dollar respectively. Since last year, the Group obtained 5-year bilateral long-term loans in total of HK\$1,500,000,000 to support for the Group's expected growth and development in capital expenditure and working capital requirement. HK\$1,150,000,000 of the loan was withdrawn and the remaining HK\$350,000,000 is expected to be drawn in the second half year. Moreover, the Group is arranging refinancing of some of its maturing 3-year mid-term loans for the capital need of future development. As at 30 June 2012, mid to long-term loans accounted for 63% of the total bank loans.

Since some of the borrowings of the Group carry interests at floating rate, our funding costs are subject to interest rate fluctuation. In view of the fluctuation of interest rate, the Group used interest rate swaps to hedge against interest rate fluctuation of certain bank loans according to the currency, amount and duration of the loans. The Group arranges most of its Hong Kong Dollar bank loans in Hong Kong for its China operations to enjoy the relatively low borrowing rate. The deteriorating debt crisis in Europe coupled with economy slowdown in Mainland, economy stimulus packages launched by various local governments and their easing lending measures have caused three months or shorter Hong Kong Dollar inter-bank interest rate and local borrowing costs to remain low. The Mainland lending rate was also lowered due to loosening monetary policy. The Group had benefited to better control the interest rate expenses of its increasing loan under such low interest rate environment. Besides, the Group is exposed to Renminbi exchange rate risk as the Group's assets are mainly located on Mainland China and most of its income is generated in Renminbi. Since it is expected that there shall not be sharp depreciation of Renminbi against Hong Kong Dollar in near future, the management considers that no hedging measure against Renminbi exchange rate exposure is necessary at this stage but will closely monitor its fluctuations. The Group will strike a balance between lowering borrowing cost and minimizing currency exposure by structuring an optimal combination of Hong Kong Dollar, US Dollar or Renminbi bank loans.

## EMPLOYEES

As at June 30, 2012, the Group has a total number of 4,832 employees. 113 employees are from Hong Kong and Macau and 4,719 employees 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 programs, on-the-job training and participation in the Group's educational subsidies, allowing for self-development in knowledge and skills and to maximize their potential in their work. We offer excellent development platform for highly committed and capable employees, regardless of their background, geographical region or educational levels. Through versatile experience in challenging roles, the current leadership of the Group has come through the ranks to advance to positions of management. Besides the focus of developing employees internally, the Group seeks to attract talent from outside and recruit top graduates from the best tertiary institutions in Hong Kong, Mainland China, and abroad. The Management Trainee Program has been implemented for many years. Some of the Management trainees have demonstrated their excellence and already advanced to positions of leadership within the Group, either as General Manager of subsidiary or Head of functional department.

The Group offers challenging work environment, sets up different programs to motivate 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 in remuneration policy, providing reasonable and competitive compensation and benefits. This includes basic salary and performance-based bonus scheme to attract and retain talents.

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

During the six months ended 30 June 2012, 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 2012, subject to as disclosed below, the Company has complied with all code provisions of the "Corporate Governance Code" (previously known as "Code on Corporate Governance Practices") (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In respect of code provisions A.5.1 to A.5.4 of the Code, the Company does not have a nomination committee. In view of the number of members of the board of Directors (the "Board") and the business scale of the Group, the Company considers it to be more beneficial and effective for the full Board to perform the functions of the nomination committee. Currently, the Board as a whole assumes the responsibilities of nomination and appointment of new Directors.

## **AUDIT COMMITTEE**

The Audit Committee was formed in November 1998 and currently comprises three non-executive Directors and four independent non-executive Directors and is chaired by Mr. Wong Kong Chi. In January this year, Mr. Ip Chi Shing was appointed as a member of the Audit Committee. 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 21 August 2012 to review the Group's unaudited interim financial statements for the six months ended 30 June 2012. 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 2012 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 TRANSACTION BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange as its own code of conduct regarding Directors' securities transactions. After making specific enquiry, all Directors have confirmed that they have fully complied with the required standard as set out in the Model Code during the six months ended 30 June 2012.

## UNAUDITED INTERIM RESULTS

The Board of Directors of Yip's Chemical Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012, 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 COMPREHENSIVE INCOME

	Notes	Six months ended	
		30.6.2012 (Unaudited) HK\$'000	30.6.2011 (Unaudited) HK\$'000
Turnover	3	4,045,144	3,768,244
Cost of sales		(3,387,431)	(3,249,022)
Gross profit		657,713	519,222
Other income	4	30,815	58,581
Other gains and losses	4	(3,328)	29,546
Selling and distribution expenses		(163,427)	(156,836)
Administrative expenses		(328,138)	(290,774)
Interest expense		(18,406)	(10,352)
Profit before taxation	5	175,229	149,387
Taxation	6	(24,513)	(17,029)
Profit for the period		150,716	132,358
Other comprehensive income (expense)			
Exchange differences arising on translation		(25,758)	47,935
Net adjustments on cash flow hedges		(5,075)	(5,165)
Revaluation of leasehold properties for own use upon transfer to investment properties		38,321	-
Total comprehensive income for the period		158,204	175,128
Profit for the period attributable to:			
Owners of the Company		123,875	103,119
Non-controlling interests		26,841	29,239
		150,716	132,358
Total comprehensive income attributable to:			
Owners of the Company		134,097	138,630
Non-controlling interests		24,107	36,498
		158,204	175,128
Earnings per share	8		
- Basic		HK 22.3 cents	HK 18.6 cents
- Diluted		HK 22.2 cents	HK 18.5 cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Notes	30.6.2012 (Unaudited) HK\$'000	31.12.2011 (Audited) HK\$'000
<b>Non-current assets</b>		
9	65,000	-
9	1,234,362	1,153,357
	213,133	218,518
	71,462	71,462
	16,038	19,204
	22,975	23,167
	54,422	47,017
	4,600	4,600
	<b>1,681,992</b>	<b>1,537,325</b>
<b>Current assets</b>		
	853,047	877,150
10	2,675,253	2,560,983
10	295,496	295,678
	4,845	5,003
	104,964	120,128
	193,870	445,337
	531,096	596,024
	<b>4,658,571</b>	<b>4,900,303</b>
Asset classified as held for sale	-	2,814
	<b>4,658,571</b>	<b>4,903,117</b>
<b>Current liabilities</b>		
11	1,250,405	1,386,825
	63,062	77,028
	3,052	-
	7,333	2,795
	994,253	938,600
	<b>2,318,105</b>	<b>2,405,248</b>
<b>Net current assets</b>	<b>2,340,466</b>	<b>2,497,869</b>
<b>Total assets less current liabilities</b>	<b>4,022,458</b>	<b>4,035,194</b>
<b>Non-current liabilities</b>		
	10,134	11,052
	1,082,917	1,220,833
	-	2,400
	11,162	8,848
	<b>1,104,213</b>	<b>1,243,133</b>
	<b>2,918,245</b>	<b>2,792,061</b>
<b>Capital and reserves</b>		
	56,177	55,515
	2,521,225	2,416,766
<b>Equity attributable to owners of the Company</b>	<b>2,577,402</b>	<b>2,472,281</b>
<b>Non-controlling interests</b>	<b>340,843</b>	<b>319,780</b>
	<b>2,918,245</b>	<b>2,792,061</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments and investment properties, which are measured at fair values.

Except as described below, the accounting policies used and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011. In addition, the Group has applied the following accounting policies during the current interim period as they have become applicable to the Group.

#### **Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at deemed cost (i.e. fair value at date of transfer). Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

#### **Property, plant and equipment**

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

#### **Taxation**

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model in accordance with Hong Kong Accounting Standard ("HKAS") 40 "Investment property", the carrying amounts of such properties are presumed to be recovered through sale.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

Amendments to HKFRS 7	Financial instruments: disclosures - transfers of financial assets; and
Amendments to HKAS 12	Deferred tax: Recovery of underlying assets

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

**Amendments to HKAS 12 "Deferred tax: Recovery of underlying assets"**

Under the amendments to HKAS 12, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted.

As a result of the application of the amendments to HKAS 12, the Group does not recognise any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

The application of the amendments to HKAS 12 has had no effect on the condensed consolidated statement of comprehensive income for the six months ended 30 June 2011 and the statement of financial position as at 30 June 2011 and 1 January 2011. The effect of the application of the amendments to HKAS 12 in the current interim period is summarised as follows:

*Effect in the condensed consolidated statement of financial position at 30 June 2012*

	HK\$'000
Decrease in deferred tax liabilities	<u>(8,897)</u>
Increase in property revaluation reserve	6,323
Increase in retained profits	<u>2,574</u>
	<u>8,897</u>

*Effect in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2012*

	HK\$'000
Decrease in taxation	<u>2,574</u>
Increase in profit for the period	<u>2,574</u>
Other comprehensive income	
Increase in property revaluation reserve	<u>6,323</u>
Increase in total comprehensive income for the period	<u>8,897</u>

**Impact on basic earnings per share**

	HK cents
<i>For the six months ended 30 June 2012</i>	
Basic earnings per share before adjustments	21.8
Adjustments arising from change in accounting policy in relation to:	
- application of amendments to HKAS 12 in respect of deferred taxes on investment properties	<u>0.5</u>
Reported basic earnings per share	<u>22.3</u>

**Impact on diluted earnings per share**

	HK cents
<i>For the six months ended 30 June 2012</i>	
Diluted earnings per share before adjustments	21.7
Adjustments arising from change in accounting policy in relation to:	
- application of amendments to HKAS 12 in respect of deferred taxes on investment properties	<u>0.5</u>
Reported diluted earnings per share	<u>22.2</u>

**3. SEGMENT INFORMATION**

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

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

Solvents - manufacture of and trading in solvents and related products  
Coatings - manufacture of and trading in coatings and related products  
Lubricants - manufacture of and trading in lubricants products

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

## Segment revenue and results

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

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

	Solvents HK\$'000	Coatings HK\$'000	Lubricants HK\$'000	Reportable segment total HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Six months ended 30 June 2011</b>							
Segment revenue							
External sales	2,300,613	1,251,954	191,831	3,744,398	23,846	-	3,768,244
Inter-segment sales	50,759	-	-	50,759	-	(50,759)	-
Total segment revenue	<u>2,351,372</u>	<u>1,251,954</u>	<u>191,831</u>	<u>3,795,157</u>	<u>23,846</u>	<u>(50,759)</u>	<u>3,768,244</u>
Results							
Segment results	<u>132,808</u>	<u>18,401</u>	<u>2,808</u>	<u>154,017</u>	<u>436</u>	<u>806</u>	<u>155,259</u>
Fair value change on derivative financial instruments							(2,049)
Unallocated income							20,893
Unallocated expenses							(14,364)
Interest expense							(10,352)
Profit before taxation							<u>149,387</u>

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

#### 4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2012 HK\$'000	30.6.2011 HK\$'000
The Group's other income mainly comprises:		
Interest income	8,537	6,832
Compensation for early termination of operating lease (Note)	-	21,515
Dividend income from available-for-sale investment	-	8,590
Government grants recognised	2,016	5,126
The Group's other gains and losses comprise:		
Fair value loss on derivative financial instruments	(1,610)	(2,049)
Allowance for bad and doubtful debts	(6,012)	(5,753)
Gain on disposal of property, plant and equipment and prepaid lease payments (Note)	3,537	10,600
Increase in fair value of investment properties	15,600	-
Net exchange (loss) gain	(14,843)	26,748

Note:

Pursuant to an agreement entered into with an independent third party in April 2011, the Group disposed of certain properties, including plant and office buildings, in Mainland China and recognised gain on disposal of property, plant and equipment and prepaid lease payments of HK\$11,152,000 for that period. In addition, the Group received a compensation of HK\$21,515,000 pursuant to another agreement entered into with the same independent third party (the "Landlord") in April 2011 as the Landlord would like to early terminate an operating lease agreement in respect of a land leased to the Group located in Mainland China.

#### 5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2012 HK\$'000	30.6.2011 HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	3,114	3,219
Depreciation of property, plant and equipment	41,844	39,299
Release of prepaid lease payments	1,653	1,789

#### 6. TAXATION

	Six months ended	
	30.6.2012 HK\$'000	30.6.2011 HK\$'000
The charge comprises:		
Current tax - Hong Kong		
Current period	74	310
Underprovision in prior periods	556	95
	630	405
Current tax - Mainland China		
Current period	35,249	27,370
Overprovision in prior periods	(13,680)	(12,727)
	21,569	14,643
	22,199	15,048
Deferred taxation		
Current period	2,314	1,981
	24,513	17,029

Hong Kong Profits Tax has been provided at the rate of 16.5% of the assessable profit for the period under review.

Enterprise income tax ("EIT") in Mainland China has been provided at 25% or at concession rate entitled to the group entities.

The Group's subsidiaries operating in Mainland China are eligible for certain tax holidays and concessions. Pursuant to the relevant laws and regulations in Mainland China, certain subsidiaries of the Company in Mainland China are entitled to exemption from EIT of Mainland China for the first two years commencing from their first profit-making year of operation and thereafter, these subsidiaries in Mainland China will be entitled to a 50% relief from EIT of Mainland China for the following three years up to 2012. EIT of Mainland China has been provided for after taking these tax incentives into account.

Deferred taxation on undistributed profits of subsidiaries has been recognised taking into accounts the dividends to be distributed from profits earned by certain subsidiaries in Mainland China starting from 1 January 2008 under the Implementation Regulation of the EIT Law of Mainland China that requires withholding tax with tax rate ranging from 5% to 10% upon the distribution of such profits to the shareholders. Deferred taxation has not been recognised in respect of certain undistributed retained profits earned by the subsidiaries in the Mainland China starting from 1 January 2008 amounting to HK\$1,423,400,000 (31 December 2011: HK\$1,286,786,000) 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 HK12.0 cents per share (with share alternative) amounting HK\$66,699,000 in respect of the year ended 31 December 2011 were distributed as follows:

	<b>HK\$'000</b>
Dividends:	
Cash	31,279
Share alternative	<u>35,420</u>
	<u>66,699</u>

For the six months ended 30 June 2011, a final dividend of HK10.0 cents per share was paid for the nine months ended 31 December 2010 amounting to HK\$55,496,000.

Subsequent to 30 June 2012, the directors of the Company resolved to declare an interim dividend of HK10.0 cents per share totalling not less than HK\$56,176,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: interim dividend of HK8.0 cents and special dividend of HK4.0 cents per share). The interim dividend is payable on 18 October 2012 to the shareholders of the Company whose names appear on the Company's register of members on 8 October 2012.

## 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:

	<b>Six months ended</b>	
	<b>30.6.2012</b>	<b>30.6.2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Earnings for the purposes of calculating basic and diluted earnings per share	<u>123,875</u>	<u>103,119</u>
	<b>Number of shares</b>	
	<b>'000</b>	<b>'000</b>
Weighted average number of shares for the purpose of calculating basic earnings per share	<b>555,833</b>	553,613
Effect of dilutive potential ordinary shares: Share options	<u>1,731</u>	<u>3,999</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>557,564</u>	<u>557,612</u>

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

During the period, the Group incurred approximately HK\$147,578,000 (six months ended 30 June 2011: HK\$81,915,000) mainly for additions to manufacturing plant in Mainland China to expand its manufacturing capacity.

In current period, the management resolved to rent out certain of its leasehold properties to an outsider for rental income and ended owner-occupation. These leasehold properties were transferred to investment properties at their revalued amount on 1 January 2012. The increase in fair value of HK\$38,321,000 up to the date of transfer was recognised in the equity under property revaluation reserve. The fair values of the Group's investment properties at 1 January 2012 and 30 June 2012 have been arrived at on the basis of valuations carried out by an independent qualified professional valuer not connected with the Group. The valuation of investment properties of HK\$49,400,000 and HK\$65,000,000 as at 1 January 2012 and 30 June 2012 respectively were arrived at by reference to recent market prices for similar properties and the resulting increase in fair value of investment properties of HK\$15,600,000 subsequent to the transfer was included in profit or loss in the period.

## 10. TRADE AND BILLS RECEIVABLES, OTHER DEBTORS AND PREPAYMENTS

	<b>30.6.2012</b>	31.12.2011
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>1,746,358</b>	1,559,322
Bills receivables	<b>928,895</b>	1,001,661
	<b>2,675,253</b>	2,560,983

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\$30,758,000 (31 December 2011: HK\$25,978,000) at the end of the reporting period is as follows:

	<b>30.6.2012</b>	31.12.2011
	<b>HK\$'000</b>	HK\$'000
0 - 3 months	<b>1,502,322</b>	1,314,430
4 - 6 months	<b>211,772</b>	226,109
Over 6 months	<b>32,264</b>	18,783
	<b>1,746,358</b>	1,559,322

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 銀行承兌匯票("banker's acceptances"), i.e. time drafts accepted and guaranteed for payment by PRC banks. The Group accepts the settlement of trade receivables by customers using banker's acceptances accepted by PRC banks on a case by case basis.

These banker's acceptances are issued to or endorsed to the Group and with due date not longer than six months from the date of issuance. Those banks accepting the banker's acceptances, which are state-owned banks or commercial banks in the PRC, are the primary obligors for payment on the due date of such banker's acceptances.

## 11. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of HK\$981,272,000 (31 December 2011: HK\$1,063,254,000). Remaining balances mainly consist of receipts in advance from customers, payable of staff salaries and benefits, sales commission, storage and transportation and consideration payable for acquisition of additional interests in a subsidiary, etc.

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

	<b>30.6.2012</b>	31.12.2011
	<b>HK\$'000</b>	HK\$'000
0 - 3 months	<b>848,744</b>	982,834
4 - 6 months	<b>105,224</b>	73,903
Over 6 months	<b>27,304</b>	6,517
	<b>981,272</b>	1,063,254

## INTERIM DIVIDEND

The directors have declared an interim dividend of HK10.0 cents per share for the six months ended 30 June 2012 (six months ended 30 June 2011: HK8.0 cents per share). No special interim dividend (six months ended 30 June 2011 : HK4.0 cents per share) is declared for the six months ended 30 June 2012. The interim dividend is payable on 18 October 2012 to shareholders whose names appear on the Register of Members of the Company on 8 October 2012.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 4 October 2012 to 8 October 2012 (both days inclusive) for the purpose of determining the entitlements of the members of the Company to the interim dividend. No transfer of shares may be registered during the said period. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Share Registrars in Hong Kong, Tricor Secretaries Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 3 October 2012.

## PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the HKEx website (<http://www.hkex.com.hk>) and the Company's website (<http://www.yipschemical.com>). The 2012 interim report containing all the information required by the Rules Governing the Listing of Securities on the Stock Exchange will be published on the HKEx website and the Company's website in due course.

By Order of the Board  
**Ip Chi Shing**  
Chairman

Hong Kong, 28 August 2012

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

*Non-executive Directors :*

*Mr. Ip Chi Shing (Chairman)*

*Mr. Wong Kong Chi\**

*Mr. Au-Yeung Tsan Pong, Davie\**

*Mr. Li Chak Man\**

*Mr. Ku Yuen Fun\**

*Mr. Tong Wui Tung*

*Mr. Ng Siu Ping*

*Executive Directors :*

*Mr. Yip Tsz Hin (Deputy Chairman)*

*Mr. Wong Kam Yim*

*Mr. Li Wai Man, Peter*

*Mr. Ho Sai Hou*

*\*Independent non-executive Directors*