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Yip's Chemical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 408)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

HIGHLIGHTS

**Profit Attributable to Owners Surged fourfold year-on-year to HK\$300 million
Interim Dividend and 50th Anniversary Special Dividend totaled
at HK22 Cents Per Share**

- In view of a sharp rise in raw material prices, the Group's sales revenue shot up to HK\$8.45 billion, an increase of nearly 90% year-on-year, and sales volume also increased by 16% year-on-year;
- Profit attributable to owners surged by 410% to HK\$300 million, mainly due to a significant increase in the selling prices of solvent products and the successful execution by the solvents team to capture such market opportunity with remarkable improvement in profitability; as well as the one-off special gain generated from the Group's disposal of Yip's Chemical Building took place subsequent to the period under review which recorded an increase in fair value during the period under review;
- Gearing ratio increased to 51.7% as a result of the Group's investment in the new solvents plant and higher working capital requirement because of the jump in raw material prices and product prices;
- The Board declared an interim dividend of HK12 cents per share, doubling that for the same period last year, as well as a 50th anniversary special dividend of HK10 cents per share. Total dividend of HK22 cents per share will be payable to Shareholders in cash with a scrip dividend alternative.

	For the six-month period ended 30 June 2021 (unaudited)	For the six-month period ended 30 June 2020 (unaudited)	% Change
Revenue	HK\$8,453,208,000	HK\$4,465,680,000	+89%
Sales volume	767,000 metric tons	662,000 metric tons	+16%
Profit attributable to owners of the Company	HK\$299,824,000	HK\$58,803,000	+410%
Earnings per share	HK53.9 cents	HK10.4 cents	+418%
Interim dividend	HK12.0 cents	HK6.0 cents	+100%
Special dividend	HK10.0 cents	—	N/A
Total dividend	HK22.0 cents	HK6.0 cents	+267%
	As of 30 June 2021 (unaudited)	As of 30 June 2020 (unaudited)	
Gearing ratio*	51.7%	29.2%	+22.5% points
* Measured by net bank borrowings as a percentage of equity attributable to owners of the Company.			

CHAIRMAN'S STATEMENT — REVIEW & OUTLOOK

Review

I am pleased to present to all shareholders (“Shareholders”) of Yip’s Chemical Holdings Limited (the “Company”) the business overview of the Company and its subsidiaries (collectively “Yip’s Chemical” or the “Group”) for the six months ended 30 June 2021 (“period under review”).

Foremost among all the factors that constituted major challenges and opportunities to the Group’s core businesses in the period under review was the rise in raw material prices, which has appeared as a general trend since the end of last year. After the Chinese New Year, as the global COVID-19 pandemic situation improved, international oil prices climbed in tandem with the expectation that the world economy would recover gradually. On the other hand, though regional supply chains which had been disrupted for quite some time became operational again, there was a serious supply-demand imbalance resulted from various factors, such as the fact that recovery takes time. In almost the entire four months that ensued, the magnitude and speed with which raw material prices shot up have rarely been seen in recent years, and did not ease up until May. As a result, the effect of internal hedging among the core business segments of the Group in the period under review was exceptionally strong. Core business segments typified by coatings bore the brunt of such price increases. Hampered by more vigorous competition in the market, these business segments were unable to pass on the rising costs immediately, so the gross profit margin of various products suffered to one extent or another. On the other hand, our solvents business, which for years has been dominating the global acetate market, was in full grasp of the tempo of the volatile fluctuations in raw material prices, fully reflecting its economy of scale and market-leading capability. For the period under review, the excellent performance of the solvents business fully offset the negative effects of other business segments such as coatings. Adding the one-off special gain from the recent disposal of Yip’s Chemical Building which took place subsequent to the period under review which recorded an increase in fair value during the period under review, the Group registered its best interim performance since its public listing 30 years ago. In the period under review, the Group recorded a sales revenue of HK\$8.45 billion, increasing by nearly 90% year-on-year. Sales volume grew by 16% from the corresponding period last year to 767,000 metric tons. Profit attributable to owners was approximately HK\$300 million, representing a surge of 410% from the corresponding period last year. The Group’s overall credit status in the period under review remained strong. Due to a rapid rise in raw material prices, however, the selling prices of the Group’s various products increased to one extent or another. Furthermore, during the period under review, the construction of the new solvents plant in Zhuhai at approximately HK\$140 million affected the gearing ratio, which came to 51.7% as at 30 June 2021, representing a year-on-year increase of 22.5 percentage points. Upon a comprehensive assessment of business prospects, and considering the established practice of rewarding Shareholders earnestly, the Company’s board of directors (the “Board”) declared an interim dividend of HK12 cents per share, which doubled the HK6 cents per share for last year. To celebrate the 50th anniversary of the founding of the Group, the Board also declared a special dividend of HK10 cents per share. The total dividend of HK22 cents per share will be payable to Shareholders in cash with a scrip dividend alternative, thus allowing Shareholders to choose to receive the Group’s dividend wholly or partly in the form of allotment of new ordinary shares in the Company (“Scrip Shares”), credited as fully paid, in lieu of cash (“Scrip Dividend Scheme”).

Outlook

I am cautiously optimistic about the Group's business prospects in the second half of 2021. Despite the geopolitical tension and occasional instability in the Taiwan Strait, the South China Sea and the East China Sea, intensifying tendency of the Sino-US conflict, and the as-yet unmitigated harm of the raging COVID-19 pandemic have inflicted on the global economy, China's economic vitality has fully recovered after the pandemic and engaging in altercations with Western countries. With China's GDP growth in the first two quarters of this year meeting expectations, the unparalleled resilience and sturdiness of China's economic development model are in full evidence. Riding on such good momentum, the Group's core business segments can be expected to continue to grow steadily and gradually. At the same time, I also expect a slight drop in raw material prices in the second half of 2021, and that the magnitude of any fluctuation will not be as great as in the first half of 2021. The results of the Group's various business segments are expected to get increasingly balanced.

This year marks the important milestone of the 50th anniversary of the founding of Yip's Chemical and the 30th anniversary of its public listing. We will stay true to our original aspirations and continue to uphold our business philosophy of "Be Daring, Set Goals Early, Be Prepared Fully, Forge Ahead with Courage". This has been so in the last 50 years, and will also be upheld in the future. This business philosophy will continue to guide the Group in attending to its goals of seeking benefits for employees, creating values for Shareholders and building vigour for society so that the Group will fulfil the mission of making strong and steady strides towards a century of revered leadership for Yip's Chemical.

On behalf of the Board, I would like to convey the deepest gratitude to all past and current employees in the past 50 years and send our sincere thanks to Shareholders for their unfailing support and guidance. We are also grateful to all past and current Board members and senior management teams for their outstanding leadership and solidarity.

Ip Chi Shing
Chairman

19 August 2021

REPORT OF THE CHIEF EXECUTIVE OFFICER

Key aspects of the Group's performance in the first half of 2021 are as follows:

1. A rapid increase in raw material prices led to a growth of 89% in sales revenue to HK\$8.45 billion in the period under review, while actual sales volume grew 16% year-on-year to 767,000 metric tons.
2. Profit attributable to owners rose sharply by 410% from the corresponding period last year to approximately HK\$300 million mainly due to the following factors:
 - The solvents business benefited from the upsurge in raw material prices, so much so that operating profit for the first half of 2021 hit a record of HK\$436 million, up 190% year-on-year;
 - An increase in fair value of Yip's Chemical Building in Fanling recorded at HK\$66 million in the period;
 - Nevertheless, as the sharp rise in raw material prices could not be passed on to end-users in time, the performance of coatings and inks, two other core business segments, were affected. A detailed analysis is given below.
3. Gearing ratio increased to 51.7%, the main reasons include:
 - In the period under review, the solvents business invested approximately HK\$140 million for a new plant in Zhuhai;
 - As a result of substantial increase in raw material prices and product selling prices of the solvents business, working capital grew significantly by HK\$800 million compared with the corresponding period last year.
4. The spin-off of Bauhinia Ink for a separate listing on the Shenzhen Stock Exchange ("SSE") by the Group proceeded as planned. We are monitoring closely the progress of our listing application.

5. Summing up the first half of 2021, the solvents business yielded good results. Though the results of coatings business and inks business were negatively affected, they recorded promising growth in sales. The management is confident that, in the second half of 2021, raw material costs will return to a normal level gradually and the profitability of both the coatings and inks businesses is expected to improve.

Review and analysis of the major business segments are as follows:

Solvents

In the period under review, sales volume increased by approximately 70,000 metric tons to 610,000 metric tons and sales revenue shot up 106% year-on-year to HK\$6.63 billion. Due to the tight raw material supply, prices rose continuously. By monitoring the market closely, the solvents marketing team was able to stock up in time. On the other hand, the logistic team succeeded in overcoming the challenges posed by operating with tight schedules so that products of good quality were delivered in time and production capacity was fully utilized. As a result, a half-year performance with the highest profitability ever was achieved.

Construction of the new plant in Zhuhai is proceeding as planned and the target of putting it into operation smoothly remains unchanged. The management will ensure a seamless transition from the Jiangmen plant currently in use to the new Zhuhai plant so as to ensure an adequate supply of products for the Southern China market and to maintain our status as the main supplier in the region.

Since July 2021, prices of upstream raw materials for the solvents business have been in a downward trend, and this may impart short-term pressure on the performance of this business segment. The management is now undertaking careful analysis in order to reduce inventory systematically and develop export markets more proactively. The aim is to sail through the expected market correction unscathed.

Coatings

Sales revenue of the coatings business for the period under review reached HK\$980 million, which was a growth of 56% from the corresponding period last year. In the corresponding period last year, demand for coatings dropped due to the pandemic. During the period under review, with the pandemic under control in Mainland China, construction projects, home refurbishing as well as industrial production gradually resumed as the economy recovered. Meanwhile, the management timely invested in the market to expand the sales network and raise market share. Yet, because the prices of various key raw materials began to rise considerably since the end of 2020, the substantial cost increases brought gross profit margin down to 23.5% while operating profit was HK\$16 million.

In the second half of 2021, the management will continue to focus on capturing market share. The aim is to boost sales and build leverage in a high-cost competitive environment so as to lay a better foundation of profitability for the future of coating brands of the Group including “Bauhinia”, “Camel”, “Hang Cheung” and “Da Chang” in the markets for architectural coatings, industrial coatings and resins.

Inks

Overall sales revenue increased 30% year-on-year to HK\$680 million, though operating profit declined by HK\$12.5 million to HK\$4.49 million because of high raw material prices.

In the period under review, the priority of the inks business was to deal with the problems of shortage and high prices of raw materials and the difficulties in passing on increased costs to users, etc. The sales team stayed close to the market and users with frequent visits and was persistent in sharing information and discussing ways of tackling the challenges with users. In particular, they spared no efforts and also succeeded in stocking raw materials and in ensuring adequate supply for clients. In so doing, they did a solid job of penetrating the market and securing market share.

Lubricants

In the period under review, the lubricants business continued to make inroads into the automotive lubricants market via distributor network development and OEM operations in Mainland China. Compared with the corresponding period last year, sales revenue grew 132% year-on-year to HK\$190 million. In view of the continuous rise in the prices of oil and associated raw materials, we carried out effective supply chain management and strategic stocking of raw materials. As a result, gross profit margin inched down only one percentage point to 25.5%, while an operating profit of HK\$11.3 million was recorded. Compared with the loss of HK\$9.3 million recorded in the corresponding period last year, performance greatly improved and turned around.

While the lubricants business is developing steadily on the right track, the attention for the second half of 2021 will be focused on the development of the sales network and the enhanced management of the supply chain, so as to maintain reasonable profitability in the highly competitive lubricants market.

Other Businesses

The Group is relentless in attaining environmentally-friendly, end-user oriented and service-oriented development and is actively seeking “home” and “car” related business opportunities. In the period under review, the Group continued to support Damai in offering the huge group of car owners in China with professional and convenient car maintenance service of high cost-effectiveness. In the period under review, though Damai’s rate of opening new shops was slowed down by the intermittent outbreaks of the pandemic in individual provinces, it had 111 locations of services located in Shandong, Guangdong, Hebei, Hunan and Jiangsu, which together have provided services to approximately 270,000 vehicles since Damai’s establishment. The management of the Company believes that standardised and value for money car maintenance service is consistent with the future consumption habit of the Chinese middle class. Therefore, in the short term, the management will continue to invest in developing Damai’s store network.

For the properties segment, revenue was up 13% to HK\$4.9 million for rental income generated from leasing of Shanghai property. Operating profit was however boosted to HK\$60.1 million with increase of fair value recorded for Yip’s Chemical Building during the period under review, which was disposed of on 16 July 2021.

Outlook

With a drop in selling prices of solvents, we expect that the profitability of the solvents business in the second half of 2021 will be affected, but the coatings and inks businesses will be benefited. We fully understand that operating profit could fluctuate from time to time. However, we are confident that, as long as we make the right moves and our businesses are in order and grow steadily, by making timely adjustment, we can always turn crises into opportunities and turn those opportunities into momentum for further growth.

At the beginning of this year, the Group has set three key objectives: exploring new projects for the solvents business, boosting sales for the coatings business and ensuring the successful listing of Bauhinia Ink on SSE. Currently, we are progressing quite well in all three areas and will report back to Shareholders at the end of this financial year.

Yip Tsz Hin

Chief Executive Officer

19 August 2021

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group's gearing ratio (measured by net bank borrowings as a percentage of equity attributable to owners of the Company) was 51.7% (30 June 2020: 29.2%), representing an increase of 22.5 percentage points year-on-year. The Group's gearing ratio substantially increased as a result of its investment in the construction of the new solvents plant as well as inflated working capital required to finance trade receivables and bills receivables, prepayments and inventories due to the rising sales of solvents business during the period under review.

The RMB exchange rate recorded an appreciation of 0.8% over the first half of 2021. Although the RMB exchange rate was relatively stable during the period under review, the Group will remain prudent in managing its foreign exchange exposure so as to minimise the impact of RMB fluctuation on its results. On the other hand, the Group benefited from the low interest rate and reduced its net interest expense for the period under review by 19% to HK\$16,329,000 (six months ended 30 June 2020: HK\$20,131,000), despite a rise in the Group's total bank borrowings.

As for operating cash flow, the Group recorded a net cash outflow of HK\$394,198,000 for the period under review (six months ended 30 June 2020: net cash inflow of HK\$251,760,000). Compared with the corresponding period in the preceding year, the operating cash outflow was driven by the increase in inventories, prepayments, trade receivables and bills receivables, although the effect was partly offset by the increase in the accounts payables, bills payables and accrued expenses.

As at 30 June 2021, gross bank borrowings of the Group amounted to HK\$2,251,721,000 (31 December 2020: HK\$1,624,487,000). After the deduction of short-term bank deposits, bank balances and cash amounted to HK\$364,619,000 (31 December 2020: HK\$565,302,000), net bank borrowings amounted to HK\$1,887,102,000 (31 December 2020: HK\$1,059,185,000). Of the gross bank borrowings, HK\$1,538,004,000 (31 December 2020: HK\$706,887,000) were short-term loans repayable within one year. Such loans were denominated in two currencies, HK\$954,433,000 in Hong Kong Dollars and HK\$583,571,000 in RMB (31 December 2020: HK\$671,100,000 in Hong Kong Dollars and HK\$35,787,000 in RMB). Long-term loans repayable after one year amounted to HK\$713,717,000 (31 December 2020: HK\$917,600,000), and they were all denominated in Hong Kong Dollars (31 December 2020: all in Hong Kong Dollars). The short-term bank deposits, bank balances and cash were denominated in the following currencies: HK\$21,446,000 in Hong Kong Dollars, HK\$270,264,000 in RMB and HK\$72,463,000 in US Dollars and HK\$446,000 in other currencies (31 December 2020: 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).

To refinance mid-to-long-term loans due for repayment, the Group has entered into an agreement for a four-year sustainability-linked embedded syndicated loan facility agreement of HK\$600,000,000 (the “Facility Agreement”) in the first half of 2021 with six banks. Under the Facility Agreement, the Group is eligible to receive interest rate savings upon achieving pre-determined targets which address environmental, social and governance performance mutually agreed with the banks.

During the period under review, the Group increased the utilization of the short-term loan facility, which not only allowed more flexibility for use of fund, but also reduced borrowing costs. As at 30 June 2021, mid-to-long-term loans (including portions repayable within one year of HK\$454,433,000) accounted for 52% of the total bank loans of the Group. The Group did not enter into new interest rate swaps or other arrangements to fix the interest rates for its borrowings during the period under review as the current low interest rate environment is expected to persist for a longer period. The Group will monitor the interest rate fluctuation from time to time and enter into interest rate swaps or fix rate arrangement with the banks at an appropriate time to hedge against the risk of interest rate fluctuation. As at 30 June 2021, the Group’s loans under fixed rate arrangement made up 23% of its total bank borrowings.

As at 30 June 2021, a total of 24 banks in Hong Kong and Mainland China granted banking facilities of HK\$6,237,706,000 to the Group, providing it with sufficient funds to meet present working capital and expansion requirements. Of these banking facilities, 51%, 48% and 1% were denominated in Hong Kong Dollars, RMB and US Dollars respectively. As at 30 June 2021, the Group’s RMB revolving loan facilities amounted to RMB1,470,000,000 (31 December 2020: RMB950,000,000). As the interest rate in Mainland China continued to decline in the past few years, the Group has increased its RMB loan portfolio to address the revolving funding needs in Mainland China 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.

As at 30 June 2021, the Group did not have any significant investment, pledged asset and significant contingent liabilities. Save as disclosed in this interim announcement, the Group did not have any concrete plans for material investments or capital assets for the second half of 2021.

HUMAN RESOURCES

As of 30 June 2021, the Group has a total of 3,393 employees, among which 83 of them are from Hong Kong, 3,303 are from different provinces in Mainland China and 7 are from Vietnam.

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 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 recruit 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 six months ended 30 June 2021, the Company repurchased a total of 2,780,000 shares in the Company ("Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration (before expenses) of HK\$10,309,040. 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) HK\$
		Highest HK\$	Lowest HK\$	
March	2,178,000	3.72	3.64	8,037,660
April	602,000	3.83	3.74	2,271,380
	<u>2,780,000</u>			<u>10,309,040</u>

Saved as disclosed above, during the six months ended 30 June 2021, 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 2021, the Company has complied with the code provisions ("Code Provisions") of the "Corporate Governance Code and Corporate Governance Report" (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") except that the Company does not have a nomination committee (CG Code provisions A.5.1 to A.5.4). The Company considers that it is more beneficial and efficient for the full Board to perform the functions of the nomination committee.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) was formed in November 1998. As of 30 June 2021, the Audit Committee comprised the three independent non-executive directors of the Company, namely Mr. Ku Yee Dao, Lawrence, Mr. Wong Yuk and Mr. Ho Pak Chuen, Patrick, and is chaired by Mr. Ku Yee Dao, Lawrence. Mr. Wong Kong Chi retired and resigned as the chairman of the Audit Committee and Mr. Ku Yee Dao, Lawrence was appointed as the chairman of the Audit Committee with effect from 1 January 2021. Major duties of the Audit Committee include reviewing financial information of the Group, overseeing the Group’s financial reporting system, risk management and internal control procedures, and monitoring of the relationship between the Group and its external auditors.

An Audit Committee meeting was held on 16 August 2021 to review the Group’s unaudited interim financial statements for the six months ended 30 June 2021. 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 2021, which is prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF A LISTED COMPANY

The Company has adopted the Model Code for Securities Transaction 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 with each of the Directors, 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 2021.

UNAUDITED INTERIM RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021, together with comparative figures for the corresponding period of last year. The interim financial report has not been audited, but has been reviewed by the Company's auditor and Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	NOTES	Six months ended 30 June 2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	4	8,453,208	4,465,680
Cost of sales		<u>(7,353,863)</u>	<u>(3,814,826)</u>
Gross profit		1,099,345	650,854
Other income	5a	31,484	38,010
Other gains and losses	5b	72,190	(49,291)
Selling and distribution expenses		(282,955)	(196,550)
General and administrative expenses		(421,114)	(281,330)
Finance costs		(21,451)	(27,880)
Share of results of associates		<u>(463)</u>	<u>(925)</u>
Profit before taxation	6	477,036	132,888
Taxation	7	<u>(90,273)</u>	<u>(43,476)</u>
Profit for the period		<u>386,763</u>	<u>89,412</u>
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		33,909	(84,014)
Fair value changes on financial assets at FVTOCI and debt instruments at FVTOCI		<u>(885)</u>	<u>(102)</u>
		<u>33,024</u>	<u>(84,116)</u>

	Six months ended 30 June	
<i>NOTE</i>	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Items that may be reclassified subsequently to profit or loss:		
Net adjustment arising from hedging instruments	3,168	(12,757)
Exchange differences arising on translation of foreign operations	15,484	8,565
	18,652	(4,192)
Other comprehensive income (expense) for the period	51,676	(88,308)
Total comprehensive income for the period	438,439	1,104
Profit for the period attributable to:		
Owners of the Company	299,824	58,803
Non-controlling interests	86,939	30,609
	386,763	89,412
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	343,795	(17,409)
Non-controlling interests	94,644	18,513
	438,439	1,104
Earnings per share	9	
— Basic	HK53.9 cents	HK10.4 cents
— Diluted	HK53.9 cents	HK10.4 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2021

	<i>NOTES</i>	30.6.2021 <i>HK\$'000</i> (Unaudited)	31.12.2020 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	10	2,055,493	2,032,633
Investment properties	10	133,007	344,096
Interests in an associate		5,358	5,772
Financial assets at FVTPL		84,005	—
Financial assets at FVTOCI		19,115	19,083
Debt instruments at FVTOCI		—	62,369
Goodwill		148,878	148,584
Intangible assets		82,104	82,986
Deposits paid for acquisition of property, plant and equipment		103,736	34,587
Deferred tax assets		7,760	7,697
		2,639,456	2,737,807
Current assets			
Inventories		1,578,784	1,169,493
Trade receivables	11	4,315,888	3,474,539
Other debtors and prepayments	11	806,099	492,222
Derivative financial instruments		1,861	—
Financial assets at FVTPL		57,849	—
Debt instruments at FVTOCI		59,134	—
Short-term bank deposits — with original maturity within three months		7,444	34,894
Bank balances and cash		357,175	530,408
		7,184,234	5,701,556
Assets classified as held for sale	12	383,106	—
		7,567,340	5,701,556

	<i>NOTES</i>	30.6.2021 <i>HK\$'000</i> (Unaudited)	31.12.2020 <i>HK\$'000</i> (Audited)
Current liabilities			
Creditors and accrued charges	13	3,058,916	2,325,974
Contract liabilities		44,173	44,028
Taxation payables		95,035	86,772
Dividend payables		88,621	—
Derivative financial instruments		3,870	5,761
Lease liabilities		27,571	27,879
Borrowings — amount due within one year		1,538,004	706,887
		4,856,190	3,197,301
Liabilities associated with assets classified as held for sale	12	14,829	—
		4,871,019	3,197,301
Net current assets		2,696,321	2,504,255
Total assets less current liabilities		5,335,777	5,242,062
Non-current liabilities			
Derivative financial instruments		2,194	3,755
Lease liabilities		55,506	64,404
Borrowings — amount due after one year		713,717	917,600
Deferred tax liabilities		32,023	30,104
		803,440	1,015,863
		4,532,337	4,226,199
Capital and reserves			
Share capital	14	55,388	55,666
Reserves		3,593,421	3,350,258
Equity attributable to owners of the Company		3,648,809	3,405,924
Non-controlling interests		883,528	820,275
		4,532,337	4,226,199

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

	<i>NOTES</i>	Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Net cash (used in) generated from operating activities		(394,198)	251,760
Net cash used in investing activities			
Purchases of property, plant and equipment		(142,146)	(37,090)
Deposits paid for acquisition of property, plant and equipment		(83,367)	(27,679)
Acquisition of financial assets at FVTPL		(119,946)	—
Interest received		5,122	7,749
Proceeds from disposal of property, plant and equipment		1,035	5,938
Net cash outflow on acquisition of subsidiaries	15	—	(20,514)
Deposit received in relation to disposal of a subsidiary	12	12,007	—
		(327,295)	(71,596)
Net cash from (used in) financing activities			
Borrowings raised		1,346,522	507,775
Repayment of borrowings		(719,288)	(791,650)
Interest paid		(17,745)	(27,880)
Dividends paid to non-controlling shareholders of subsidiaries		(31,391)	(11,326)
Payment of lease liabilities		(18,138)	(18,304)
Proceeds received from partial disposal of a subsidiary		—	29,415
Share repurchase		(10,309)	—
Cash paid for settlement of the derivative financial instruments used to hedge interest rate risk		(2,916)	—
		546,735	(311,970)

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net decrease in cash and cash equivalents	(174,758)	(131,806)
Cash and cash equivalents at beginning of the period	565,302	1,009,542
Effect of foreign exchange rate changes	3,856	(14,212)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	394,400	863,524
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Short-term bank deposits with original maturity within three months	7,444	241,451
Bank balances and cash	357,175	622,073
Bank balances classified as assets held for sale	29,781	—
	<hr/>	<hr/>
	394,400	863,524
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. BASIS OF PREPARATION

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

2. SIGNIFICANT EVENT IN THE CURRENT INTERIM PERIOD

On 27 January 2021, Bauhinia Ink Company Limited (“Bauhinia Ink”), an indirect non-wholly owned subsidiary of the Company, 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, 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.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair value at the end of the reporting period.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

Accounting policy newly applied by the Group

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	Covid-19 Related Rent Concession
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

Except as described below, the application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements:

3.1 Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform — Phase 2”

Financial instruments

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

Hedge accounting

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

Cash flows hedges

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the hedging reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

Leases

The Group as a lessee

Changes in the basis for determining the future lease payments as a result of interest rate benchmark reform

For changes in the basis for determining the future lease payments as a result of interest rate benchmark reform, the Group applies the practical expedient to remeasure the lease liabilities by discounting the revised lease payments using the unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the Group uses revised discount rate that reflects change in the interest rate and makes a corresponding adjustment to the related right-of-use assets. A lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

- the modification is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

The Group intends to apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortised cost and interest rate swap contracts measured at fair value. The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the interim period. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Group's consolidated financial statements for the year ending 31 December 2021.

4. REVENUE AND SEGMENT INFORMATION

Revenue

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 period.

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Geographical market based on location of customers:		
People's Republic of China (the "PRC")	6,178,810	3,611,626
Hong Kong	36,318	31,841
Overseas (mainly including countries in South East Asia)	2,238,080	822,213
	<u>8,453,208</u>	<u>4,465,680</u>

Segment information

For management purposes, the Group's reportable and operating segments under HKFRS 8 "Operating Segments" included five business divisions, namely (i) solvents, (ii) coatings, (iii) inks, (iv) lubricants and (v) properties.

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

Solvents	—	manufacture of and trading in raw solvents and related products
Coatings	—	manufacture of and trading in coatings and related products
Inks	—	manufacture of and trading in inks and related products
Lubricants	—	manufacture of and trading in lubricants products
Properties	—	property investment and holding of the Group's properties not used for production plants, research and development, central administration office, and not used for other operating segments, including but not limited to properties for rental

In addition, the Group's operation relating to the manufacturing of and trading in other chemical products, trading of car maintenance products and car maintenance services do not meet the quantitative threshold for reportable segment in both current and prior periods. 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 period by each segment without allocation of share of results of 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.

Segment revenue and results

An analysis of the Group's segment revenue and results by reportable and operating segments for the period 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
Six months ended 30 June 2021 (unaudited)									
Segment revenue									
Revenue from contracts with customers									
— recognised at a point in time	6,525,048	978,531	682,495	188,223	—	8,374,297	51,762	—	8,426,059
— recognised over time	—	—	—	—	—	—	22,421	—	22,421
External sales	6,525,048	978,531	682,495	188,223	—	8,374,297	74,183	—	8,448,480
Inter-segment sales	105,233	73	334	279	—	105,919	22,141	(128,060)	—
External rental income	—	—	—	—	4,728	4,728	—	—	4,728
Inter-segment rental income	—	—	—	—	186	186	—	(186)	—
Total	<u>6,630,281</u>	<u>978,604</u>	<u>682,829</u>	<u>188,502</u>	<u>4,914</u>	<u>8,485,130</u>	<u>96,324</u>	<u>(128,246)</u>	<u>8,453,208</u>
Results									
Segment results	<u>435,879</u>	<u>16,028</u>	<u>4,492</u>	<u>11,265</u>	<u>60,086</u>	<u>527,750</u>	<u>(14,685)</u>	<u>(307)</u>	512,758
Share of results of associates									(463)
Unallocated income									5,149
Unallocated expenses									(18,957)
Finance costs									(21,451)
Profit before taxation									<u>477,036</u>

	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
Six months ended 30 June 2020 (unaudited)									
Segment revenue									
Revenue from contracts with customers									
— recognised at a point in time	3,187,851	628,603	524,949	81,152	—	4,422,555	27,962	—	4,450,517
— recognised over time	—	—	—	—	—	—	11,055	—	11,055
External sales	3,187,851	628,603	524,949	81,152	—	4,422,555	39,017	—	4,461,572
Inter-segment sales	37,707	13	85	217	—	38,022	11,662	(49,684)	—
External rental income	—	—	—	—	4,108	4,108	—	—	4,108
Inter-segment rental income	—	—	—	—	222	222	—	(222)	—
Total	<u>3,225,558</u>	<u>628,616</u>	<u>525,034</u>	<u>81,369</u>	<u>4,330</u>	<u>4,464,907</u>	<u>50,679</u>	<u>(49,906)</u>	<u>4,465,680</u>
Results									
Segment results	<u>150,562</u>	<u>1,892</u>	<u>17,022</u>	<u>(9,311)</u>	<u>2,218</u>	<u>162,383</u>	<u>(6,089)</u>	<u>(70)</u>	156,224
Share of results of associates									(925)
Unallocated income									10,625
Unallocated expenses									(5,156)
Finance costs									<u>(27,880)</u>
Profit before taxation									<u>132,888</u>

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

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(a) The Group's other income mainly comprises:		
Interest income	5,122	7,749
Government grants recognised	<u>8,864</u>	<u>14,072</u>

During the six months ended 30 June 2020, the Group recognised government grants of HK\$3,320,000 (six months ended 30 June 2021: nil) in respect of COVID-19 related subsidies, of which HK\$2,050,000 (six months ended 30 June 2021: nil) was related to Employment Support Scheme provided by the government in Hong Kong.

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(b) The Group's other gains (losses) comprise of:		
Gain (loss) on fair value change of investment properties	66,000	(1,703)
Gain from change in fair value of financial assets at FVTPL	22,192	—
Gain from change in fair value of foreign exchange forward contracts	1,648	—
Recognition of impairment loss on trade receivables under expected credit loss ("ECL") model	(10,832)	(14,339)
Net exchange loss arising from foreign currency balances and transactions	(4,846)	(12,424)
Net loss on disposal/written off of property, plant and equipment (<i>note i</i>)	(1,972)	(10,763)
Impairment loss on deposit paid for acquisition of property, plant and equipment (<i>note ii</i>)	—	(10,819)
Gain from change in fair value of investments in debt instruments	—	757
	<u>72,190</u>	<u>(49,291)</u>

Notes:

- (i) During the six months ended 30 June 2020, the written off of property, plant and equipment amounting to approximately HK\$9,748,000 (six months ended 30 June 2021: nil) was recognised to profit or loss in relation to a plant of Taixing Jinjiang Chemical Industry Company Limited for manufacturing of solvents products.
- (ii) This represented the non-refundable portion of deposit paid on a plant located in the PRC.

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	1,023	1,114
Cost of inventories recognised as expense (<i>note</i>)	7,353,863	3,814,826
Depreciation of property, plant and equipment	<u>116,287</u>	<u>90,226</u>

Note: During the six months ended 30 June 2021, net allowance recognised in inventories amounting to HK\$15,003,000. During the six months ended 30 June 2020, net reversal of allowance recognised on inventories amounting to HK\$2,652,000 as certain slow-moving raw materials were utilised for production and inventories sold subsequently at price higher than net realisable value. Written off of inventories amounting to HK\$3,381,000 (six months ended 30 June 2020: HK\$2,490,000) was recognised as an expense during the current interim period.

7. TAXATION

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax — the PRC		
Current period	79,744	35,046
Withholding tax	4,968	10,105
	<u>84,712</u>	<u>45,151</u>
Current tax — Overseas	1,176	—
	<u>85,888</u>	<u>45,151</u>
Deferred tax charge (credit)	4,385	(1,675)
	<u>90,273</u>	<u>43,476</u>

No provision for Hong Kong Profits Tax has been made as the Company and subsidiaries did not generate any assessable profits or have available tax losses brought forward from prior years to offset against assessable profits generated.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of 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 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.

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

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 the PRC starting from 1 January 2008 under the Implementation Regulation of the EIT Law of the PRC that requires withholding tax with tax rate at 5% 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 PRC starting from 1 January 2008 amounting to HK\$1,811,310,000 (31 December 2020: HK\$1,593,231,000) as the directors 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.

8. DIVIDENDS

During the period, a final dividend of HK16 cents per share totalling HK\$88,621,000 in respect of the year ended 31 December 2020 were declared and subsequently paid in July 2021.

During the six months ended 30 June 2020, a final dividend of HK13 cents per share totalling HK\$73,324,000 in respect of the year ended 31 December 2019 were declared and subsequently paid in July 2020.

Subsequent to 30 June 2021, the directors of the Company resolved to declare an interim dividend of HK12 cents per share and a special dividend of HK10 cents per share, totalling approximately HK\$121,853,000 for the six months ended 30 June 2021 with an option to receive shares of the Company (six months ended 30 June 2020: HK6 cents per share totalling approximately HK\$33,841,000). The interim dividend and special dividend will be payable on or about 12 October 2021 to the owners of the Company whose names appear on the Company's register of members on 8 September 2021.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company and earnings for the purposes of calculating basic and diluted earnings per share	<u>299,824</u>	<u>58,803</u>
	Number of shares	
	'000	'000
Weighted average number of shares for the purpose of calculating basic and diluted earnings per share	<u>556,137</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 (six months ended 30 June 2020: HK\$4.536 and HK\$5.942) because the exercise prices of those options were higher than the average market price for shares for six months ended 30 June 2021 and 2020.

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

During the six months ended 30 June 2021, the Group incurred approximately HK\$151,029,000 (six months ended 30 June 2020: HK\$45,056,000) to acquire property, plant and equipment for its operations.

During the six months ended 30 June 2021, the Group entered into new lease agreements with lease terms ranged from 1 to 5 years (six months ended 30 June 2020: from 1 to 5 years). On lease commencement, the Group recognised HK\$11,127,000 (six months ended 30 June 2020: HK\$13,451,000) of right-of-use assets, included in property, plant and equipment, and HK\$11,127,000 (six months ended 30 June 2020: HK\$13,451,000) of lease liabilities.

During the six months ended 30 June 2021, a net increase in fair value of investment properties of HK\$66,000,000 (six months ended 30 June 2020: net decrease in fair value of HK\$1,703,000) has been recognised directly in profit or loss. The valuations are carried out by the directors of the Company and an independent qualified professional valuer, which is not connected with the Group. The valuations by the directors of the Company and the independent qualified professional valuer are arrived by direct comparison approach assuming sale of the properties in their existing states with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market, or by using income approach taking into account the current market rent passing of the property interest with due provision of any reversionary income potential. The direct comparison approach is based on market observable recent transactions of similar properties in similar location. The income approach is based on market observable recent rental income of similar properties in similar locations.

11. TRADE RECEIVABLES, OTHER DEBTORS AND PREPAYMENTS

(a) Trade receivables

	30.6.2021 <i>HK\$'000</i> (Unaudited)	31.12.2020 <i>HK\$'000</i> (Audited)
Trade receivables from contracts with customers	4,381,421	3,533,739
Less: allowance for ECL	(65,533)	(59,200)
	<u>4,315,888</u>	<u>3,474,539</u>

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\$2,019,177,000 (31 December 2020: HK\$1,650,402,000). 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:

	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
0–3 months	1,955,059	1,556,828
4–6 months	255,351	211,846
Over 6 months	86,301	55,463
	<u>2,296,711</u>	<u>1,824,137</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.

(b) Other debtors and prepayments

Other debtors and prepayments mainly consist of payments in advance to suppliers, commission receivable from suppliers and value-added tax recoverable.

12. ASSETS CLASSIFIED AS HELD FOR SALE

- (a) On 16 July 2021, Yip's H.C. (Holding) Limited ("Yip's H.C."), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement ("Sale and Purchase Agreement") with an independent third party ("Purchaser"), in relation to the proposed disposal of the entire share capital of Big Youth Investments Limited ("Big Youth") and assignment of shareholder loan for an aggregate consideration of approximately HK\$282,682,000, subject to consideration adjustment. The major asset of Big Youth is an investment property known as Yip's Chemical Building located in Hong Kong with fair value of HK\$278,000,000 as at 30 June 2021. The directors of the Company considered that the held-for-sale criteria as set out in HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" were met, by taking into account the fact that the subject equity interest was immediately available for sale, and the conditions to be met to complete the disposal as set out in the terms of the relevant agreement.

In consideration of the Purchaser agreeing to enter into the Sale and Purchase Agreement, Yip's H.C. granted to the Purchaser a put option (the "Put Option") to require Yip's H.C. to re-purchase from it all sale shares and the benefit of the shareholder loan, if, according to investigation report issued by profession advisors, that (i) any of the underground storage tanks was used; and (ii) there is contamination, subject to the right of Yip's H.C. to elect to rectify or remediate such contamination within six months from 16 July 2021.

The shares of Big Youth have been transferred to the Purchaser on 16 July 2021.

- (b) On 28 June 2021, the Group entered into an agreement to dispose of the 60% equity interest in 德慶華彩合成樹脂有限公司 ("德慶華彩"), a company engaging in manufacturing and trading of resins, to the other shareholder of 德慶華彩, i.e. a non-controlling shareholder, at a cash consideration of RMB34,000,000 (equivalent to approximately HK\$40,824,000). During the current interim period, a deposit amounting to HK\$12,007,000 was received in relation to the disposal. The transaction has been completed on 6 July 2021.

As at 30 June 2021, the assets and liabilities of Big Youth and 德慶華彩 are presented separately in the condensed consolidated statement of financial position.

13. CREDITORS AND ACCRUED CHARGES

	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Trade creditors	2,584,642	1,888,204
Other creditors and accrued charges	474,274	437,770
	<u>3,058,916</u>	<u>2,325,974</u>

Other creditors and accrued charges mainly consist of payables of acquisition of property, plant and equipment, payables of staff salaries and benefits (including sales commission) and payable of storage and transportation.

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

	30.6.2021 <i>HK\$'000</i> (Unaudited)	31.12.2020 <i>HK\$'000</i> (Audited)
0–3 months	1,859,923	1,331,888
4–6 months	660,832	515,257
Over 6 months	63,887	41,059
	<u>2,584,642</u>	<u>1,888,204</u>

14. SHARE CAPITAL

	Authorised 30.6.2021 & 31.12.2020 <i>HK\$'000</i>
Shares of HK\$0.10 each	<u>80,000</u>

Movements in the issued share capital of the Company during the period are as follows:

	Number of shares <i>'000</i>	Amount <i>HK\$'000</i>
Issued and fully paid:		
At 1 January 2020	564,029	56,403
Share repurchased and cancelled	<u>(7,370)</u>	<u>(737)</u>
At 31 December 2020 and 1 January 2021	556,659	55,666
Share repurchased and cancelled	<u>(2,780)</u>	<u>(278)</u>
At 30 June 2021	<u>553,879</u>	<u>55,388</u>

During the six months ended 30 June 2021, 2,780,000 shares (year ended 31 December 2020: 7,370,000 shares) of the Company repurchased were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the nominal value of these shares cancelled was transferred from retained profits to the capital redemption reserve. The premium payable on repurchase of those shares was charged against the retained profits.

15. ACQUISITION OF SUBSIDIARIES

On 2 January 2020, the Group entered into two agreements to subscribe for RMB1,800,000 paid-up capital 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 transaction, the Group’s equity interest in 河北大麥 increased to 61.0%, and 河北大麥 and its subsidiaries became indirect non-wholly owned subsidiaries of the Company. The acquisition was 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)
	<u>25,311</u>

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 was nil.

Consideration transferred:

	<i>HK\$'000</i>
Cash	<u>24,630</u>

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>33,298</u>

The Group's previously held equity interest in 河北大麥 was remeasured to fair value amounting to HK\$24,108,000 at the acquisition date which was a non-cash transaction.

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 paid-up capital and acquisition of additional interest of 河北大麥, the equity interest in 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 was 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 were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising from this acquisition was 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 six months ended 30 June 2020, loss amounting of HK\$13,598,000 was attributable to the business operation from 河北大麥. Revenue for the six months ended 30 June 2020 included HK\$15,862,000 which was generated from 河北大麥.

Had the acquisition been completed on 1 January 2020, revenue for the six months ended 30 June 2020 of the Group would have been HK\$4,469,446,000, and profit for the six months ended 30 June 2020 of the Group would have been HK\$85,349,000. The pro forma information was for illustrative purposes only and was 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 was it intended to be a projection of future results.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Directors are pleased to declare an interim dividend of HK12 cents per share for the six months ended 30 June 2021 (six months ended 30 June 2020: HK6 cents per share) and a special dividend of HK10 cents per share. The total dividend of HK22 cents per share will be payable in cash with a scrip dividend alternative, thus allowing Shareholders to choose to receive the Group's dividend wholly or partly in the form of allotment of Scrip Shares in lieu of cash under the Scrip Dividend Scheme. The Board after making enquiries in relation to the legality of including Shareholders with registered addresses outside Hong Kong ("Overseas Shareholders") in the Scrip Dividend Scheme may decide that exclusion of certain Overseas Shareholders from the scrip alternative to elect to receive the interim dividend and special dividend wholly or partly by allotment of Scrip Shares credited as fully paid in lieu of cash under the Scrip Dividend Scheme is necessary or expedient. Such Overseas Shareholders would therefore receive the interim dividend and special dividend wholly in cash. The cheques for cash dividend and/or share certificates for the Scrip Shares will be despatched on or about 12 October 2021 to the eligible Shareholders ("Eligible Shareholders") whose names appear on the register of members of the Company (the "Register of Members") on 8 September 2021.

The Scrip Dividend Scheme is subject to the granting of the listing of and permission to deal in the Scrip Shares to be allotted and issued pursuant thereto on the Stock Exchange.

A circular containing details of the Scrip Dividend Scheme together with the relevant form of election will be sent to the Eligible Shareholders on or around 14 September 2021.

CLOSURE OF REGISTER OF MEMBERS

The Hong Kong branch register of members of the Company will be closed from 3 September 2021 to 8 September 2021 (both dates inclusive) for the purpose of determining the entitlements of the members of the Company to the interim dividend and special dividend. No transfer of Shares may be registered during the said period. In order to qualify for the interim dividend and special dividend, all transfer forms accompanied by the relevant share certificates, shall be lodged with the Company's share 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 2 September 2021.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.yipschemical.com>). The 2021 interim report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

(I) DISCLOSEABLE TRANSACTIONS IN DISPOSAL OF INTERESTS IN BIG YOUTH INVESTMENTS LIMITED AND THE ASSIGNMENT OF SALE LOAN AND THE GRANT OF THE PUT OPTION

On 16 July 2021, Yip's H.C. (Holding) Limited (the "Vendor", an indirect wholly-owned subsidiary of the Company) entered into a sale and purchase agreement ("Sale and Purchase Agreement") to dispose the entire issued share capital (the "Sale Shares") of Big Youth Investments Limited (an indirect wholly-owned subsidiary of the Company, "Big Youth") to STRG Holdings III Limited (the "Purchaser") and to take the assignment of the benefit of a sale loan (the "Sale Loan") respectively, for the aggregate consideration of HK\$282,681,616 (subject to consideration adjustment) in cash (the "Disposal").

In consideration of the Purchaser agreeing to enter into the Sale and Purchase Agreement, the Vendor granted to the Purchaser a put option (the "Put Option") to require the Vendor to re-purchase from it all Sale Shares and the benefit of the Sale Loan, if, according to investigation report issued by agreed designated professional advisers, that (i) any of the underground storage tanks was used; and (ii) there is contamination, subject to the right of the Vendor to elect to rectify or remediate such contamination within 6 months from 16 July 2021.

Completion of the Disposal took place on the same date of the Sale and Purchase Agreement. Upon completion of the Disposal, Big Youth had ceased to be a subsidiary of the Company and the financial results thereof would no longer be consolidated into the accounts of the Group. The details of the transaction were disclosed in the Company's announcement dated 16 July 2021.

(II) NON-EXERCISE OF THE PUT OPTION

On 19 August 2021, the Purchaser and the Vendor entered into a deed (the “Deed”) supplemental to the Sale and Purchase Agreement whereby the Purchaser has agreed not to, and waived its right (if any) to, exercise the Put Option and the Vendor has agreed that the Purchaser shall no longer be required to perform its obligations in relation to the Put Option pursuant to the terms of the Sale and Purchase Agreement. No consideration or compensation is payable by the Purchaser or the Vendor under the Deed. Upon execution of the Deed, the Put Option has lapsed or shall be deemed to have lapsed and shall no longer be exercisable with immediate effect. Save as aforesaid, all other terms and conditions of the Sale and Purchase Agreement shall remain unchanged and shall continue to be in full force and effect.

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

Hong Kong, 19 August 2021

The English transliteration of the Chinese name(s) in this announcement, where indicated with “#”, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese names.

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*