CHINA FIRST CHEMICAL HOLDINGS LIMITED

一化控股(中國)有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2121

2011

ANNUAL REPORT

CONTENTS

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of China First Chemical Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

2011 was an important milestone for the development of the Group, as the Company was successfully listed on the main board of the Hong Kong Stock Exchange on 9 December 2011. The listing provided a wider financial platform for the Group's capacity expansion, business development, new product research and sales network expansion, thereby improving our corporate image, branding and market shares, as well as increasing the transparency of integrated corporate governance and market strategy effectiveness within the region. In 2011, the operating results of the Company also successfully maintained the growth that was sustained in the past few years, and allowed the Group to share our success with our shareholders. The Board has recommended a final dividend of HK$6.23 cents per share (RMB5.06 cents), representing a total amount of approximately HK$49.9 million (RMB40.6 million) and a dividend payout ratio of approximately 15% for the year ended 31 December 2011.

Market Review

In line with the strong and steady growth of PRC's economy, the chemical industry has seen continuous and stable expansion in recent years. The Chinese government has continuously promoted the development of the specialty chemical market, though historically the PRC's chemical industry has largely been centered on the manufacturing of basic and commodity chemicals.

In 2011, our three principal product groups: bleaching and disinfectant chemicals, ADC foaming agent and other specialty chemicals, all of which enjoyed varying degrees of increase in revenue compared to the same period in 2010. The rapid growth of the PRC economy has resulted in rising demand of quality consumer goods and standard of living, which has led to a rapid increase and growth of the downstream industries of bleaching and disinfectant chemicals and ADC foaming agent, which in turn created higher demand in the bleaching and disinfectant chemicals and ADC foaming agent market. The Group has reached significant economies of scale, thereby enabling us to enjoy further reduction in production costs, and a leading role in terms of production technologies in the industry. The PRC government has begun to improve and draft the entry standards of related industries, promoting elemental chlorine-free (ECF) production technology in the pulp and paper industries. Chlorine dioxide is gradually used to replace liquid chlorine in the treatment of drinking water in major cities in the PRC. As the domestic automobile, building insulation materials and footwear industries continue their current trend of sustainable growth, the Group as their prime supplier of quality products would benefit directly from the development of these large-scale and high-end industries.

In 2011, the PRC government has focused and implemented tighter regulatory controls on environmental protection and food safety. Furthermore, overseas market also provided significant increase in demand of the bleach and disinfectant chemicals, providing a steady growth for our Company's sales.

Business Review

In 2011, the Group continued to optimize our product mix, expanding existing manufacturing facilities to increase production capacity, exploring and expanding new business opportunities in both domestic and overseas market and consolidating our leading market position.

As 50,000 tons capacity Ion Membrane Caustic Soda Production Line and 100,000 tons capacity of Hydrogen Peroxide Production Line commenced production in 2010, the Group continued to optimize our product mix, modifying integrated resource utilization, further exploring and increasing the new product line capacity through technological advancement, strengthening management and process improvement, so to increase production yield in 2011. Furthermore, the completion of the design and investment of the improved 5,000 tons ADC foaming agent production has increased our annual ADC foaming agent production capacity to 20,000 tons.

In preparation for further expansion opportunities, the Company has approached different companies within the industry for possible future collaborations. The Company sought to expand overseas market by actively searching for and discovering new clients through various channels, as well as frequent discussions with overseas manufacturers on supplies and order issues. Furthermore, the Company held discussions with key Japanese customers to further increase market share and maintain its leading position in the market.

In 2011, the Company also increased its cooperation with relevant research institutes and talent recruitment in the PRC for further promoting the research of high concentration hydrogen peroxide and specialized ADC foaming agents, as well as expanding production capacity through technological advancement.

Financial Review

The Company raised net proceeds of HK$443.4 million (equivalent to RMB361.2 million) from the listing on the Stock Exchange on 9 December 2011, which consolidated our equity base and the Group's interest – bearing debt to equity ratio from approximately 58% as at 31 December 2010, to 34% as at 31 December 2011.

During the year under review, the revenue of the Group was approximately RMB1,524.8 million, representing an increase of approximately RMB313.0 million or 25.8% from the revenue of approximately RMB1,211.8 million for the corresponding period last year. The increase in revenue was mainly attributable to the increase in the sales of bleaching and disinfectant chemicals and ADC foaming agent during the year.

The overall gross margin of the Group increased by 5.8% from 26.5% for the year ended 31 December 2010 to 32.3% for the year ended 31 December 2011. There are three major factors that led to the increase in overall gross margin for our major product groups: 1) optimization of product mix, and production capacity for higher gross margin products was enhanced. The hydrogen peroxide project was completed in December 2010 and the Ion Membrane Caustic Soda Project was completed in November 2010, respectively; 2) the production facilities were upgraded to produce modified ADC foaming agent with higher added value. On the other hand, we ceased the production of PVC products with relatively lower gross margin since May 2010; 3) there was continuous growth in demand from downstream customers driving the corresponding increase in the average selling price.

In the coming year, we will continue to place emphasis in the optimization of product mix and the expansion of production capacities for products with high gross margin, which will mainly focus on the bleaching and disinfectant chemicals and ADC foaming agent. The Group will devote more resources to research and development, and will seek cooperation with leading institutions in the PRC to optimize the production process flow and our technologies. We can then further enhance the quality of our products and enrich our product groups.

Save as those aforementioned, the Group will also commit to optimize our management structure as well as the operation models and the process flow, with an aim to enhance the overall efficiency and cost saving. The Group has formulated a series of plans, including, but not limited to, the increased use of automated monitoring equipment in the production of bleaching and disinfectant chemicals and ADC foaming agent. We will also upgrade energy saving and water saving initiatives for our own hydroelectricity power plant. This will further improve its operation efficiency and lower unit energy consumption level.

Outlook

The successful listing of the Company has imposed higher standards for production operation, internal control and sustainable development on the Group. The new objectives for the development of the Group can only be fulfilled upon capitalizing on our talent and the continuous hard work in the year to come, which will drive the Group to reach new milestones in its history.

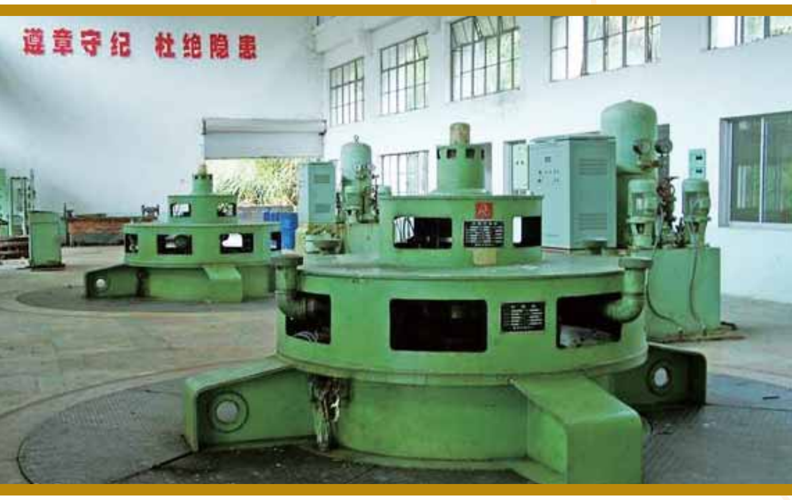
MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue for the year under review was approximately RMB1,524.8 million, representing an increase of approximately RMB313.0 million or 25.8% from approximately RMB1,211.8 million for the corresponding period last year. The increase was mainly attributable to the increase in the sales of bleaching and disinfectant chemicals and ADC foaming agent during the year.

The table below sets out our revenue, sales and average selling price by product groups for the year under review:

	2011		2010	
	Amount	**% of Revenue**	Amount	% of Revenue
Revenue (RMB'000)				
Bleaching and disinfectant chemicals	**568,320**	**37.3%**	417,120	34.4%
ADC foaming agent	**710,456**	**46.6%**	586,139	48.4%
Other specialty chemicals	**246,057**	**16.1%**	208,567	17.2%
Total	**1,524,833**	**100.0%**	1,211,826	100.0%
Sales (tons)				
Bleaching and disinfectant chemicals	**274,543**		186,287	
ADC foaming agent	**40,015**		39,274	
Other specialty chemicals	**55,155**		49,928	
Total	**369,713**		275,489	



	2011		2010	
	Amount	% of Revenue	Amount	% of Revenue
Average selling price (RMB/per ton)				
Bleaching and disinfectant chemicals	2,070		2,239	
ADC foaming agent	17,755		14,924	
Other specialty chemicals	4,461		4,177	

The table below sets out the Group's pro-rated designed production capacity, actual output and utilization rate by product groups for the year under review:

	Pro-rated designed production capacity Tons	Actual output Tons	Utilization rate %
2011:			
Bleaching and disinfectant chemicals	306,667	294,392	96%
ADC foaming agent	16,667	16,786	101%
Other specialty chemicals	133,000	105,622	79%
Total	456,334	416,800	91%

	Pro-rated designed production capacity Tons	Actual output Tons	Utilization rate %
2010:			
Bleaching and disinfectant chemicals	210,833	204,770	97%
ADC foaming agent	15,000	14,762	98%
Other specialty chemicals	117,166	94,862	81%
Total	342,999	314,394	92%

Bleaching and disinfectant chemicals

This segment mainly consists of sodium chlorate and hydrogen peroxide, which are two of our largest sales generating products. Sodium chlorate and hydrogen peroxide are the principal chemicals used in the ECF and TCF pulp bleaching process by our downstream customers, respectively.

As at 31 December 2011 and 31 December 2010, the pro-rated designed production capacity of bleaching and disinfectant chemicals was 306,667 tons and 210,833 tons respectively. In 2011, the annual pro-rated designed production capacity of bleaching and disinfectant chemicals increased by approximately 95,834 tons, which was attributable to the completion production facilities for hydrogen peroxide of 100,000 tons that commenced operation during the year.

During the year under review, the total revenue for the bleaching and disinfectant chemicals was RMB568.3, representing an increase of approximately 36.3% or RMB151.2 million from that in 2010. The increase in revenue was mainly attributable to: (1) the sales of hydrogen peroxide increased by approximately 89.2% to RMB234.6 million due to the production capacity expansion and the strong demand from the downstream customer; and (2) the sales of sodium chlorate increased by approximately 12.8% to RMB295.3 million due to the strong demand from downstream industries, and increasing average selling price by approximately 3.7%.

In 2011, the utilization rate of the Group's bleaching and disinfectant product segment (i.e. actual output to pro-rated designed production capacity) reached 96% (2010: 97%), demonstrating the strong demand from downstream enterprises for the new production capacity of 100,000 tons hydrogen peroxide being utilized.

ADC foaming agent

This segment mainly consists of basic and modified grades of ADC foaming agent. ADC foaming agent is primarily used in the production of foamed plastics as an additive by the downstream customers of the Group, which is widely applied in the footwear industry, building materials industry, automobile upholstery and furniture and home decoration materials industry.

As at 31 December 2011 and 31 December 2010, the pro-rated designed production capacity of ADC foaming agent was 16,667 tons and 15,000 tons respectively. In 2011, the annual pro-rated designed production capacity of ADC foaming agent increased by approximately 1,667 tons, which was attributable to the completion of production facilities for ADC foaming agent of 5,000 tons in September 2011 that commenced operation.

During the year under review, the total revenue for the ADC foaming agent was RMB710.5 million, representing an increase of approximately 21.2% or RMB124.4 million from that in 2010. The increase was mainly attributable to: (1) the quality of our ADC foaming agent has improved upon the upgrade of our production facilities and we began to produce modified grades of ADC foaming agent since the third quarter of 2010; and (2) the average selling price of ADC foaming agent increasing by approximately 19.0% due to the strong demand from downstream industries and the launch of modified grades of ADC foaming agent.

In 2011, the utilization rate of the Group's ADC foaming agent reached 101% (2010: 98%), demonstrating the production facilitates of the Group's ADC foaming agent being overloaded. In order to capitalize on the strong demand of downstream customers from the building materials, automobile decorations and household decoration materials industries, the Group formulated plans to continue its expansion, so that its revenue will increase correspondingly. It is believed that such expansion plan will allow the Group to satisfy the demand from the market for our products, and procure the Group to increase its market share.

Other specialty chemicals

This segment mainly consists of potassium chlorate, sodium perchlorate, potassium perchlorate, caustic soda, biurea and others.

As at 31 December 2011 and 31 December 2010, the pro-rated designed capacity of other specialty chemicals was 133,000 tons and 117,166 tons respectively. In 2011, the annual pro-rated designed capacity of other specialty chemicals increased by approximately 15,834 tons, which was attributable to the completion of ion membrane production facilities for caustic soda of 50,000 tons in November 2011 that commenced operation, and was partially set off by the decrease in the suspension of operation for PVC production in May 2010.

During the year under review, the total revenue for other specialty chemicals was RMB246.1 million, representing an increase of approximately 18.0% or RMB37.5 million from that in 2010. The increase was mainly attributable to: (1) the increase in the production and sales of caustic soda after expanding our production capacity in November 2010; and (2) the average selling price of other specialty chemicals agent increasing by approximately 6.8% due to the strong demand from the downstream industries.

In 2011, the utilization rate of the Group's other specialty chemicals reached 79% (2010: 81%), demonstrating the new ion membrane production facilitates of the Group's other specialty chemicals being absorbed by the strong demand of downstream enterprises.

Cost of sales

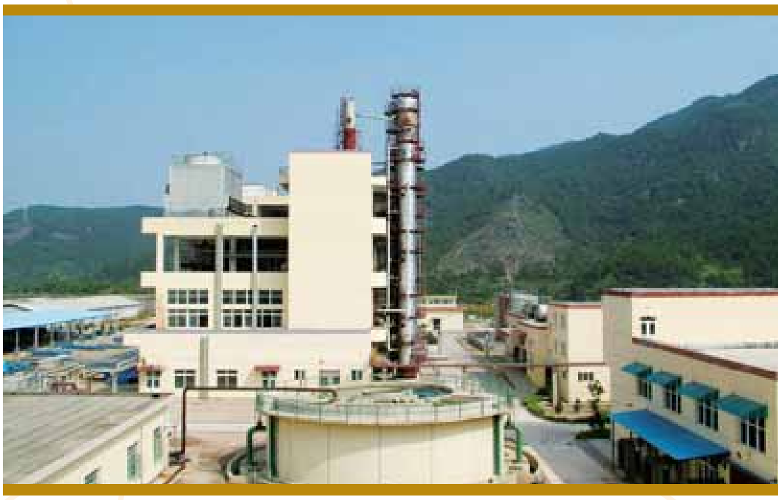
Our cost of sales primarily consists of costs of raw materials, electricity and other energy fees, depreciation of property, plant and equipment, employee benefit expenses, transportation and related charges, repairs and maintenance, business tax and other transaction taxes, office expenses, traveling expenses and other expenses. Raw materials used and changes in inventories, including foaming agent sourced from third parties, is the largest component of our cost of sales, representing 64.8% and 62.2% of our total cost of sales in the year ended 31 December 2011 and 2010, respectively.

During the year under review, our cost of sales increased by approximately RMB141.1 million or 15.8% to RMB1,032.1 million from RMB891.0 million in the corresponding period last year, which was primarily due to the increase in sales volume of both bleaching and disinfectant chemicals and ADC foaming agent. The percentage for cost of sales to revenue fell from 73.5% for the year ended 31 December 2010 to 67.7% for the year ended 31 December 2011 reflecting economies of scale and increase in gross margin.

Gross profit and gross margin

Our gross profit increased by approximately RMB171.9 million or 53.6% to RMB492.7 million for the year under review from RMB320.8 million for the corresponding period last year. The overall gross margin increased from 26.5% in 2010 to 32.3% in 2011, which was primarily due to an increase in the gross margins for each of the major product groups.

The table below sets out our approximately gross margins by product groups for the year under review:



Gross margin (%)	2011	2010	Change
Bleaching and disinfectant chemicals	**40.7%**	36.6%	11.2%
ADC foaming agent	**24.1%**	19.6%	23.0%
Other specialty chemicals	**36.9%**	25.5%	44.7%
Overall	**32.3%**	26.5%	21.9%

Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals increased from 36.6% for the year ended 31 December 2010 to 40.7% for the year ended 31 December 2011, which was primarily attributable to: (1) the production and the sales of hydrogen peroxide (which typically have higher gross profit margin) were increased due to the expansion of production capacity for hydrogen peroxide in December 2010; and (2) the continuous growth in the demand from downstream customers increasing average selling price.

ADC foaming agent

The gross margin of ADC foaming agent increased from 19.6% for the year ended 31 December 2010 to 24.1% for the year ended 31 December 2011, which was primarily attributable to: (1) the production and the sales for modified grades of ADC foaming agent with higher selling prices; (2)

the upgrade of our production facilities and the increase in the usage of self-produced raw materials, for example caustic soda and biurea; and (3) the continuous growth in the demand from downstream customers increasing average selling price.

Other specialty chemicals

The gross margin of other specialty chemicals increased from 25.5% for the year ended 31 December 2010 to 36.9% for the year ended 31 December 2011, which was primarily attributable to: (1) the efficiency in the Ion Membrane Caustic Soda Project that was completed in November 2010 applying the ion membrane method in ramping production capacity was fully realized in 2011, for which caustic soda produced is of higher quality and demanded a higher selling price; (2) we ceased to produce PVC which had a relatively lower gross margin since May 2010; and (3) the continuous growth in the demand from downstream customers increasing average selling price.

Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation and related charges for the transport of our products, sales taxes such as urban maintenance and construction tax, educational surtax, and other selling and marketing expenses including travelling expenses. The selling and marketing expenses of the Group increased by 55.0% to RMB32.4 million for the year ended 31 December 2011 from RMB20.9 million for the year ended 31 December 2010, which was primarily attributable to: (1) increase in the urban maintenance and construction tax, educational surtax and value-added tax payable by foreign-invested enterprise in 2010; (2) the expansion of sales by the Group resulting in higher selling expenses.

Administrative expenses

Administrative expenses primarily consist of depreciation of property, plant and equipment, employee benefit expenses and office and entertainment expenses. The administrative expenses of the Group increased by 41.3% to RMB72.5 million for the year ended 31 December 2011 from RMB51.3 million for the year ended 31 December 2010, which was primarily attributable to the professional fees of RMB16.6 million in relation to the listing of the Company on 9 December 2011.

Other income

Other income primarily consists of profit from sales of raw materials and government subsidies. The other income of the Group increased by 94.7% to RMB3.7 million for the year ended 31 December 2011 from RMB1.9 million for the year ended 31 December 2010, which was primarily attributable to the increase in both the sales of raw materials and government subsidiaries.

Other losses, net

Other losses, net, mainly consists of the net loss from the disposal of property, plant and equipment. The other losses, net of the Group decreased by 77.4% to RMB0.7 million for the year ended 31 December 2011 from RMB3.1 million for the year ended 31 December 2010, which was primarily attributable to the decrease in net losses arising from the disposal of property, plant and equipment.

Finance income

Finance income relates primarily to interest earned on our bank deposits. The finance income of the Group increased by 68.8% to RMB2.7 million for the year ended 31 December 2011 from RMB1.6 million for the year ended 31 December 2010, which was primarily attributable to the increase in interest earned on our bank deposits.

Finance costs

Finance costs primarily consist of interest expenses on bank borrowings, discount interest for bill receivables, other finance charges and foreign exchange losses, less interest capitalized in property, plant and equipment. The finance costs of the Group increased by 36.7% to RMB26.8 million for the year ended 31 December 2011 from RMB19.6 million for the year ended 31 December 2010, which was primarily attributable to the decrease in the interest capitalized in property, plant and equipment, and increase in borrowings during the year.

Income tax expense

The Group is subject to PRC enterprise income tax rate of 25% for all our PRC subsidiaries. The income tax expense of the Group increased by 64.1% to RMB96.3 million for the year ended 31 December 2011 from RMB58.7 million for the year ended 31 December 2010. The effective tax rate increased to 26.2% for the year ended 31 December 2011 from 25.6% for the year ended 31 December 2010 as a result of adjustments for income and expenses items which were not assessable or deductible for income tax purpose.

Profit for the year

As a result of the foregoing factors, the profit attributable to the equity holders of the Company increased by 58.6% to RMB268.2 million for the year ended 31 December 2011 from RMB169.1 million for the year ended 31 December 2010.

Profit attributable to non-controlling interests

The profit attributable to non-controlling interests of the Company increased by 50% to RMB2.4 million for the year ended 31 December 2011 from RMB1.6 million for the year ended 31 December 2010.

Liquidity and capital resources

Financial position and bank borrowings

The Group has historically funded our cash requirements principally from cash generated from our operations and bank borrowings, as well as equity financing through shareholders.

The balance of the Group's cash and cash equivalents amounted to approximately RMB926.1 million (2010:

approximately RMB397.2 million), most of which were denominated in Renminbi. As at 31 December 2011, the interest bearing bank borrowings of the Group amounted to approximately RMB478.6 million (2010: approximately RMB387.9 million). Please refer to note 17 to the consolidated financial statements in this report for the details about borrowings and the related assets pledged.

The Group's current ratio (calculated as current assets divided by current liabilities) was 2.1 (2010: 1.1). The Group was in a net cash position as at 31 December 2011 (2010: gearing ratio of 24%, calculated as net debt divided by total capital). Such significant improvement in our financial position primarily reflected the increase in net profit and cash flow for the year, and taking into account the net proceeds from the listing on the Stock Exchange on 9 December 2011 of HK$443.4 million (equivalent to approximately RMB361.2 million).

Working capital

Inventories were approximately RMB101.1 million in total as at 31 December 2011, as compared with approximately RMB107.5 million as at 31 December 2010. The decrease was primarily due to a decrease in semi-finished goods and finished goods as the Group maintained prudent inventory controls. Average inventory turnover days remained at similar level in 2011 (2011: 36 days; 2010: 34 days).

As at 31 December 2011, trade receivables amounted to approximately RMB336.8 million in total, as compared with approximately RMB257.4 million as at 31 December 2010. The increase was primarily attributable to the increase in the sales during the period by the Group. In 2011, the average trade receivables turnover days were 70 days (2010: 75 days). The decrease in trade receivables turnover days was mainly due to the continuous growth in our sales against the endeavours adopted for prudent control of trade receivables.

As at 31 December 2011, trade and bills payables amounted to approximately RMB236.6 million in total, as compared with approximately RMB221.5 million as at 31 December 2010. The increase was mainly due to the increase in the sales during the period by the Group. In 2011, the average trade and bills payables turnover days were 80 days (2010: 88 days). The decrease in trade and bills payables turnover days was mainly due to the more frequent use of 90 days letter of credit and bills guaranteed by banks in our payment.

Use of net proceeds from the initial public offering

The net proceeds estimated to have been raised by the Company through the issue of 200,000,000 new shares (excluding those new shares to be issued upon the exercise of over-allotment option) at an offer price of HK$2.7 per share upon the listing on the Stock Exchange on 9 December 2011, after deducting brokerage and other costs and expenses payable by the Company, amounted to approximately HK$443.4 million (equivalent to approximately RMB361.2 million). The use of the net proceeds from the initial public offering by the Group was consistently the same as those set out in the section headed "Use of Proceeds" in the prospectus of the Company dated 29 November 2011.

For the year ended 31 December 2011, the net proceeds were applied in the following manner:

	Net proceeds from initial public offering (HK$ million)		
Use of proceeds	**Available**	**Applied**	**Not yet applied**
To be used for the upgrade and expansion of existing production facilities	288.2	66.3	221.9
To be used in merger and acquisition	110.9	–	110.9
To be used for general working capital	44.3	44.3	–
Total	443.4	110.6	332.8

To the extent that the net proceeds were not yet applied as at 31 December 2011, the Company had deposited the same into short term bank deposits or term deposits at licensed banks in Hong Kong or the PRC.

Capital commitments

As at 31 December 2011, the capital commitments of the Group were approximately RMB6.0 million, which were mainly related to the construction of additional production lines and the purchases of equipment for the upgrade of existing production facilities.

Contingent liabilities

As at 31 December 2011, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

Employees and Remuneration Policy

As at 31 December 2011, the Group employed a total of 1,295 full time employees. For the year ended 31 December 2011, the employee benefit expense was approximately RMB59.5 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

Outlook

The economy in the PRC is expected to maintain its growth momentum in the foreseeable future. The PRC government is gradually lifting the entry barriers on the relevant industries, and is imposing the elemental chlorine free production process in the pulp and paper industries. Chlorine dioxide is gradually replacing chlorine and applied in the treatment of drinking water at large and medium-sized cities in the PRC. The automobile industry, building insulation materials industry and footwear industry in the PRC have sustained their rapid development. Under the premises of the above market environment, it is expected that the demand for the Group's products will continue to increase.

In 2012, the Group will continue to increase its production capacity, expand its product segments and improve its quality and operation efficiency, so as to capitalize from the ongoing momentum in the growth of businesses in environmentally friendly bleaching and disinfectant chemicals and ADC foaming agents. We will continue to rank ahead of its peers and maintain our leading position in the market with growth in business and profitability.

Increase of production capacity

It is expected by the Group that the projects for 50,000 tons of sodium chlorate and its complementary 100,000 tons of hydrogen peroxide as well as 20,000 tons of specialized ADC foaming agents will commence its construction during the year. For the time being, these projects are still in their respective preparation stages.

Expansion of product segments and improvement of qualities

The Group will devote more resources to consolidate the competencies of its research and development team, and will seek cooperation with first class institutions in the PRC to improve the production process flow and our technologies. We can then further enhance the qualities and added value of our products and enrich our product segments. The Group plans to keep the investment in research and development and increase such investment from time to time so as to improve the standards of production technologies. This will enhance the qualities of existing products, and place the emphasis on higher value added products such as specialized ADC foaming agent and high-concentration hydrogen peroxide.

Bolstering of operating efficiency

The Group has formulated a series of plans, so as to rationalize the management structure, operation model and process flow, with an aim to enhance overall efficiency and lower energy consumption. The Group will further improve our operation efficiency and lower the energy consumption level in units through, including, but not limited to, the increased use of automated monitoring equipment in the production of bleaching and disinfectant chemicals and ADC foaming agent, and upgrading our energy saving and water saving initiatives for our own hydroelectric power plant.

Going forward, the Group will continue to benefit from the macro-economic environment and our strategies property formulated, including increase of production capacity, expansion of product segments and improvement of qualities as well as bolstering of operating efficiency. We will use our best endeavours to create value for our shareholders and investors.

DIRECTORS AND SENIOR MANAGEMENT

Biographies of Directors

Chairman and non-executive Director

Mr. Liem Djiang Hwa (林強華), aged 57, has been a non-executive Director and chairman of our Company since June 10, 2011. Mr. Liem is the elder brother of Mr. Lam Wai Wah, an executive Director. Mr. Liem has five years of experience in the chemicals industry and has been involved in corporate management and investments. Prior to establishing the Group, Mr. Liem had been involved in his family business in Indonesia spanning across industries such as food and beverages, building and construction, and horticulture since 1974. In the early 1980's, Mr. Liem set up businesses in Indonesia involving plastic goods manufacturing and jewelleries. In 1998, Mr. Liem began to engage in trading business. In 2003, Mr. Liem went to the PRC to begin his investment and trading business in textiles and lumber, which was subsequently sold in 2004. Between 2005 and 2009, he acquired Fujian Rongping, Fujian Rongchang and Fuzhou Yihua.

Executive Directors

Mr. Chen Hong (陳洪), aged 47, has been an executive Director since June 10, 2011. He is responsible for the corporate and strategic development of the Group. Mr. Chen has more than 20 years of experience in the chemicals industry. He joined the Group in 1988. Mr. Chen is also the vice president of China Inorganic Salt Industry Association (中國無機鹽工業協會) and president of the Chlorate Salt Sub-Division of China Inorganic Salt Industry Association (中國無機鹽工業協會氯酸鹽分會). Mr. Chen obtained a bachelor's degree in economics from Tianjin University of Commerce (天津商學院) in July 1988.

Ms. Miao Fei (繆妃), aged 38, has been an executive Director since June 10, 2011. Ms. Miao has more than 14 years of experience in human resources and operations management. She joined the Group in 2005 as administrative director. Ms. Miao is currently the vice president of our Company with a focus on human resources management. From 1996 to 2005, Ms. Miao worked for a number of private companies where she was responsible for human resources and operations management.

Mr. Lam Wai Wah (林維華), aged 55, has been an executive Director since June 10, 2011. He is responsible for the Group's marketing and business development. He is also the marketing director of our Company. Mr. Lam joined the Group in 2006 as director of Fujian Rongping. Mr. Lam is the younger brother of Mr. Liem Djiang Hwa. He has more than 20 years of experience in international trade and sales in Hong Kong and other regions. From 1986 to 2001, he was involved in the management of companies in the textiles and manufacturing industries. From 2001 to 2006, he served as the general manager of Sino Bright International Enterprise Ltd. (香港耀華國際企業有限公司), a trading company in Hong Kong, involving in trading, including the export of electrical appliances and lumber.

Independent Non-executive Directors

Mr. Chen Xiao (陳曉), age 49, has been an independent non – executive Director since June 10, 2011. Currently, Mr. Chen is a professor, head of the Department of Accounting at the School of Economics and Management of Tsinghua University (清華大學), where from December 2003 to July 2006 he was a lecturer teaching courses such as advanced management accounting, financial statements analysis, accounting for business decisions and business valuation. Since June 2007, Mr. Chen has been acting as an independent non-executive director and the chairman of the audit committee of Noah Education Holdings Ltd. (stock code: NED), a company listed on the New York Stock Exchange and since December 2008. While serving at the company, Mr. Chen is responsible for review of the financial budgets and financial statements of these companies in order to make various business decisions. Mr. Chen served as an independent director of four listed companies in the Shenzhen Stock Exchange, namely Norinco International Cooperation Ltd. (北方國際合作股份有限公司)(stock code:000065), Hunan Chenzhou Mining Group Co., Ltd. (湖南辰州礦業股份有限公司)(stock code:002155), Invengo Information Technology Co., Ltd (深圳市遠望穀資訊技術股份有限公司) (stock code:002161), and Hanvon Technology Co., Ltd. (漢王科技股份有限公司) (stock code:002362), from April 2002 to June 2008, from May 2006 to April 2009, from December 2004 to December 2011, respectively. Mr. Chen was also an independent director of Henan

Huanghe Whirlwind Co., Ltd. (河南黃河旋風股份有限公司) (stock code:600172) from May 2002 to May 2005, a company listed on the Shanghai Stock Exchange. Mr. Chen obtained a bachelor's degree in chemical engineering and machinery from Wuhan Institute of Technology (武漢工程大學) in 1983. Mr. Chen then obtained a master's degree in management from University of Science and Technology of China (中國科學技術大學) in 1989 and a doctorate degree in economics from Tulane University respectively in 1996. Mr. Chen is experienced in accounting and has published a number of articles in both domestic and international academic accounting journals covering topics such as financial accounting, corporate governance and taxation. Mr. Chen is also a director of the Accounting Society of China and Tax Society of China and has given numerous seminars on analysis of financial statements and accounting treatments.

Mr. Kou Huizhong (寇會忠), aged 44, has been an independent non-executive Director since June 10, 2011. Mr. Kou is currently a professor in the Department of Chemistry at Tsinghua University and has held such position since 2007. He was a lecturer and an associate professor at the Department of Chemistry, Tsinghua University, from 2001 to 2002 and 2002 to 2007, respectively. Mr. Kou obtained a bachelor's degree in 1990 and a doctorate degree in 1999 from Nankai University (南開大學) in 1990 and 1999, respectively. Mr. Kou then conducted his post-doctoral research in Peking University (北京大學). From 2004 to 2005, he was a special fellow of the Japanese Society for the Promotion of Science. Mr. Kou focuses his research on structural chemistry and multifunctional materials. Mr. Kou was awarded the Youth Chemical Prize (青年化學獎) from Chinese Chemical Society (中國化學會) in 2002 and Good Teachers and Helpful Friends Prize for graduate students from Tsinghua University in 2004.

Mr. Li Junfa (李君發), aged 49, has been an independent non-executive Director since June 10, 2011. Mr. Li has more than 27 years of experience in the petroleum and chemical engineering industry. Mr. Li is currently the chief engineer of China National Petroleum and Chemical planning Institute (石油和化學工業規劃院) (formerly, Chemical Planning Institute of the Ministry of Chemical Industry (化學部規劃院)) ("NPCPI") and an independent director of Shangdong Hualu-Hengsheng Chemical Co., Ltd. (山東華魯恒升化工股份有限公司)(stock code:600426), a company listed on the Shanghai Stock Exchange, and Yunnan Salt & Chemical Industry Co., Ltd. (雲南鹽化股份有限公司) (stock code:002053), a company listed on the Shenzhen Stock Exchange. From 1983 to 1998, Mr. Li worked for China Hualu Chemical Engineering Co., Ltd. (中國華陸化學工程公司) (formerly, the Sixth Design Institute of the Ministry of Chemical Industry (化工部第六設計院) where he was responsible for engineering design and technology development work. Mr. Li joined NPCPI in 1998, and he has been, and is currently, the chief engineer since 2007. Mr. Li has published numerous articles and received various awards in the petroleum and chemical engineering industry. Mr. Li received his bachelor's degree in fundamental organic chemical engineering at Qingdao Science and Technology University (青島科技大學) (formerly Shangdong Chemical Engineering College (山東化工學院)) in 1983 and participated in a training program on economics and management for senior managers at the School of Economics and Management, Tsinghua University, from 2001 to 2002. Mr. Li was qualified as professional-level senior engineer and registered chemical engineer in 2003 and 2004, respectively.

SENIOR MANAGEMENT

Please refer to "Directors, Senior Management and Employees – Board of Directors" in this section for the biographies of Mr. Chen Hong, Ms. Miao Fei and Mr. Lam Wai Wah.

Mr. Zhang Heng (張亨), aged 36, is the chief financial officer of our Company. He is mainly responsible for overseeing our Group's corporate investments and investor relations of our Group. Mr. Zhang has over 12 years of experience in the financial industry. Prior to joining our Group, Mr. Zhang worked for Industrial and Commercial Bank of China Limited (Head Office), a company listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange, Bank of China (Singapore Branch), a company listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange, and Sea Rainbow Holding Corp. (海虹企業（控股）股份有限公司), a company listed on the Shenzhen Stock Exchange. Mr. Zhang obtained a bachelor's degree in economics from University of International Business and Economics (對外經濟貿易大學) in July 1997 and a master's degree in business administration from National University of Singapore in July 2002. Mr. Zhang is a chartered financial analyst of the CFA Institute.

Mr. Tan Boon Chek, aged 34, is the finance director of our Company, responsible for handling corporate finance matters. He joined our Group in 2009. Mr. Tan has experience in accounting and finance. Prior to joining our Group, he worked for several international accounting firms, serving such positions as senior accountant at Baker Tilly in Singapore from 2002 to 2004, assistant audit manager at Ernst & Young LLP in Singapore from 2005 to 2006, and audit manager at Ernst & Young Hua Ming, CPA, in the PRC from 2006 to 2009. Mr. Tan graduated from University of Adelaide, Australia with a bachelor's degree in commerce (accounting) in December 1999. Mr. Tan is a CPA member of the Institute of Certified Public Accountants of Singapore and a CPA member of the CPA Australia. Mr. Tan is currently taking the executive master of business administration program at Nanyang Technological University, Singapore.

Mr. Chen Li (陳力), aged 44, is the director and general manager of Fuzhou Yihua. Mr. Chen has more than 20 years of experience in the chemical industry. Mr. Chen joined our Group in 1987 and has served on various positions within our Group, such as factory sub-chief of Fujian Rongping from 1998 to 2002, where he supervised facilities and supply management. He was executive vice general manager of Fuzhou Yihua from 2002 to 2006, where he managed the daily operations at Fuzhou Yihua. Since 2007, Mr. Chen was director and general manager of Fuzhou Yihua, overseeing its production and operational activities. Mr. Chen graduated from Fuzhou Gongren Yeyu University (福州市工人業餘大學) in 1991. He is also an assistant engineer.

Mr. Zhou Yi (周沂), aged 52, is the director and executive vice general manager of Fuzhou Yihua. Mr. Zhou has more than 28 years of experience in the chemical industry. Prior to joining our Group, Mr. Zhou worked at the Ministry of Light Industry (Changlu Bureau). He joined our Group in 1985 and served as director of production and technology department of Fuzhou Yihua from 1997 to 1999, where he led the research and development activities of Fuzhou Yihua. From 1999 to 2006, Mr. Zhou was the leader of various chemical production projects. From 2006 to 2009, he was vice manager of Fuzhou Yihua, where he supervised activities spanning from production and daily operations to quality assurance and property management. Since 2010, Mr. Zhou has been the vice general manager of Fuzhou Yihua. Mr. Zhou obtained a bachelor's degree in engineering from East China University of Science Technology (華東理工大學) in July 1982. In December 2004, Mr. Zhou was awarded the title of "Senior Engineer" (高級工程師) by the Fujian Province Personnel Affairs Bureau, a provincial government authority responsible for employment and personnel matters, recognizing his achievements and knowledge in the industry.

Mr. He Zhong (何中), aged 44, is the director and general manager of Fujian Rongping. He has more than 20 years of experience in the chemical industry. Mr. He joined our Group in 1989 and has served on various positions within our Group, including director of production and technology department of Fuzhou Yihua from 1998 to 2002, where he led the research and development activities of Fuzhou Yihua. He was also executive vice general manager of Fujian Rongping from 2002 to 2008, managing technology and operational systems. Since 2008, Mr. He has been the director and general manager of Fujian Rongping and is in charge of business development and corporate management. Mr. He graduated from Fuzhou Teachers College (福州師範專科學院) in 1989.

Mr. Chen Tianzhen (陳天震), aged 48, is the director and executive vice general manager of Fujian Rongping. Mr. Chen joined our Group in 1985 and was deputy director of the equipment department of Fuzhou Yihua from 1989 to 1995, where he was in charge of managing chemical production facilities. He was vice general manager of Fujian Rongping since 2002, where he managed production facilities and daily operational activities of Fujian Rongping. Mr. Chen obtained a bachelor's degree in chemical engineering and machinery from Fuzhou University (福州大學) in 1985.

Mr. Wei Gang (魏剛), aged 55, is the director and general manager of Fujian Rongchang. Mr. Wei joined Fujian Rongchang in 1981 and was director of the production department from 1995 to 2006, where he supervised chemical production processes. He has been the general manager of Fujian Rongchang since2007, in charge of chemical production systems and product development. Mr. Wei obtained a certificate in inorganic chemical engineering from Jianyang District Industrial Diploma Program (建陽地區工業大專班) in 1981. In December 2003, Mr. Wei was awarded the title of "Senior Engineer" (高級工程師) by the Fujian Province Personnel Affairs Bureau, a provincial government authority responsible for employment and personnel matters, recognizing his achievements and knowledge in the industry.

Mr. Lin Guigui (林桂貴), aged 48, is the director and executive vice general manager of Fujian Rongchang. Mr. Lin has more than 22 years of experience in the chemical production industry. Mr. Lin joined our Group in 1988 and was general manager of Fuzhou Yihua from 2001 to 2005. From 2006 to 2007, Mr. Lin was vice general manager of Fujian Rongchang, where he managed production systems and led technical research activities. Mr. Lin obtained a bachelor's degree in engineering from Fuzhou University (福州大學) in 1988. Mr. Lin is also a senior chemical engineer. In December 2004, Mr. Lin was awarded the title of "Senior Engineer" (高級工程師) by the Fujian Province Personnel Affairs Bureau, a provincial government authority responsible for employment and personnel matters, recognizing his achievements and knowledge in the industry.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Group strives to maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Group's corporate governance principles emphasize the importance of a quality Board, effective internal controls and accountability to shareholders.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance.

In the opinion of the directors, the Company has complied with the code provisions as set out in the CG Code since the listing of the shares of the Company on the Main Board of the Stock Exchange on 9 December 2011 (the "Listing Date") and up to the date of this annual report, save for those otherwise as stated and explained in the relevant paragraphs of this Report.

The Company will continue to review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

The Board/Board of Directors

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Delegation of Management Functions

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

Board Composition

The Board currently comprises seven members, consisting of three executive directors, one non-executive directors and three independent non-executive directors.

The list of all directors, which also specifies the posts, e.g. of Chairman and/or CEO, and chairman and member of committees, held by each director set out under "Corporate Information" on page 87. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Board of the Company comprises the following directors:

Executive directors:
Mr. Chen Hong *(Chief Executive Officer)*
Ms. Miao Fei
Mr. Lam Wai Wah

Non-executive directors:
Mr. Liem Djiang Hwa *(Chairman)*

Independent non-executive directors:
Mr. Chen Xiao
Mr. Kou Huizhong
Mr. Li Junfa

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules.

Mr. Lam Wai Wah is the younger brother of Mr. Liem Djiang Hwa. Save as disclosed, members of the Board are unrelated to one another.

Since the Listing Date and up to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All directors, including non-executive directors and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors have been invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Appointment and Re-Election of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing Board composition, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Each of the executive directors of the Company is engaged on a service contract for a term of 3 years with effect from 9 December 2011, which may be terminated by not less than 1 month's notice in writing served by either party.

Each of the non-executive directors and independent non-executive directors has signed an appointment letter with the Company for a term of 3 years with effect from 9 December 2011.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first annual general meeting after appointment.

Induction and Continuing Development of Directors

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged where necessary.

Board Meetings

Board Practices and Conduct of Meetings

Notice of regular Board meetings is served to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Agenda and board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management where necessary.

The senior management attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The board secretary and the company secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and final versions are open for directors' inspection.

The Company's Articles of Association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

Number of Meetings and Directors' Attendance

During the period from the Listing Date to 31 December 2011, no meeting of the Board was held.

Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The positions of Chairman and Chief Executive Officer are held by Mr. Liem Djiang Hwa and Mr. Chen Hong respectively. Their respective responsibilities are clearly defined.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board.

Board Committees

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors.

Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Li Junfa (chairman of the Committee), Mr. Kou Huizhong and Mr. Lam Wai Wah, the majority of which are independent non-executive directors.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations to the Board regarding any proposed changes
- To develop and formulate relevant procedures for nomination and appointment of directors
- To identify suitable candidates for appointment as directors
- To make recommendations to the Board on appointment or re-appointment of and succession planning for directors
- To assess the independence of independent non-executive directors

During the period from the Listing Date to 31 December 2011, no meeting of the Nomination Committee was held because the Committee members have been only appointed since 10 June 2011 and it was not necessary to review the size and composition of the Board or identify any new Board member for the period from the Listing Date to 31 December 2011. From 2012 onward, the Nomination Committee will conduct meeting at least once a year.

In accordance with the Company's Articles of Association, Mr. Chen Hong, Ms. Miao Fei and Mr. Lam Wai Wah shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 26 April 2012 contains detailed information of the directors standing for re-election.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Kou Huizhong (chairman of the Committee), Mr. Chen Xiao and Ms. Miao Fei, the majority of which are independent non-executive directors.

The primary objectives functions of the Remuneration Committee include making recommendations on the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

During the period from the Listing Date to 31 December 2011, no meeting of the Remuneration Committee was held because the Committee members have been only appointed since 10 June 2011. From 2012 onward, the Remuneration Committee will conduct meeting at least once a year.

Audit Committee

The Audit Committee comprises all the independent non-executive directors, namely Mr. Chen Xiao (chairman of the Committee), Mr. Li Junfa and Mr. Kou Huizhong (including one independent non-executive director with the appropriate professional qualifications). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal auditor or external auditors before submission to the Board
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures

During the period from the Listing Date to 31 December 2011, no meeting of the Audit Committee was held because the Committee members have been only appointed since 10 June 2011. From 2012 onward, the Audit Committee will conduct meeting at least twice a year.

The Company's annual reports for the year ended 31 December 2011 have been reviewed by the Audit Committee.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code since the Listing Date and up to 31 December 2011.

No incident of non-compliance of the Model Code by the employees was noted by the Company.

Directors' Responsibilities for Financial Reporting in Respect of the Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The Management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on page 28.

During the year ended 31 December 2011, the professional fees paid or payable to the independent auditors, PricewaterhouseCoopers, for services rendered are set out below:

	RMB'000
Statutory audit	
– 2011 annual results	2,200
Non-audit services	
– Initial public offering	6,900
	9,100

The independence of the external auditors is monitored by the Audit Committee which is also responsible for making recommendations to the Board on the appointment of the external auditor as well as approving their terms of engagement and remuneration.

Internal Controls

The Board has conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such on an annual basis.

The Audit Committee oversees the internal control system of the Group and reports to the Board on any material issues and makes recommendations.

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at http://www.chinafirstchemical.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

The general meetings of the Company provide a forum an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are normally available to attend the annual general meeting and other relevant shareholder meetings to answer questions at shareholder meetings.

The 2012 Annual General Meeting ("AGM") will be held on 31 May 2012. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

Shareholder Rights

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

REPORT OF THE DIRECTORS

The directors are pleased to present to shareholders their report and the audited financial statements of the Group for the year ended 31 December 2011.

Principal activities

The Company is an investment holding company. Principal activities of its subsidiaries are set out in note 1 to the financial statements.

Result

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 32.

Four year financial summary

A summary of the results and of the assets and liabilities of the Group for the latest four financial years is set out on pages 85 and 86 of this annual report.

Dividend

The Board has not recommended the payment of any interim dividend for the six months ended 30 June 2011.

The Board recommends the payment of a final dividend of HK$6.23 cents per share (equivalent to RMB5.06 cents, tax inclusive), amounted to total dividends of HK$49.9 million (equivalent to RMB40.6 million) in respect of the year ended 31 December 2011, and the payout ratio is 15%.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about Friday, 29 June 2012 to the shareholders whose names appear on the register of members of the Company at 4:30 p.m. on Friday, 8 June 2012.

Closure of Register of Members

In order to determine the entitlements of the shareholders to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 29 May 2012 to Thursday, 31 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all share transfers, being accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 28 May 2012. Also, in order to determine the entitlements of shareholders of receiving the proposed final dividend, the register of members of the Company will be closed on Thursday, 7 June 2012 and Friday, 8 June 2012, during these two days no transfer of Shares will be registered. In order to be eligible of receiving the proposed final dividend, all share transfers, being accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 6 June 2012.

Reserves

Details of movements in the reserves are set out in the consolidated statement of changes in equity on page 33 and Note 16 to the financial statements.

Distributable reserves

The Company's reserves available for distribution to shareholders at the end of the reporting period amounted to RMB565.9 million (2010: RMB326.3 million).

Property, plant and equipment

Details of movements in the property, plant and equipment of the Group are set out in Note 7 to the financial statements.

Borrowings

Details of the borrowings of the Group are set out in Note 17 to the financial statements.

Share capital

Details of movements in the share capital of the Company are set out in Note 15 to the financial statements.

Purchase, Sale and Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Directors

The directors of the Company during the year and up to the date of this report were:

Chairman and non-executive director:

Mr. Liem Djiang Hwa

Executive directors:

Mr. Chen Hong
Ms. Miao Fei
Mr. Lam Wai Wah

Independent non-executive directors:

Mr. Chen Xiao
Mr. Kou Huizhong
Mr. Li Junfa

In accordance with Article 16.18 of the Articles of Association of the Company, Mr. Chen Hong, Ms. Miao Fei and Mr. Lam Wai Wah will retire at the forthcoming annual general meeting of the Company, and, being eligible, offers themselves for re-election.

Biographical information of directors and senior management

The biographical information of directors and senior management of the Company is disclosed in the annual report of the Company.

Remuneration of directors

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board of the Company with reference to the Directors' duties, responsibilities and performance and the results of the Group.

Directors' service contracts

Each of the executive Directors namely, Mr. Chen Hong, Mr. Lam Wai Wah, and Ms. Miao Fei, has entered into a service contract with the Company for a term of three years since the Listing Date and is subject to termination by either party giving not less than one month's written notice.

The Chairman and non-executive Directors namely, Mr. Liem Djiang Hwa, has entered into a service contract with the Company for a term of three years since the Listing Date and is subject to termination by either party giving not less than one month's written notice.

Each of the independent non-executive Directors, namely Mr. Chen Xiao, Mr. Kou Huizhong, and Mr. Li Junfa, has been appointed for a term of three years since the Listing Date and is subject to termination by either party giving not less than three months' written notice.

No Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts of significance

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the reporting period.

Directors' rights to acquire shares or debentures

At no time during the year was rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

Directors' interests in securities

As at 31 December 2011, the interests and short positions of the directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register required to be maintained by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(I) Long position and short position in the shares and underlying shares of the Company

Name of directors	Long position/ Short position	Nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital	Note
Liem Djiang Hwa	Long position	Interests in controlled corporation	419,949,888	52.35%	(1)
Chen Hong	Long position	Beneficial owner	4,000,000	0.50%	(2)
Miao Fei	Long position	Beneficial owner	4,000,000	0.50%	(2)
Lam Wai Wah	Long position	Beneficial owner	4,000,000	0.50%	(2)
Chen Xiao	Long position	Beneficial owner	800,000	0.10%	(2)
Kou Huizhong	Long position	Beneficial owner	400,000	0.05%	(2)
Li Junfa	Long position	Beneficial owner	400,000	0.05%	(2)

(II) Long positions in the shares of associated corporations

Name of directors	Name of associated corporations	Relationship with the Company	Nature of interest	Number of shares held in associated corporations	Percentage of issued share capital in associated corporations
Liem Djiang Hwa	China First Chemical Ltd.	The Company's holding corporation	Interests in controlled corporation	43,492,810	62.14%
Lam Wai Wah	China First Chemical Ltd.	The Company's holding corporation	Interests in controlled corporation	6,999,165	10.00%

Notes:

(1) Mr. Liem Djiang Hwa is indirectly interested in the Company through Yihua Crown Limited, which in turn is indirectly interested in our Company through China First Chemical Ltd.

(2) The Company granted such options pursuant to the Pre-IPO Share Option Scheme.

Save as those disclosed above, as at 31 December 2011, the directors and chief executive of the Company did not have any interests or short positions in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or were required, pursuant to section 352 of the SFO, to be entered in the register required to be maintained by the Company; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Interests of substantial shareholders

As at 31 December 2011, the following persons had an interest or short position in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interest in 5% or more of the issued share capital of the Company:

Long position or short position in the shares of the Company

Name of shareholders	Nature of interest	Number of shares	Percentage of issued share capital
Mr. Liem Djiang Hwa	Interests in controlled corporation	419,949,888	52.35%[(1)]
Yihua Crown Limited	Interests in controlled corporation	419,949,888	52.35%[(1)]
China First Chemical Ltd.	Beneficial owner	419,949,888	52.35%
China Renaissance Capital Investment II GP	Interests in controlled corporation	180,050,112	22.44%[(2)]
China Renaissance Capital Investment II, L.P	Interests in controlled corporation	180,050,112	22.44%[(3)]
China Harvest Fund II, L.P	Interests in controlled corporation	180,050,112	22.44%[(4)]
Trophy Group Limited	Beneficial owner	180,050,112	22.44%

Notes:

(1) Mr. Liem Djiang Hwa is indirectly interested in the Company through Yihua Crown Limited, which in turn is indirectly interested in our Company through China First Chemical Ltd.

(2) China Renaissance Capital Investment II GP is the general partner of China Renaissance Capital Investment II, L.P. pursuant to a partnership agreement.

(3) China Renaissance Capital Investment II, L.P. is the general partner of China Harvest Fund II, L.P..

(4) China Harvest Fund II, L.P. is the sole shareholder of Trophy Group.

Save as those disclosed above, as at 31 December 2011, the directors of the Company were not aware of any persons (not being a director or chief executive of the Company) having an interest or short position in the shares or underlying shares in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO.

Major customers and suppliers

The percentages of sales and purchases attributable to the Group's major customers and suppliers respectively during the year are as follows:

	2011	2010
As a percentage of the Group's total sales		
The largest customer	**7.6%**	5.8%
Five largest customers in aggregate	**24.9%**	24.2%
As a percentage of Group's total purchases		
The largest supplier	**24.7%**	31.7%
Five largest suppliers in aggregate	**67.0%**	62.9%

None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers during the year ended 31 December 2011.

Share option scheme

The Company operates a share option scheme (the "Share Option Scheme"), which was adopted on 10 June 2011 and 12 June 2011, respectively (the "Adoption Date"), for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date.

Eligible participants of the Share Option Scheme include the following:

(i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

(ii) any Directors (Including non-executive directors and independent non-executive directors) of the Company and its subsidiaries;

(iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries.

As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme is 80,000,000, representing approximately 10% of the issued share capital of the Company as at the date of this annual report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). In addition, where any grant of share options to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, would result in the Shares already granted and to be granted (including options exercised, cancelled and outstanding) to such person in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, in a 12-month period up to and including the date of grant, such grant of share options are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price for Shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:

(i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheers on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or

(iii) the nominal value of a Share.

Since the Adoption Date and up to 31 December 2011, no share option has been granted by the Company.

Pre-IPO share option scheme

The Company operates a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"), which was adopted on 10 June 2011 and 12 June 2011, respectively (the "Adoption Date"), for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. Unless otherwise cancelled or amended, the Pre-IPO Share Option Scheme will remain in force for 3 years from the IPO Date.

Eligible participants of the Pre-IPO Share Option Scheme include the following:

(i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

(ii) any Directors (Including non-executive directors and independent non-executive directors) of the Company and its subsidiaries;

As at the date of this annual report, the total number of Shares available for issue under the Pre-IPO Share Option Scheme is 16,000,000, representing approximately 2% of the issued share capital of the Company as at the date of this annual report. The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 16,000,000 Shares.

HK$1 is payable by the grantee to the Company on acceptance of the options granted under the Pre-IPO Share Option Scheme. The grantees to whom an option has been granted under the Pre-IPO Share Option Scheme will be entitled to exercise his/her option in the following manner:

(i) up to 30% of the Shares that are subject to the option so granted to him/her at any time during the period commencing from the Listing Date and ending on the expiry of one year thereafter;

(ii) up to 60% of the Shares that are subject to the option so granted to him/her but less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing from the Listing Date and ending on the expiry of two years thereafter; and

(iii) the remaining Shares that are subject to the option so granted to him/her but less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing from the Listing Date and ending on the expiry of three years thereafter.

The subscription price for Shares under the Share Option Scheme is equivalent to HK$2.7 (the IPO's Offer Price).

Since the Adoption Date and up to 31 December 2011, 16,000,000 options under the Pre-IPO Share Option Scheme have been granted by the Company, but not exercised, lapsed or cancelled.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Material related party transactions

A summary of the related parties transactions entered into by the Group during the year ended 31 December 2011 is set out in Note 33 to the financial statements.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions entered into by the Group during the year ended 31 December 2011.

Continuing connected transactions

During the year ended 31 December 2011 and up to the date of this report, the Group has not conducted any transaction which constituted continuing connected transactions for the Company under the Listing Rules.

Sufficiency of public float

According to publicly available information of the Company and as far as the Directors were aware, as at the date of this report, there was a sufficient public float of the Company's issued shares as required under the Listing Rules.

Annual Confirmation of Independence

The Company has received from each independent non-executive director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in rule 3.13 of the Listing Rules.

Auditors

The Company has appointed PricewaterhouseCoopers as auditors since the listing of the Company on the Main Board of the Hong Kong Stock Exchange on 9 December 2011. The financial statements in the annual report for the year have been audited by PricewaterhouseCoopers. A resolution will be submitted at the annual general meeting of the Company to re-appoint PricewaterhouseCoopers as auditor of the Company.

By order of the Board

Mr. Liem Djiang Hwa
Chairman
The People's Republic of China, 26 April 2012

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

The Shareholders
China First Chemical Holdings Limited

Dear Sirs,

We have audited the consolidated financial statements of China First Chemical Holdings Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 30 to 84, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2012

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2011** **RMB'000**	 2010 RMB'000
ASSETS			
Non-current assets			
Land use rights	*6*	**77,331**	79,095
Property, plant & equipment	*7*	**773,606**	710,654
Intangible assets	*8*	**–**	–
Available-for-sale financial assets	*9*	**–**	–
Deferred income tax assets	*10*	**170**	370
Other non-current assets		**1,834**	268
		852,941	790,387
Current assets			
Inventories	*11*	**101,056**	107,527
Trade and other receivables	*12*	**341,963**	269,910
Restricted cash	*13*	**37,692**	30,895
Cash and cash equivalents	*14*	**926,148**	397,231
		1,406,859	805,563
Total Assets		**2,259,800**	1,595,950
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*15*	**65,168**	–
Reserves	*16*	**784,936**	334,471
Retained earnings		**565,854**	326,348
		1,415,958	660,819
Non-controlling interests		**10,402**	8,047
Total equity		**1,426,360**	668,866
Liabilities			
Non-current liabilities			
Borrowings	*17*	**137,310**	154,270
Deferred income	*19*	**14,743**	9,291
		152,053	163,561
Current liabilities			
Trade and other payables	*18*	**310,732**	507,493
Current income tax liabilities		**29,319**	22,450
Borrowings	*17*	**341,336**	233,580
		681,387	763,523
Total liabilities		**833,440**	927,084
Total equity and liabilities		**2,259,800**	1,595,950
Net current assets		**725,472**	42,040
Total assets less current liabilities		**1,578,413**	832,427

COMPANY BALANCE SHEET

		As at 31 December	
		2011	2010
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*20*	**1,449,426**	–
		1,449,426	–
Current assets			
Trade and other receivables	*12*	**256,124**	–
Cash and cash equivalents	*14*	**282,526**	–
		538,650	–
Total Assets		**1,988,076**	–
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*15*	**65,168**	–
Reserves	*16*	**1,871,228**	–
Accumulated losses		**(12,244)**	–
Total equity		**1,924,152**	–
Liabilities			
Current liabilities			
Trade and other payables	*18*	**63,924**	–
Total liabilities		**63,924**	–
Total equity and liabilities		**1,988,076**	–
Net current assets		**474,726**	–
Total assets less current liabilities		**1,924,152**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue	21	**1,524,833**	1,211,826
Cost of sales	21, 22	**(1,032,092)**	(891,009)
Gross profit		**492,741**	320,817
Selling and marketing expenses	22	**(32,388)**	(20,944)
Administrative expenses	22	**(72,462)**	(51,281)
Other income	24	**3,720**	1,910
Other losses – net	25	**(681)**	(3,146)
Operating profit		**390,930**	247,356
Finance income	26	**2,679**	1,621
Finance costs	27	**(26,823)**	(19,581)
Finance costs-net		**(24,144)**	(17,960)
Profit before income tax		**366,786**	229,396
Income tax expense	28	**(96,262)**	(58,719)
Profit and total comprehensive income for the year		**270,524**	170,677
Attributable to:			
– Equity holders of the Company		**268,169**	169,051
– Non-controlling interests		**2,355**	1,626
		270,524	170,677
Earnings per share attributable to the equity holders of the Company (RMB Yuan)			
– Basic	29	**0.49**	0.38
– Diluted	29	**0.49**	0.38
Dividends	30	**100,374**	–

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company								
	Note	Share capital RMB'000 (Note 16)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Share-based compensation reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2010		–	–	246,375	51,516	–	178,060	475,951	6,421	482,372
Profit for the year		–	–	–	–	–	169,051	169,051	1,626	170,677
Capital contribution by equity holders	*16(a)(i)*	–	–	12,421	–	–	–	12,421	–	12,421
Profit appropriation to statutory reserves	*16(b)*	–	–	–	20,763	–	(20,763)	–	–	–
Deemed contribution from equity holders	*33(a)*	–	–	3,400	–	–	–	3,400	–	3,400
Deemed distribution to equity holders	*1(ii)*	–	–	(4)	–	–	–	(4)	–	(4)
Balance at 31 December 2010		–	–	262,192	72,279	–	326,348	660,819	8,047	668,866
Balance at 1 January 2011		**–**	**–**	**262,192**	**72,279**	**–**	**326,348**	**660,819**	**8,047**	**668,866**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**268,169**	**268,169**	**2,355**	**270,524**
Profit appropriation to statutory reserves	*16(b)*	**–**	**–**	**–**	**28,663**	**–**	**(28,663)**	**–**	**–**	**–**
Gross proceeds from placing and public offering of shares	*15(d)(e)*	**65,168**	**374,716**	**–**	**–**	**–**	**–**	**439,884**	**–**	**439,884**
Share issuance costs		**–**	**(62,017)**	**–**	**–**	**–**	**–**	**(62,017)**	**–**	**(62,017)**
Share-based payment expense	*15(f)*	**–**	**–**	**–**	**–**	**145**	**–**	**145**	**–**	**145**
Issue of ordinary share for extinguishment of loan by the Parent Company	*15(c)*	**–**	**–**	**209,332**	**–**	**–**	**–**	**209,332**	**–**	**209,332**
Dividend distribution	*30*	**–**	**–**	**(100,374)**	**–**	**–**	**–**	**(100,374)**	**–**	**(100,374)**
Balance at 31 December 2011		**65,168**	**312,699**	**371,150**	**100,942**	**145**	**565,854**	**1,415,958**	**10,402**	**1,426,360**

CONSOLIDATED CASH FLOW STATEMENT

	Note	2011 RMB'000	2010 RMB'000
		Year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	*31*	**405,389**	238,939
Interest paid		**(31,491)**	(23,727)
Interest received		**2,679**	1,621
Income tax paid		**(89,193)**	(51,444)
Net cash generated from operating activities		**287,384**	165,389
Cash flows from investing activities			
Proceeds from disposal of available-for-sale financial assets		**10,547**	–
Purchase of available-for-sale financial assets		**(10,500)**	–
Purchases of property, plant and equipment		**(134,976)**	(115,191)
Proceeds from sale of property, plant and equipment		**1,179**	5,603
Purchases of land use rights		**–**	(300)
Proceeds from government grants		**6,330**	2,535
Loan to related parties	*33*	**–**	(2,898)
Repayments from related parties	*33*	**6**	5,822
Repayments from third parties		**–**	5,314
Net cash used in investing activities		**(127,414)**	(99,115)
Cash flows from financing activities			
Contribution by capital injection		**–**	12,421
Borrowings from bank		**456,406**	452,947
Repayments of bank borrowings		**(365,610)**	(533,309)
Borrowings from related parties	*33*	**–**	225,986
Repayments of borrowings to related parties	*33*	**(5,680)**	(10,974)
Borrowings from third parties		**–**	2,655
Repayments of borrowings to third parties		**(589)**	(12,066)
Proceeds from initial public offering ("IPO")		**439,884**	–
Payments of IPO expenses		**(54,527)**	(1,860)
Dividend paid		**(100,374)**	–
Net cash generated from financing activities		**369,510**	135,800
Net increase in cash and cash equivalents		**529,480**	202,074
Cash and cash equivalents at beginning of year		**397,231**	195,834
Exchange loss on cash and cash equivalents		**(563)**	(677)
Cash and cash equivalents at end of year		**926,148**	397,231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

China First Chemical Holdings Limited ("the Company") and its subsidiaries (together the "Group") manufacture and sell bleaching and disinfectant chemical products, azodicarbonamide ("ADC" foaming agent) and other specialty chemical products in the People's Republic of China (the "PRC") (collectively the "Listing Business").

The Company was incorporated in the Cayman Islands on 24 November 2010, as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1–1104, Cayman Islands.

The Group's businesses were primarily carried out by companies now comprising the Group. In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the following reorganisation steps (the "Reorganisation") were carried out:

(i) On 29 January 2010, China Yihua Holdings Pte Ltd. ("China Yihua"), a company controlled by Mr. Liem Djiang Hwa (the "Controlling Shareholder"), acquired the entire equity interests in Longpower Corporation Limited ("Longpower") from GNL 09 Limited, a third party of the Group, at a cash consideration of Hong Kong Dollar ("HKD") 1. On 12 February 2010, China First Chemical Holdings Ltd. ("Parent Company"), a company controlled by China Yihua acquired the entire equity interests in Longpower from China Yihua at a cash consideration of HKD1.

(ii) On 9 February 2010, Longpower acquired the entire equity interests in Fujian Rongchang Chemical Co., Ltd. ("Fujian Rongchang"), a company then controlled by China Yihua at a cash consideration of HKD5,000 (equivalent to RMB4,000).

(iii) On 4 May 2010, Parent Company acquired the entire share capital of Sun Champ Group Holdings Limited ("Sun Champ") from GNL 10 Limited, a third party of the Group, at a cash consideration of HKD1.

(iv) On 28 July 2010, Sun Champ acquired the entire equity interests in Fujian Rongping Chemical Co., Ltd. ("Fujian Rongping"), a company controlled by Fujian Rongchang, at a cash consideration of RMB102,000,000.

(v) On 24 November 2010, the Company was established in the Cayman Islands. Upon incorporation, one share was allotted and issued to Parent Company.

(vi) On 3 December 2010, Yihua Sub-Holding Alpha (BVI) Limited ("Yihua Alpha") and Yihua Sub-Holding Beta (BVI) Limited ("Yihua Beta") were set up in the British Virgin Islands ("BVI"). Upon incorporation, one fully paid share of each of these two BVI companies were allotted and issued to the Company.

(vii) On 7 April 2011, Yihua Alpha acquired the entire equity interests in Longpower from Parent Company at a consideration of RMB324,295,000. The Company issued and allotted one share to Parent Company as the consideration. The excess of the fair value over the nominal value of the share issued was recorded in the capital reserve under equity.

(viii) On 7 April 2011, Yihua Beta acquired the entire equity interests in Sun Champ from Parent Company at a consideration of RMB141,658,000. The Company issued and allotted one share to Parent Company as the consideration. The excess of the fair value over the nominal value of the share issued was recorded in the capital reserve under equity.

1. General information *(Continued)*

(ix) On 14 June 2011, Parent Company assigned all the other receivables due from Longpower amounted to United States dollars ("USD") 32.3 million to the Company, in settlement of which, the Company issued and allotted one share to Parent Company. The excess of the monetary value over the nominal value of the share issued amounted to RMB209,332,000 was recorded in the capital reserve under equity (Note 15(c), 16(a)(ii)).

Upon completion of the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2011(Note 15(e)).

These consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 20 March 2012.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated. The Group has adopted IFRSs that are effective for the accounting periods beginning on or before 1 January 2011.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets as appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The Reorganisation represents business combinations involving entities under common control. For accounting purposes, in preparing these consolidated financial statements, the Reorganisation has been accounted for as a business combination under common control in a manner similar to the principles of merger accounting. The consolidated financial statements present the consolidated financial position, results and cash flows of the companies now comprising the Group as if the existing Group structure had been in existence throughout the reporting periods or since their respective dates of incorporation/establishment or acquisition, whichever is the shorter period.

All significant intra-group transactions and balances have been eliminated upon consolidation.

Non-controlling interests represent the interest of entities other than equity holders of the Company in the operating results and net assets of the Group during the year.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures

The following new standards, amendments and interpretations to existing standards have been issued by IASB and are mandatory for the Group's accounting periods beginning on 1 January 2012 or later periods, but the Group has not early adopted them:

- IAS 1 (Amendment) "Presentation of financial statements" changes the disclosure of items presented in other comprehensive income in the statement of comprehensive income. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The title used by IAS1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income'. However IAS 1 still permits entities to use other titles. The Group will apply the amendment for the financial reporting period commencing on 1 July 2012. Except for certain presentation changes as described above, it is not expected to have significant impact on the Group's consolidated financial statements.

- Amendments to IAS 12, "Income Taxes", issued in 20 December 2010. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. This amendment introduces a presumption that recovery of the carrying amount of an investment property measured of fair value will normally be through sale. The amendment is effective for annual periods beginning on or after 1 January 2012. Early adoption is permitted. The Group will apply the amendment for the financial reporting period commencing on 1 January 2012. It is not expected to have significant impact on the Group's consolidated financial statements.

- IAS 19 (Amendment) "Employee benefits", makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Some of the key changes are on the recognition of actuarial gains and losses, past-service costs, annual expense for a funded benefit plan, taxes related to benefit plans and future-service obligation. The Group will apply the amendment for the financial reporting period commencing on 1 January 2013. It is not expected to have significant impact on the Group's consolidated financial statements.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures *(Continued)*

- IFRS 7 (Amendment) 'Disclosures – Transfers of financial assets' introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted. The Group will apply the amendment for the financial reporting period commencing on 1 January 2012. It is not expected to have significant impact on the Group's consolidated financial statements.

- IFRS 10 "Consolidated financial statements" replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and separate financial statements', and SIC-12, 'Consolidation – special purpose entities'. IAS 27 is renamed 'Separate financial statements', and it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged. The revised definition of control under IFRS 10 focuses on the need to have both power and variable returns before control is present. IFRS10 includes guidance on 'de facto' control, participating and protective rights and agent/principal relationships. The Group will apply the amendment for the financial reporting period commencing on 1 January 2013. It is not expected to have significant impact on the Group's consolidated financial statements.

- IFRS 11 "Joint arrangements", changes the definitions to reduce the types of joint arrangements to two, joint operations and joint ventures. The jointly controlled assets classification in IAS 31, 'Interests in Joint Ventures', has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome. The Group will apply the amendment for the financial reporting period commencing on 1 January 2013. It is not expected to have significant impact on the Group's consolidated financial statements.

- IFRS 12 "Disclosure of interests in other entities" sets out the required disclosures for entities reporting under the two new standards, IFRS 10, 'Consolidated financial statements', and IFRS 11, 'Joint arrangements'. It replaces the disclosure requirements currently found in IAS, 'Investments in associates'. The existing guidance and disclosure requirements for separate financial statements are unchanged under IAS (as amended in 2011). The new standard requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Group will apply the amendment for the financial reporting period commencing on 1 January 2013. It is not expected to have significant impact on the Group's consolidated financial statements.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures *(Continued)*

- IFRS 13 "Fair value measurements", explains how to measure fair value and aims to enhance fair value disclosures. It does not say when to measure fair value or require additional fair value measurements. It does not apply to transactions within the scope of IFRS 2, 'Share-based payment', or IAS 17, 'Leases', or to certain other measurements that are required by other standards and are similar to, but are not, fair value (for example, value in use in IAS 36, 'Impairment of assets'). The Group will apply the amendment for the financial reporting period commencing on 1 January 2013. It is not expected to have significant impact on the Group's consolidated financial statements.

- IFRS 9, 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group will apply the new standard for the financial reporting period commencing on 1 January 2013. It is not expected to have significant impact on the Group's consolidated financial statements.

The Directors of the Company anticipate that the application of these new standards, amendments and interpretation will have no material impact on the results of operations and financial position of the Group.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Except for the acquisition of equity interests in the companies under common control which have been accounted for using merger accounting as explained in Note 1 above, the acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

2. Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non–controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

2. Summary of significant accounting policies *(Continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Since the majority of the assets and operations of the Group are located in the PRC, the consolidated financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate comprehensive income.

2. Summary of significant accounting policies *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less residual value estimated for these assets less impairment loss of each asset over its estimated useful life, as follows:

Buildings	30–50 years
Machinery	8–15 years
Motor vehicles	8 years
Furniture and office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing net sales proceeds and the carrying amount of the relevant assets, and are included in the consolidated statement of comprehensive income.

Construction-in-progress (the "CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Land use rights

Land use rights are up-front payments to acquire long-term interest in leasehold land, which are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land from the date when the respective rights were granted. Amortisation of land use rights is calculated on a straight-line basis over the period of the lease and is recognised in the consolidated statement of comprehensive income within administrative expenses.

2.7 Intangible assets

Preferential right is shown at the fair value upon acquisition. Preferential right has a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contract right over its estimated useful lives.

2. Summary of significant accounting policies *(Continued)*

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet (Notes 12, 13 and 14).

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.8.2 Recognition and measurement

Regular way purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of securities classified as available for sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income when the Group's right to receive payments is established.

2. Summary of significant accounting policies *(Continued)*

2.8 Financial assets *(Continued)*

2.8.3 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2. Summary of significant accounting policies *(Continued)*

2.8 Financial assets *(Continued)*

2.8.3 Impairment of financial assets *(Continued)*

(a) *Assets carried at amortised cost (Continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated statement of comprehensive income. Impairment losses recognised in the separate consolidated statement of comprehensive income on equity instruments are not reversed through the separate consolidated statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated statement of comprehensive income.

2.8.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2. Summary of significant accounting policies *(Continued)*

2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred for the construction of qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed as incurred.

2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. Summary of significant accounting policies *(Continued)*

2.14 Current and deferred income tax *(Continued)*

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Employee benefits

(i) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liabilities to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these pension plans, the Group has no obligation for post-retirement benefit beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) Housing benefits

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2.16 Provision and contingent liability

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2. Summary of significant accounting policies *(Continued)*

2.17 Financial guarantee

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial information at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated statement of comprehensive income within other operating expenses.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities within the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised using the effective interest method.

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the cost that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated statement of comprehensive income as other income on a straight-line basis over the expected lives of the related assets.

2. Summary of significant accounting policies *(Continued)*

2.20 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.21 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's directors, where appropriate.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

(a) Foreign exchange risk

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange rate risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

For the years ended 31 December 2011 and 2010, approximately 16% and 16%, respectively of the Group's sales are denominated in currencies other than the entity's functional currency.

Other than certain bank balances, trade receivables, other payables and borrowings (Note 14, 12, 18, and 17), the Group's assets and liabilities are primarily denominated in RMB.

At 31 December 2011 and 2010, if RMB had weakened/strengthened by 5% against the USD respectively with all other variables held constant, profit after tax for the year ended 31 December 2011 would have been RMB974,000 higher/lower; and profit after tax for the year ended 31 December 2010 would have been RMB7,547,000 lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD-denominated cash and trade receivables, foreign exchange losses/gains on translation of USD-denominated other payables.

At 31 December 2011 and 2010, if RMB had weakened/strengthened by 5% against the JPY respectively with all other variables held constant, profit after tax for the year ended 31 December 2011 would have been RMB3,815,000 lower/higher (2010: nil), mainly as a result of foreign exchange gains/losses on translation of JPY-denominated cash and trade receivables, foreign exchange losses/gains on translation of JPY-denominated borrowings.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk *(Continued)*

At 31 December 2011 and 2010, if RMB had weakened/strengthened by 5% against the HKD respectively with all other variables held constant, profit after tax for the year ended 31 December 2011 would have been RMB11,787,000 higher/lower (2010: nil), mainly as a result of foreign exchange gains/losses on translation of HKD-denominated cash and trade receivables, foreign exchange losses/gains on translation of HKD-denominated other payables.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, and trade and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2011 and 2010, 97% and 96% of the Group's restricted cash and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. Management does not expect any losses from non-performance by these counterparties.

The Group has no significant concentrations of credit risk. The carrying amount of receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to these financial assets. Ageing analysis of the Group's accounts receivable is disclosed in Note 12. The Group has policies in place to ensure that credit sales are only made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of its customers by taking into account various factors including their financial position and past experience. The utilisation of credit terms is regularly monitored and management does not expect any losses from non-performance by these counterparties.

Counterparty risk related to trade receivables is limited due to the large number of customers in the Group's customer portfolio and their diversification throughout various business sectors, as well as geographic locations. As at 31 December 2011, the exposure to the top 15 customers did not exceed 55% of the gross trade and other receivables, with the exposure to the largest customer representing less than 8%.

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and bank borrowings. The Group does not expect significant difficulties in subsequent renewals of these borrowings.

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 17. Generally there is no specific credit period granted by the suppliers but the related trade payables are normally expected to be settled within three months after receipt of goods or services.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining periods at 31 December 2011 and 2010 to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
At 31 December 2011			
Borrowings and interest payable	**358,294**	**55,646**	**99,748**
Trade and other payables	**310,103**	**–**	**–**
	668,397	**55,646**	**99,748**
At 31 December 2010			
Borrowings and interest payable	248,836	26,674	154,608
Trade and other payables	506,194	–	–
	755,030	26,674	154,608

(d) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings, restricted cash and bank deposits.

Borrowings at floating rates expose the Group to cash flow interest-rate risk. As at 31 December 2011 and 2010, approximately RMB154,270,000 and RMB278,970,000 of the Group's borrowings were at variable rates, respectively.

The interest rates and maturities of the Group's borrowings, restricted cash and bank balances are disclosed in Notes 17, 13 and 14 respectively.

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The details of the Group's exposure to changes in interest rates attributable to its borrowings have been disclosed in Note 17. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

At 31 December 2011 and 2010, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, profit for the year would have been RMB2,426,000 higher/lower and 201,000 lower/higher.

3. Financial risk management *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy remains consistent throughout the year.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated at net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt. The Group aims to maintain the gearing ratio at a level of not more than 65%.

The gearing ratios at 31 December 2011 and 2010 were as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Bank borrowings *(Note 17)*	**478,646**	387,850
Borrowings from related parties *(Note 18(c))*	**–**	215,012
Borrowings from third parties *(Note 18(c))*	**–**	589
Total borrowings	**478,646**	603,451
Less: cash and cash equivalents *(Note 14)*	**(926,148)**	(397,231)
Net debt	**(447,502)**	206,220
Total equity	**1,426,360**	668,866
Total capital	**978,858**	875,086
Gearing ratio	**N/A**	24%

3.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, restricted cash, receivables; and financial liabilities including payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial information are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Depreciation

The Group's management determines the estimated useful lives and related deprecation charges for the property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of receivables

Provision for impairment of receivables is determined based on the evaluation of collectability of receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and the current market condition.

(c) Taxation

The Group's subsidiary that operates in the PRC is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5. Segment information

The Group is principally engaged in the chemical products business in the PRC. Separate individual financial information of the three locations where the principal operations of the Group is located are presented to the chief operating decision maker (the Board of Directors) who reviews the internal reporting in order to assess performance and allocate resources. Due to the similarities in economic characters, nature of products and production, customers, etc, they are aggregated into a single reportable segment. Majority of the Group's products are sold to customers in the PRC. The Group has a large number of customers, which are widely dispersed within the PRC and Southeast Asia, no single customer accounted for more than 10% of the Group's total revenues during the year.

6. Land use rights

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Cost	**88,206**	88,206
Accumulated amortisation	**(10,875)**	(9,111)
Net book value	**77,331**	79,095
Representing:		
Opening net book amount	**79,095**	77,311
Additions	**–**	3,484
Amortisation *(Note 22)*	**(1,764)**	(1,700)
Closing net book amount	**77,331**	79,095

The Group's interests in land use rights represent prepaid operating lease payments. All of the Group's land use rights are located in PRC and with the lease period ranging from 50 to 70 years.

Land use rights with net value of RMB15,499,000 and RMB75,401,000 as at 31 December 2011 and 2010 respectively were secured for bank borrowings (Note 17).

Amortisation of land use rights have been charged to administrative expenses in the consolidated statement of comprehensive income.

7. Property, plant and equipment

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2010						
Opening net book amount	335,775	168,080	2,363	953	115,677	622,848
Additions	1,221	10,532	3,620	1,098	125,861	142,332
Transfer upon completion	43,975	192,497	–	1,189	(237,661)	–
Disposals	(648)	(7,886)	(117)	(98)	–	(8,749)
Impairment charge *(Note 22)*	–	(1,449)	–	–	–	(1,449)
Depreciation *(Note 22)*	(12,855)	(30,520)	(571)	(382)	–	(44,328)
Closing net book amount	367,468	331,254	5,295	2,760	3,877	710,654
At 31 December 2010						
Cost	476,308	593,692	8,083	5,591	3,877	1,087,551
Accumulated depreciation and impairment	(108,840)	(262,438)	(2,788)	(2,831)	–	(376,897)
Net book amount	367,468	331,254	5,295	2,760	3,877	710,654
Year ended 31 December 2011						
Opening net book amount	**367,468**	**331,254**	**5,295**	**2,760**	**3,877**	**710,654**
Additions	**–**	**33,516**	**1,287**	**408**	**88,736**	**123,947**
Transfer upon completion	**14,984**	**36,308**	**–**	**143**	**(51,435)**	**–**
Disposals	**(32)**	**(1,818)**	**(56)**	**(1)**	**–**	**(1,907)**
Depreciation *(Note 22)*	**(14,082)**	**(43,449)**	**(850)**	**(707)**	**–**	**(59,088)**
Closing net book amount	**368,338**	**355,811**	**5,676**	**2,603**	**41,178**	**773,606**
At 31 December 2011						
Cost	**491,254**	**655,823**	**8,866**	**6,130**	**41,178**	**1,203,251**
Accumulated depreciation and impairment	**(122,916)**	**(300,012)**	**(3,190)**	**(3,527)**	**–**	**(429,645)**
Net book amount	**368,338**	**355,811**	**5,676**	**2,603**	**41,178**	**773,606**

7. Property, plant and equipment *(Continued)*

(a) Depreciation expenses have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Cost of sales	**53,711**	39,552
Selling and marketing expenses	**110**	52
Administrative expenses	**5,267**	4,724
	59,088	44,328

(b) As at 31 December 2011 and 2010, certain buildings and machinery with an aggregate carrying value of RMB164,356,000 and RMB277,000,000 were secured for bank borrowings respectively (Note 17).

(c) Operating lease rentals amounting to RMB1,031,000 and RMB894,000 for the years ended 31 December 2011 and 2010 in respect of the lease of buildings respectively, were charged to the consolidated statement of comprehensive income.

8. Intangible assets right

	Preferential right RMB'000
Year ended 31 December 2010	
Opening net book amount	1,476
Amortisation *(Note 22)*	(1,476)
Closing net book amount	–
At 31 December 2010	
Cost	18,701
Accumulated amortisation	(18,701)
Net book amount	–
Year ended 31 December 2011	
Opening net book amount	–
Amortisation *(Note 22)*	–
Closing net book amount	–
At 31 December 2011	
Cost	18,701
Accumulated amortisation	(18,701)
Net book amount	–

The preferential right was the fair value of the right to secure preferential electricity prices, which was acquired as consideration for disposal of a power station in 2007.

Amortisation of intangible assets has been charged to cost of sales in the consolidated statement of comprehensive income.

9. Available-for-sale financial assets

	Year ended 31 December 2011 RMB'000
At 1 January	**–**
Additions	**10,500**
Changes in fair value of available-for-sale of financial assets	**47**
Disposals	**(10,547)**
At 31 December	**–**

During the year ended 31 December 2011, available-for-sale financial assets represent investments in short-term money market financial products.

10. Deferred income tax

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date.

The movement in the deferred income tax assets is as follows:

	Employee benefit obligation RMB'000
At 1 January 2010	1,218
Charged to the consolidated statement of comprehensive income	(848)
At 31 December 2010	370
Charged to the consolidated statement of comprehensive income	(200)
At 31 December 2011	170

Deferred income tax asset is expected to be recovered within 12 months after the balance sheet date.

10. Deferred income tax *(Continued)*

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China, in respect of earnings generated after 31 December 2007. Under the Arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), which became effective on 1 January 2007, income tax on dividends payable to a company resident in Hong Kong that holds more than a 25% equity interest in a PRC resident enterprise is at the rate of 5%. The Group's subsidiaries in Mainland China are held by Longpower and Sun Champ, companies incorporated in Hong Kong and is subject to 5% withholding tax. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2011 and 2010, no provision for withholding tax has been made, as unremitted earnings of those subsidiaries in Mainland China are expected to be permanently reinvested in Mainland China. Unremitted earnings amounted to RMB565,306,000 and RMB330,633,000 as at 31 December 2011 and 2010, respectively.

11. Inventories

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Raw materials	**21,059**	18,735
Semi-finished goods	**69,768**	78,157
Finished goods	**10,229**	10,635
	101,056	107,527
Less: provision for write-down of inventories	**–**	–
	101,056	107,527

The cost of inventories recognised as expense and included in cost of sales for the years ended 31 December 2011 and 2010 amounted to RMB668,884,000 and RMB553,930,000 respectively.

12. Trade and other receivables

Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade receivables (a)		
Due from third parties	**336,813**	257,368
Prepayments (b)	**4,095**	10,499
Other receivables (c)		
Due from related parties *(Note 33(b))*	**–**	6
Due from third parties	**1,055**	2,037
	1,055	2,043
	341,963	269,910

The carrying amounts of receivables approximate their fair values.

(a) As at 31 December 2011 and 2010, certain trade receivables with an aggregate carrying value of RMB nil and 57,037,000 respectively were secured for bank borrowings (Note 17).

The Group has a large number of customers, which are widely dispersed within the PRC and Southeast Asia. The outstanding balances are within credit terms of between 30 days and 90 days for both domestic customers and overseas customers. There is no concentration of credit risk with respect to trade receivables. As at 31 December 2011 and 2010, the aging analysis of the trade receivables is set as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
– Third parties		
Within 3 months	**336,160**	256,817
Between 4 and 6 months	**639**	404
Between 7 and 12 months	**14**	147
	336,813	257,368

12. Trade and other receivables *(Continued)*

(a) *(Continued)*

As at 31 December 2011 and 2010, trade receivables of approximately RMB653,000 and RMB551,000 were past due but not impaired. These relate mainly to a number of customers, for whom there is no recent history of default. The ageing analysis of these past due but not impaired receivables is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Between 4 and 6 months	**639**	404
Between 7 and 12 moths	**14**	147
	653	551

As at 31 December 2011 and 2010, no trade receivables were impaired and provided for.

(b) Prepayments

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Prepayments for IPO expenses	**–**	1,860
Prepayments for raw materials	**3,733**	329
VAT input credits	**–**	7,382
Others	**362**	928
	4,095	10,499

(c) Other receivables

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Due from related parties *(Note 33(b))*	**–**	6
Advance to employees	**272**	559
Others	**783**	1,478
	1,055	2,043

12. Trade and other receivables *(Continued)*

(d) The carrying amounts of the Group's trade receivables and other receivables are denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
RMB	**323,528**	248,892
USD	**14,340**	10,519
	337,868	259,411

Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Receivables from subsidiaries	**256,124**	–
	256,124	–

The carrying amounts of the Company's prepayments and other receivables are denominated in HKD.

13. Restricted cash

As at 31 December 2011 and 2010, the entire balance of restricted cash was secured for bills payable. Trade finance facilities utilised by the Group for issuing bills payable to its suppliers amounted to RMB135,772,000 and RMB128,030,000 as at 31 December 2011 and 2010 respectively (Note 18(b)).

All of the restricted cash is denominated in RMB and earns interest at floating rates based on daily bank deposit rates.

14. Cash and cash equivalents

Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Cash in hand	**18**	16
Bank deposits	**926,130**	397,215
	926,148	397,231
Cash and cash equivalents are denominated in the following currencies:		
– RMB	**581,289**	393,979
– HKD	**332,418**	–
– USD	**12,441**	3,252
	926,148	397,231

Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Bank deposits	**282,526**	–
Cash and cash equivalents are denominated in the following currencies:		
– RMB	**123,824**	–
– HKD	**157,339**	–
– USD	**1,363**	–
	282,526	–

Bank balances earn interest at floating rates based on daily bank deposit rates. The conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

15. Share capital

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$
Authorised:			
Ordinary shares of HK$0.1 each			
At 24 November 2010 (date of incorporation) and 31 December 2010	*(a)*	2,500,000,000	250,000,000
Increase in authorised share capital	*(a)*	2,500,000,000	250,000,000
At 31 December 2011	*(a)*	5,000,000,000	500,000,000

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$	Equivalent nominal value of ordinary shares RMB'000
Issued and fully paid:				
At 24 November 2010 (date of incorporation) and 31 December 2010	*(a)*	1	0.1	0.0001
Issue of ordinary shares for Reorganisation	*(b)*	2	0.2	0.0002
Issue of ordinary shares for extinguishment of loan by the Parent Company	*(c)*	1	0.1	0.0001
Share issued under the capitalisation issue	*(d)*	599,999,996	59,999,999.6	48,876
New issue of shares	*(e)*	200,000,000	20,000,000.0	16,292
At 31 December 2011		800,000,000	80,000,000.0	65,168

Note:

(a) The Company was incorporated on 24 November 2010 with an initial authorised share capital of HKD250,000,000 divided into 2,500,000,000 ordinary shares with par value of HKD0.10 each. By a written resolution of the sole shareholder of the Company dated 14 June 2011, the authorised share capital has been increased from HKD250,000,000 to HKD500,000,000 divided into 5,000,000,000 shares by the creation of an additional 2,500,000,000 shares. On the date of incorporation, 1 ordinary share was issued to Parent Company.

(b) On December 3, 2010 and 7 April 2011, the Company issued and allotted 1 share to Parent Company pursuant to the Reorganisation respectively.

(c) On 14 June 2011, the Parent Company assigned all the outstanding loan due and payable by Longpower, a subsidiary of the Company, amounting to approximately RMB209,332,000 to the Company, in settlement of which, the Company issued and allotted one share to Parent Company.

(d) Pursuant to a shareholder's resolution dated 14 June 2011, conditional on the successful Listing of the Company on 9 December 2011, the Company capitalised an amount of HK$59,999,999.6, in its share premium account in paying up in full at par 599,999,996 shares, which were allotted and issued to the then existing shareholders of the Company,2011pro-rata to their shareholdings as at 14 June 2011 in the Company.

15. Share capital *(Continued)*

Note: (Continued)

(e) On 9 December 2011, the Company issued 200,000,000 ordinary shares of HK$0.1 each at HK$2.70 per share in connection with the Listing, and raised gross proceeds of approximately HK$540,000,000 (equivalent to RMB439,884,000), in which RMB65,168,000 recognised as share capital and RMB374,716,000 recognised as share premium.

(f) The Group adopted a pre-IPO share option scheme approved by the Board of Directors on 10 June 2011 and 12 June 2011 ("Pre-IPO Option Scheme"). Pursuant to the Pre-IPO Option Scheme, the three executive directors, two senior management members and three independent non-executive directors were granted the pre-IPO options to subscribe for up to 16,000,000 shares of the Company. The pre-IPO options will vest in three instalments at each of the first three anniversaries of the Listing date and will only become exercisable from the respective vesting dates up to the third anniversary of the Listing date. Commencing from the first, second and third anniversaries of the date of grant of an option, the relevant grantee may exercise up to 30%, 60%, and 100%, respectively, of the shares comprised in his or her option.

As at 31 December 2011, 16,000,000 outstanding options had not been vested and not exercised. These options with an exercise price of HK$2.70 per share upon vesting will be expired on 8 December 2014.

The fair value of the options granted determined using the black-scholes model was HK$9,843,000. The options have been divided into three batches according to different vesting periods.

The significant inputs to the model are summarised as below:

Stock price (HK$)	2.72
Exercise price (HK$)	2.70
Expected holding year	3
Risk-free rate per annum	0.41%
Volatility	32.02%
Expected dividend yield	–

The expected volatility is estimated by making reference to the volatility of the other companies with the similar background or nature of business as the Company.

Fair value of Pre-IPO options is charged to the consolidated income statement over the vesting period of the options. Total share option expense charged to the consolidated income statement during the year ended 31 December 2011 amounted to RMB145,000 (2010: nil).

(g) The Group adopted a share option scheme approved by the Board of Directors on 10 June 2011 and 12 June 2011 ("Share Option Scheme"). The board of directors of the Company may, under the Share Option Scheme, grant options to eligible persons for their contributions to the Group and their continuing efforts to promote the Group's interests. The implementation of the Share Option Scheme is subject to a number of conditions being met, including the commencement of dealings in the Shares on the Stock Exchange.

No option has been granted under the Share Option Scheme as at 31 December 2011.

16. Reserves

Group

	Note	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Share-based compensation reserve RMB'000	Sub-total RMB'000
Balance at 1 January 2010		–	246,375	51,516	–	297,891
Capital contribution by equity holders	*(a)(i)*	–	12,421	–	–	12,421
Profit appropriations to statutory reserves	*(b)*	–	–	20,763	–	20,763
Deemed contribution from equity holders		–	3,400	–	–	3,400
Deemed distribution to equity holders		–	(4)	–	–	(4)
Balance at 31 December 2010		–	262,192	72,279	–	334,471
Balance at 1 January 2011		–	262,192	72,279	–	334,471
Profit appropriations to statutory reserves	*(b)*	–	–	28,663	–	28,663
Gross proceeds from placing and public offering of shares	*15(e)*	374,716	–	–	–	374,716
Share issuance costs	*(c)*	(62,017)	–	–	–	(62,017)
Share-based payment expense	*15(f)*	–	–	–	145	145
Issue of ordinary share for extinguishment of loan by the Parent Company	*(a)(ii)*	–	209,332	–	–	209,332
Dividends distribution	*(a)(iii)*	–	(100,374)	–	–	(100,374)
Balance at 31 December 2011		312,699	371,150	100,942	145	784,936

(a) Capital reserve of the Group represented capital contribution by the equity holders of the companies now comprising the Group, after eliminating investments.

(i) On 6 January 2010, the Controlling Shareholder made a cash contribution RMB12,421,000 to the Group through capital injection, which were accounted for as capital injection by equity holders.

(ii) On 14 June 2011, the Parent Company assigned all the outstanding loan due and payable by Longpower, a subsidiary of the Company, amounting to approximately RMB209,332,000 to the Company. In settlement of which, the Company issued and allotted one share to Parent Company. The excess of the monetary value over the nominal value of the share issued amounting to RMB209,332,000 was accounted for as capital reserve.

(iii) On 29 April 2011, the Company declared a dividend amounting to HKD120 million to the then existing shareholders, which was accounted for as a deduction from capital reserve.

16. Reserves *(Continued)*

(b) Statutory surplus reserve

Under the relevant PRC laws and regulations, PRC companies are required to appropriate 10% of their respective net profits according to their statutory financial statements to statutory surplus reserve until such reserve reached 50% of the companies registered capital. The statutory surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provide that such reserve is maintained at a minimum of 25% of the companies registered capital.

(c) The share issuance costs amounting to RMB62,017,000 were charged to share premium, and the share issuance costs amounting to RMB16,636,000 were charged to consolidated statement of comprehensive income.

Company

		Share premium	Capital reserve	Share-based compensation reserve	Sub-total
		RMB'000	RMB'000	RMB'000	RMB'000
Balance at 24 November 2010 (date of incorporation) and 31 December 2010		–	–	–	–
Balance at 1 January 2011		–	–	–	–
Issue of ordinary shares for Reorganisation		–	1,449,426	–	1,449,426
Issue of ordinary share for extinguishment loan by the Parent Company		–	209,332	–	209,332
Dividends distribution		–	(100,374)	–	(100,374)
Gross proceeds from placing and public offering of shares		374,716	–	–	374,716
Share issuance costs		(62,017)	–	–	(62,017)
Share-based payment expense	*15(f)*	–	–	145	145
Balance at 31 December 2011		312,699	1,558,384	145	1,871,228

17. Borrowings

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current		
Secured bank borrowings	**137,310**	154,270
Current		
Current portion of long-term secured bank borrowings	**16,960**	65,230
Short-term secured bank borrowings	**324,376**	168,350
	341,336	233,580
Total borrowings	**478,646**	387,850

(a) The Group's borrowings are pledged as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Group's assets		
– Buildings and land use rights *(Note 7(b), Note 6)*	**24,500**	81,500
– Machinery *(Note 7(b))*	**–**	500
– Trade receivables *(Note 12(a))*	**–**	49,527
	24,500	131,527
Guarantees provided by		
– Subsidiaries within the Group[1]	**454,146**	141,223
– Related parties *(Note 33(c))*	**–**	115,100
	454,146	256,323
	478,646	387,850

Note 1:

As at 31 December 2011 and 2010, the Group's borrowings amounting to nil and RMB1,770,000 respectively, which were guaranteed by certain subsidiaries within the Group, were also guaranteed by certain third parties.

17. Borrowings *(Continued)*

(b) The maturity dates of the borrowing were analysed as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**341,336**	233,580
Between 1 and 2 years	**46,560**	16,960
Between 2 and 5 years	**90,750**	137,310
	478,646	387,850

(c) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date was as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Bank borrowings		
– fixed rates	**324,376**	108,880
– floating rates	**154,270**	278,970
	478,646	387,850

The weighted average effective interest rates (per annum) at the balance sheet date are set out as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Bank borrowings	**5.39%**	6.03%

The carrying amount for the current borrowings approximated their fair values because of their short-term maturities. The carrying amount for non-current borrowings approximated their fair values because of the floating interest rates they carried.

17. Borrowings *(Continued)*

(d) The Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
– RMB	**376,910**	387,850
– JPY	**101,736**	–
	478,646	387,850

(e) The undrawn borrowing facilities at the balance date are set out as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Undrawn borrowing facilities	**684,602**	378,070

18. Trade and other payables

Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade payables (a)		
Due to third parties	**100,871**	93,517
Bills payable (b) *(Note 13)*		
Due to third parties	**135,772**	128,030
Other payables (c)		
Due to related parties *(Note 33(b))*	**–**	215,012
Due to third parties	**74,089**	70,934
	74,089	285,946
	310,732	507,493

18. Trade and other payables *(Continued)*

(a) Details of ageing analysis of trade payables are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within 3 months	**100,611**	92,617
Between 4 and 6 months	**240**	437
Between 7 and 12 months	**20**	463
	100,871	93,517

(b) As at 31 December 2011 and 2010, the entire balances of bills payable were secured by restricted cash of RMB37,692,000 and RMB30,895,000 respectively (Note 13).

(c) Details of other payables are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Due to related parties *(Note 33(b))*	**–**	215,012
Advance from customers	**629**	1,299
Borrowings from third parties *(i)*	**–**	589
Payable for IPO expenses	**22,266**	–
Audit fee	**2,200**	–
Payable for property, plant and equipment purchases	**3,530**	12,993
Freight charges	**12,954**	12,774
Water and electricity	**13,147**	18,257
Salary and welfare payable	**7,549**	11,226
Taxes	**8,131**	9,468
Others	**3,683**	4,328
	74,089	285,946

(i) The borrowings from third parties were non-interest bearing, unsecured and repayable on demand.

18. Trade and other payables *(Continued)*

(d) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
RMB	**264,262**	292,481
USD	**33,237**	215,012
HKD	**13,233**	–
	310,732	507,493

Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Due to subsidiaries	**39,458**	–
Payable for IPO expenses	**22,266**	–
Audit fee	**2,200**	–
	63,924	–

The carrying amounts of the Company's other payables are denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
RMB	**17,454**	–
USD	**33,237**	–
HKD	**13,233**	–
	63,924	–

19. Deferred income

Deferred income represented government grants related to the construction of property, plant and equipment which are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Opening net book amount	**9,291**	6,835
Additions	**6,330**	2,535
Amortisation	**(878)**	(79)
Closing net book amount	**14,743**	9,291
At end of year		
Cost	**15,700**	9,370
Accumulated amortisation	**(957)**	(79)
Net book amount	**14,743**	9,291

20. Long-term investment

Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Investments in Yihua Alpha and Yihua Beta pursuant to the Reorganisation	**1,449,426**	–*

* As at 31 December 2010, investments in subsidiaries represented one fully paid share subscribed for each of Yihua Alpha and Yihua Beta amounted to US$1.00 respectively pursuant to the Reorganisation.

20. Long-term investment *(Continued)*

Company *(Continued)*

As at 31 December 2011, the Company has direct and indirect interests in the following subsidiaries:

Name of Company	Country/place and date of incorporation	Principal activities	Issued and fully paid capital/ registered capital	Effective interest held
Directly owned				
Yihua Sub-Holding Alpha (BVI) Limited	BVI/3 December 2010	Investment holding	USD 1	100%
Yihua Sub-Holding Beta (BVI) Limited	BVI/3 December 2010	Investment holding	USD 1	100%
Indirectly owned				
Longpower Corporation Limited	Hong Kong/3 December 2009	Investment holding	HKD 1	100%
Sun Champ Group Holdings Limited	Hong Kong/18 March 2010	Investment holding	HKD 1	100%
Fujian Rongchang Chemical Co., Ltd.	PRC/27 February 1997	Manufacturing and sale of chemical products	RMB101,000,000	100%
Fujian Rongping Chemical Co., Ltd.	PRC/26 December 2002	Manufacturing and sale of chemical products	RMB230,000,000	100%
Fuzhou Yihua Chemical Stock Co., Ltd. ("Fuzhou Yihua")	PRC/7 June 2003	Manufacturing and sale of chemical products	RMB110,000,000	97.27%

21. Revenue and cost of sales

Revenue and cost of sales from manufacturing and sale of bleaching and disinfectant chemicals, ADC foaming agent and other specialty chemicals during the years are as follows:

	Bleaching and disinfectant chemicals RMB'000	ADC forming agent RMB'000	Other specialty chemicals RMB'000	Total RMB'000
Year ended 31 December 2011				
Revenue	568,320	710,456	246,057	1,524,833
Costs of sales	(337,238)	(539,529)	(155,325)	(1,032,092)
	231,082	170,927	90,732	492,741
Year ended 31 December 2010				
Revenue	417,120	586,139	208,567	1,211,826
Costs of sales	(264,410)	(471,142)	(155,457)	(891,009)
	152,710	114,997	53,110	320,817

22. Expenses by nature

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Raw materials used and changes in inventories	**668,884**	553,930
Depreciation of property, plant and equipment *(Note 7)*	**59,088**	44,328
Electricity and other utility fees	**257,673**	248,122
Employee benefit expenses *(Note 23)*	**59,503**	54,497
Transportation and related charges	**22,708**	17,915
Business tax and other transaction taxes	**16,760**	7,751
Provision for impairment of property, plant and equipment *(Note 7)*	**–**	1,449
Amortisation of land use rights *(Note 6)*	**1,764**	1,700
Amortisation of intangible assets *(Note 8)*	**–**	1,476
Office and entertainment expenses	**10,083**	8,559
Operating leases expenses *(Note 7)*	**1,031**	894
Property insurance fee	**2,071**	1,720
Travelling expenses	**1,979**	1,451
Repairs and maintenance	**7,352**	11,590
Auditors' remuneration	**2,273**	140
IPO expenses	**16,636**	–
Other expenses	**9,137**	7,712
	1,136,942	963,234

23. Employee benefit expenses

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Wages, salaries and bonuses	**42,492**	39,829
Contributions to pension plan *(a)*	**7,805**	6,770
Welfare and other expenses	**9,061**	7,898
Pre-IPO option scheme expense *(Note 15(f))*	**145**	–
	59,503	54,497

a) The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial government, under which the Group are required by the plan to contribute at a rate of 18% of the employee's basic salary, subject to certain caps, during the year.

23. Employee benefit expenses *(Continued)*

b) Directors' emoluments

The details of emoluments paid and payable to the directors for the year ended 31 December 2011 are set out below:

	Year ended 31 December 2011 RMB'000	Year ended 31 December 2010 RMB'000
Salaries, wages and bonuses	**2,347**	1,751
Contributions to pension plan	**52**	39
Pre-IPO option scheme expenses	**123**	–
	2,522	1,790

The emoluments of each of the directors are set out as follows:

Name of director	Salaries, wages and bonuses RMB'000	Contributions to pension plan RMB'000	Pre-IPO option scheme expenses RMB'000	Total RMB'000
	Year ended 31 December 2011			
Mr. Liem Djiang Hwa	**600**	**–**	**–**	**600**
Mr. Chen Hong	**600**	**25**	**36**	**661**
Ms. Miao Fei	**500**	**27**	**36**	**563**
Mr. Lam Wai Wah	**500**	**–**	**36**	**536**
Mr. Chen Xiao*	**49**	**–**	**7**	**56**
Mr. Kou Huizhong*	**49**	**–**	**4**	**53**
Mr. Li Junfa*	**49**	**–**	**4**	**53**
Total	**2,347**	**52**	**123**	**2,522**

Name of director	Salaries, wages and bonuses RMB'000	Contributions to pension plan RMB'000	Pre-IPO option scheme expenses RMB'000	Total RMB'000
	Year ended 31 December 2010			
Mr. Liem Djiang Hwa	400	–	–	400
Mr. Chen Hong	520	22	–	542
Ms. Miao Fei	390	17	–	407
Mr. Lam Wai Wah	441	–	–	441
Mr. Chen Xiao*	–	–	–	–
Mr. Kou Huizhong*	–	–	–	–
Mr. Li Junfa*	–	–	–	–
Total	1,751	39	–	1,790

* represent the independent non-executive directors

23. Employee benefit expenses *(Continued)*

c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
In the capacity as:		
Directors	**2,360**	1,790
Senior management	**323**	280

The five highest paid individuals include 4 directors during the year, whose emoluments were reflected in the analysis presented above. Details of remuneration of members of senior management amongst the five highest paid individuals are as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Salaries, wages and bonuses	**300**	264
Contributions to pension plan	**23**	16
	323	280

The emoluments of the members of senior management fell within the following band:

	Number of individuals Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Nil to RMB1,000,000	**1**	1

d) On 10 June 2011, the Company appointed 3 independent non-executive directors, Mr. Kou Huizhong, Mr. Chen Xiao, and Mr. Li Junfa. No emoluments have been paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived or has agreed to waive any emoluments.

24. Other income

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit from sales of raw materials	**2,196**	1,029
Subsidy income granted by government	**1,524**	881
	3,720	1,910

25. Other losses – net

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
(Loss)/gain on disposals of		
– Property, plant and equipment	**(728)**	(3,146)
– Available-for-sale financial assets	**47**	–
	(681)	(3,146)

26. Finance income

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Interest income from bank deposits	**2,679**	1,621

27. Finance costs

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Interest expenses:		
– Bank borrowings	**24,508**	28,535
– Discount interest for bill receivables	**4,232**	3,202
– Other charges	**3,564**	7,325
	32,304	39,062
Less: Interest capitalised in property, plant and equipment	**(813)**	(15,335)
	31,491	23,727
Exchange gains	**(4,668)**	(4,146)
	26,823	19,581

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Weighted average effective interest rates used to calculate capitalisation amount	**5.33%**	7.14%

28. Income tax expense

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Current income tax – PRC enterprise income tax	**96,062**	57,871
Deferred income tax charge *(Note 10)*	**200**	848
	96,262	58,719

28. Income tax expense *(Continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of companies comprising the Group is set out as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	**366,786**	229,396
Tax calculated at PRC statutory tax rates	**91,697**	57,349
Expenses not deductible for tax purposes	**4,660**	1,536
Income not subject to taxation	**(95)**	(166)
	96,262	58,719

Hong Kong profits tax has not been provided for as the Group has no assessable profit derived from Hong Kong.

The provision for PRC enterprise income tax is based on the statutory rate of 25% on the basis of the profit for the statutory financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purpose.

29. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue during the years ended 31 December 2010 and 2011, the 1 share issued and allotted on 24 November 2010, the 1 share issued and allotted on 3 December 2010, the 1 share issued and allotted on 7 April 2011, the 1 share issued and allotted on 14 June 2011 and the 599,999,996 shares issued and allotted through capitalisation of the share premium account arose from the Listing of the Company on 9 December 2011 (Note 15) have been regarded as if 450,000,000 shares were in issue since 1 January 2010, and 150,000,000 shares were in issue since 14 June 2011.

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	**268,169**	169,051
Weighted average number of ordinary shares in issue (thousand)	**544,247**	450,000
Basic earnings per share (RMB yuan)	**0.49**	0.38

29. Earnings per share *(Continued)*

(b) Diluted

Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The pre-IPO share options granted by the Company are taken into the consideration when the Company calculates the diluted earnings per share. The average market price of the shares for the period from 9 December 2011 to 31 December 2011 amounting to HK$2.60 per share is lower than the exercise price of the pre-IPO share options amounting to HK$2.70 per share, the pre-IPO share options is not included in the diluted earnings per share calculation. The diluted earnings per share is the same as the basic earnings per share.

30. Dividend

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Dividend *(a)*	**100,374**	–

(a) On 29 April 2011, the Company declared a dividend of HK$0.27 per share totalled to HK$120 million to the shareholders of the Company. In determining the number of ordinary shares as at 29 April 2011, the 1 share issued and allotted on 24 November 2010, the 1 share issued and allotted on 3 December 2010, the 1 share issued and allotted on 7 April 2011, and the 599,999,996 shares issued and allotted through capitalisation of the share premium account arose from the Listing of the Company on 9 December 2011 (Note 15) have been regarded as if 450,000,000 shares were in issue since 1 January 2010, and 150,000,000 shares were in issue since 14 June 2011. Therefore, the dividend per share was calculated based on 450,000,000 shares. Such dividend was paid in April 2011.

(b) A dividend in respect of the year ended 31 December 2011 of RMB0.0506 per share, amounting to a total dividend of RMB40,578,800 is to be proposed at the annual general meeting on 31 May 2012. The consolidated financial statements do not reflect these dividend payables.

31. Notes to consolidated cash flow statements

Cash generated from operations

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit for the year	**270,524**	170,677
Adjustments for:		
– Income tax expenses *(Note 28)*	**96,262**	58,719
– Depreciation *(Note 7)*	**59,088**	44,328
– Amortisation of land use rights *(Note 6)*	**1,764**	1,700
– Amortisation of intangible assets *(Note 8)*	**–**	1,476
– Deferred income amortisation *(Note 19)*	**(878)**	(79)
– Interest income *(Note 26)*	**(2,679)**	(1,621)
– Finance cost *(Note 27)*	**26,823**	19,581
– Provision for impairment of property, plant and equipment *(Note 7)*	**–**	1,449
– Loss on disposals of property, plant and equipment *(Note 25)*	**728**	3,146
– Gain on disposal of available-for-sale of financial assets *(Note 25)*	**(47)**	–
– Pre-IPO Option Scheme expense *(Note 15(f))*	**145**	–
– IPO expenses *(Note 22)*	**16,636**	–
Changes in working capital:		
– Inventories	**6,471**	(51,219)
– Trade and other receivables	**(73,919)**	(24,525)
– Trade and other payables	**11,268**	7,909
– Restricted cash	**(6,797)**	7,398
Cash generated from operations	**405,389**	238,939

32. Commitments

a) Capital commitments

The Group has the following capital commitments not provided for in the consolidated financial statements:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Authorised and contracted but not provided for		
– property, plant and equipment	**5,951**	16,124

32. Commitments *(Continued)*

b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
No later than 1 year	**251**	1,031
Later than 1 year and no later than 5 years	**–**	615
	251	1,646

33. Related-party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

a) Transactions with related parties

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Payments of staff bonus by related parties on behalf of the Group and deemed as contributions to the Group	**–**	3,400
Loans to related parties	**–**	2,898
Repayment of loans from related parties	**6**	5,822
Borrowings from related parties	**–**	225,986
Repayment of borrowings to related parties	**5,680**	10,974

33. Related-party transactions *(Continued)*

b) Balance with related parties:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade and other receivables	**–**	6
Trade and other payables	**–**	215,012

As at 31 December 2011 and 2010, all balances with related companies are non-interest bearing. All balances due from and due to related parties are unsecured and repayable on demand.

c) Guarantees for borrowings:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Borrowings guaranteed by related parties	**–**	115,100

d) Key management compensation:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Salaries, wages and bonuses	**3,022**	2,506
Contributions to pension plan	**179**	141
	3,201	2,647

Key management includes executive directors and certain executives who have important role in making operational and financial decisions.

34. Subsequent events

On 4 January 2012, the board of directors approved the allotment and issuance of 2,191,000 additional shares (the "Over-allotment Shares") pursuant to the exercise of an allotment granted for the IPO, representing approximately 1.10% of the shares initially being offered under the IPO. The Over-allotment Shares were issued and allotted by the Company at HK$2.70 per share.

FOUR-YEAR FINANCIAL SUMMARY

	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Operating results				
Revenue	**1,524,833**	1,211,826	1,006,502	700,055
Gross profit	**492,741**	320,817	275,656	198,097
Operating profit	**390,930**	247,356	214,123	139,220
Finance costs – net	**24,144**	17,960	28,788	32,736
Profit before income tax	**366,786**	229,396	185,335	106,484
Profit and total comprehensive income for the year attributable to equity holders of the Company	**268,169**	169,051	134,413	62,307
Profit margin				
Gross profit margin	**32.3%**	26.5%	27.4%	28.3%
Operating profit margin	**25.6%**	20.4%	21.3%	19.9%
Net profit margin	**17.7%**	14.1%	13.5%	11.0%
Earnings per share				
Basic and diluted (RMB)	**0.49**	0.38	0.30	0.14
Assets and liabilities				
Total assets	**2,259,800**	1,595,950	1,283,894	903,623
Equity attributable to the equity holders of the Company	**1,415,958**	660,819	475,951	321,107
Total liabilities	**833,440**	927,084	801,522	578,047
Net asset value/total equity	**1,426,360**	668,866	482,372	325,576
Interest-bearing bank borrowings	**478,646**	387,850	468,212	337,219
Cash and cash equivalent	**926,148**	397,231	195,834	68,034
Quick ratio (X)	**1.9**	0.9	0.7	0.4
Current ratio (X)	**2.1**	1.1	0.9	0.5
Inventory turnover (days)	**36**	34	26	43
Trade receivables turnover (days)	**70**	75	64	63
Trade and notes payables turnover (days)	**80**	88	67	34
Net asset value per share (RMB)	**2.62**	1.49	1.07	0.72
Gearing ratio	**N/A**	24%	37%	52%
Total interest-bearing bank borrowings to total equity	**34%**	58%	97%	104%

Notes:

(1) China First Chemical Holdings Limited (the "Company") was incorporated in the Cayman Islands on 24 November 2010 as an exempted company with limited liability. Pursuant to a group reorganisation that was completed on 14 June 2011 (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group. Please refer to the prospectus of the Company dated 29 November 2011 for the details of the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing entity under common control of the controlling shareholders. Accordingly, the financial information as contained in this section of the Annual Report had been prepared on the merger basis as if the Company had been the holding company of those companies comprising the Group for each of the relevant years, rather than from 14 June 2011. Accordingly, the results of the Group for the financial year ended 31 December 2008 include the results of the Company and its subsidiaries with effect from 1 January 2008 or since their respective dates of incorporation/establishment or from the effective dates of acquisition, whichever is the shorter period.

(2) The weighted average number of ordinary shares used in the calculation of earnings per share as stated in the table above for the years ended 31 December 2008, 2009 and 2010 was 450,000,000 shares, and for the year ended 31 December 2011 was 544,247,000 shares.

CORPORATE INFORMATION

Board of Directors

Chairman and Non-executive Director:

Mr. Liem Djiang Hwa

Executive Directors:

Mr. Chen Hong
Ms. Miao Fei
Mr. Lam Wai Wah

Independent Non-executive Directors:

Mr. Chen Xiao
Mr. Kou Huizhong
Mr. Li Junfa

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Company's Website

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Company Secretary

Ms. Chu Man Yee
Associate of The Hong Kong Institute of
Chartered Secretaries and
The Institute of Chartered Secretaries and Administrators

Authorized Representatives

Mr. Lam Wai Wah
Ms. Miao Fei

Alternate Authorized Representative

Ms. Chu Man Yee

Audit Committee

Mr. Chen Xiao *(Chairman)*
Mr. Li Junfa
Mr. Kou Huizhong

Remuneration Committee

Mr. Kou Huizhong *(Chairman)*
Mr. Chen Xiao
Ms. Miao Fei

Nomination Committee

Mr. Li Junfa *(Chairman)*
Mr. Kou Huizhong
Mr. Lam Wai Wah

Compliance Adviser

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Fuzhou
Fujian Province
PRC

China Construction Bank Corporation Limited
Pingnan Sub-branch
1st and 2nd Floor, Oriental Pearl Tower
No. 88 Cheng Guan Pearl Tower
Pingnan County, Ningde
Fujian Province
PRC

Bank of China Limited
Nanping Branch
No. 459 Binjiang Central Road
Nanping
Fujian
PRC

CHINA FIRST CHEMICAL HOLDINGS LIMITED
一化控股(中國)有限公司