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

2012
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 for the year ended 31 December 2012.

Since the listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2011, the Company has been seizing opportunities speeding up the expansion of production capacity of bleaching and disinfectant chemicals and foaming agent to capture larger market shares in China and overseas markets and honour our growth commitment made in the initial public offering. In order to share the results with our shareholders, the Board proposed to pay a final dividend of HK$0.0386 (RMB0.0312) per share for the year ended 31 December 2012 at an aggregate amount of approximately HK$30.97 million (RMB25 million) with a dividend ratio of 10%.

Market Review

In 2012, the global economy experienced complicated and profound changes and sluggish growth. The demand, investments and consumption remained weak in major economies. China also confronted challenging economic conditions, such as a slowdown in economic growth momentum, tightening credit policies of the bank and rising pressure from transformation of economic growth model. Nevertheless, it was an opportunities for the industry undergoing upgrade and consolidation.

Sales of main products of the Company, such as bleaching and disinfectant chemicals, foaming agent and other specialty chemicals recorded a slight upsurge in 2012 as compared to that of the corresponding period in 2011. With the increasing stringent requirements for quality of daily consumption goods from China's citizens and their rising consumption standard, the Chinese government strengthened environmental protection requirements and control of industries such as water treatment, paper pulp and paper-making. Despite a decrease in average selling price of some products under the macro economic and market condition during the year, we expects that the downstream industry will maintain a momentum of sustainable growth with the healthy promotion of urbanization and realization of the vision "Beautiful China" by the Chinese government during the "Twelfth Five-Year Plan" period.

Industry Review

The Company took additional measures in 2012 to minimize the business risks brought by an uncertain and challenging macro economy although the Company was optimistic about the market prospect of bleaching and disinfectant chemicals and foaming agent. The Company has actively monitored and evaluated the sales order and business condition of customers and adjusted the allocation of sales orders and selling price of mainstream products in time. In addition, the Company also prudently and properly carried forward the preparation and construction of new plants. The Company will seize opportunities to strengthen the industrial consolidation.

In 2012, the Company continued to deepen product structure adjustment and optimize the integrated use of resources. It released and enhanced the expansion in production capacity of production line by measures such as technological upgrade. Meanwhile, the design and investment of electrolyzers' technological upgrade for chlorate salt completed. As a result, the production capacity of chlorate salt achieved an increase in annual production of 20,000 tonnes. The Company continued to expand overseas markets and consolidate its market shares in Japan, strengthening its market competitiveness of mainstream products in Asian-Pacific Region. It aims to maintain the leading position in the industry under a relatively weak economic environment.

Financial Review

The interest – bearing debt to equity ratio of the Company of approximately 34% from the Company's latest published Consolidated Financial Statements as at 31 December 2011 continues to improve to 26% as at 31 December 2012 through the listing on the Stock Exchange in 2011 and the continuous operation development of the Company.

During the year under review, the revenue of the Company was approximately RMB1,619.6 million, representing an increase of approximately RMB94.8 million or 6.2% from the revenue of approximately RMB1,524.8 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 foaming agent during the year.

The gross profit for the year was RMB464.7 million, representing a decrease of approximately RMB28.0 million or 5.7% from the gross profit of approximately RMB492.7 million for the corresponding period last year. The overall profit margin decreased from 32.3% for 2011 to 28.7% for 2012, mainly due to a decrease of the average selling prices of some products affected by the downturn of macro-economy and market factors.

In 2013, under the premise of its prudent operation, the Company insists on the principal direction of technological innovation and technical improvement in order to consolidate and enhance the Company's business. We will endeavor to raise our productivity steadily, commence the construction of the new plant during the year. We also actively pursue the opportunities of acquisition, raise market share and regional distribution, enhance investment in technology, reduce the energy consumption of the unit products and increase the benefits of economies of scale.

Outlook

In 2013, the Company and the Haixi Research Institute (海西研究院) of Chinese Academy of Sciences entered into a cooperation agreement of product research. Both parties will build a "Research Centre of Green Chemical Technology" ("綠色化工技術研發中心") and focus on substantial technological problems of industrial by-products during the development of specialty chemicals industries such as bleaching and disinfectant chemicals (sodium chlorate and hydrogen peroxide), foaming agent, chlor-alkali, fluorine chemicals and their downstream products, such as environmental protection, cleaning and high-efficiency utilization. The products will be refined collectively and an important technological research and development proposal will be implemented so as to facilitate and lead the sound and continuous development of the industry and the enterprise.

The Company was successfully listed on the Stock Exchange before 2012. This provides opportunities for the Company to consolidate the equity base of the Company and improve the overall cash level and debt ratio in a relatively decent market environment. Confronting new opportunities and challenges, the Company needs united efforts of all our employees and uses their talents to keep on working hard in order to achieve the Company's new development target in the coming year.

Revenue

Revenue for the year under review was approximately RMB1,619.6 million, representing an increase of approximately RMB94.8 million or 6.2% from approximately RMB1,524.8 million for the corresponding period last year. The increase was mainly attributable to the increase in the sales of bleaching and disinfectant chemicals and foaming agent during the year.

The table below sets out our revenue by product group for the year under review:

	2012		2011	
	Amount	% of Revenue	Amount	% of Revenue
Revenue (RMB'000)				
Bleaching and disinfectant chemicals	596,835	36.9%	568,320	37.3%
Foaming agent	759,378	46.9%	710,456	46.6%
Other specialty chemicals	263,421	16.2%	246,057	16.1%
Total	1,619,634	100.0%	1,524,833	100.0%
Sales (tons)				
Bleaching and disinfectant chemicals	278,566		274,543	
Foaming agent	49,655		40,015	
Other specialty chemicals	65,412		55,155	
Total	393,633		369,713	

	2012	2011
	Amount	Amount
Average selling price (RMB/per ton)		
Bleaching and disinfectant chemicals	2,143	2,070
Foaming agent	15,293	17,755
Other specialty chemicals	4,027	4,461

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	Actual output	Utilization rate
	Tons	Tons	%
2012:			
Bleaching and disinfectant chemicals	**317,125**	**281,300**	**89%**
Foaming agent	**20,000**	**21,275**	**106%**
Other specialty chemicals	**125,500**	**113,880**	**91%**
Total	**462,625**	**416,455**	**90%**

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

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 2012 and 31 December 2011, the pro-rated designed production capacity of bleaching and disinfectant chemicals was 317,125 tons and 306,667 tons respectively. In 2012, the annual pro-rated designed production capacity of bleaching and disinfectant chemicals increased by approximately 10,458 tons, which was mainly attributable to the upgrade in production facilities for sodium chlorate by increase of 8,375 tons that completed and commenced operation during the year.

During the year under review, the total revenue for the bleaching and disinfectant chemicals was RMB596.8 million, representing an increase of approximately 5.0% or RMB28.5 million from that in 2011. The increase was a net effect of: (1) the sales of sodium chlorate increased by approximately 20.6% to RMB402.4 million due to the production capacity expansion and the increase in selling price for the export of sodium chlorate; and (2) the decrease in average selling price of hydrogen peroxide as a result of market condition, sales of hydrogen peroxide decreased by approximately 17.1% to RMB194.4 million for the year.

In 2012, the utilization rate of the Group's bleaching and disinfectant product segment (i.e. actual output to pro-rated designed production capacity) reached 89% (2011: 96%), which was mainly attributable to decrease in demand for hydrogen peroxide and chlorine as a result of market condition.

Foaming agent

This segment mainly consists of basic and modified grades of foaming agent. 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 2012 and 31 December 2011, the pro-rated designed production capacity of foaming agent was 20,000 tons and 16,667 tons respectively. In 2012, the annual pro-rated designed production capacity of foaming agent increased by approximately 3,333 tons, which was attributable to full production capacity with the completion of production facilities for foaming agent of 5,000 tons in September 2011 that commenced operation.

During the year under review, the total revenue for the foaming agent was RMB759.4 million, representing an increase of approximately 6.9% or RMB48.9 million from that in 2011. The increase was mainly attributed to the increase in production capacity and sales volumes were increased after the upgrade of our production facilities.

In 2012, the utilization rate of the Group's foaming agent reached 106% (2011: 101%), demonstrating the production facilitates of the Group's 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 2012 and 31 December 2011, the pro-rated designed capacity of other specialty chemicals was 125,500 tons and 133,000 tons respectively. In 2012, the annual pro-rated designed capacity of other specialty chemicals decreased by approximately 7,500 tons, which was mainly attributable to the decrease in the partial suspension of operation for old caustic soda production in October 2012.

During the year under review, the total revenue for other specialty chemicals was RMB263.4 million, representing an increase of approximately 7.0% or RMB17.3 million from that in 2011. The increase was mainly attributed to the average selling price of caustic soda increasing by approximately 2.9% due to the strong demand from the downstream industries, the sales of caustic soda increased by approximately 29.4% to RMB91.2 million for the year.

In 2012, the utilization rate of the Group's other specialty chemicals reached 91% (2011: 79%), 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 used and changes in inventories, electricity and other utility fees, depreciation of property, plant and equipment, employee benefit expenses, transportation and related charges, repairs and maintenance, tax and levies on main operations, office and entertainment expenses, traveling expenses and other expenses. Raw materials used and changes in inventories, including foaming agent and sodium chlorate sourced from third parties, were the largest component of our cost of sales, representing 66.6% and 64.8% of our total cost of sales for the year ended 31 December 2012 and 2011, respectively.

During the year under review, our cost of sales increased by approximately RMB122.9 million or 11.9% to RMB1,155.0 million from RMB1,032.1 million in the corresponding period last year, which was primarily due to the increase in sales volume of both bleaching and disinfectant chemicals and foaming agent.

The percentage for cost of sales to revenue increased from 67.7% for the year ended 31 December 2011 to 71.3% for the year ended 31December 2012 reflecting increase in cost of outsourcing production.

Gross profit and gross margin

Our gross profit decreased by approximately RMB28.0 million or 5.7% to RMB464.7 million for the year under review from RMB492.7 million for the corresponding period last year. The overall gross margin decreased from 32.3% in 2011 to 28.7% in 2012, which was primarily due to the decrease in average selling price of certain products as a result of market condition.

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

Gross margin (%)	2012	2011	Change
Bleaching and disinfectant chemicals	**33.1%**	40.7%	(18.7%)
Foaming agent	**21.1%**	24.1%	(12.5%)
Other specialty chemicals	**40.5%**	36.9%	9.8%
Overall	**28.7%**	32.3%	(11.2%)

Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals decreased from 40.7% for the year ended 31 December 2011 to 33.1% for the year ended 31 December 2012, which was primarily attributed to: (1) the decrease in average selling price of hydrogen peroxide as a result of market condition; and (2) the decrease was partially offset by the increase in average selling price of sodium chlorate as a result of increase in average selling price for export.

Foaming agent

The gross margin of foaming agent decreased from 24.1% for the year ended 31 December 2011 to 21.1% for the year ended 31 December 2012, which was primarily attributed to: (1) the decrease in average selling price of foaming agent as a result of market condition; (2) the upgrade of our production facilities and the increase in the usage of self-produced raw materials, for example of caustic soda and biurea, had mitigated the impact of decrease of average selling price.

Other specialty chemicals

The gross margin of other specialty chemicals increased from 36.9% for the year ended 31 December 2011 to 40.5% for the year ended 31 December 2012, which was primarily attributed to the higher selling price and margin of caustic soda as a result of applying the ion membrane production method with high quality.

Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation and related charges for our products, sales taxes such as urban maintenance and construction tax, educational surtax, travelling expenses and other selling and marketing expenses. The selling and marketing expenses of the Group increased by 18.2% to RMB38.3 million for the year ended 31 December 2012 from RMB32.4 million for the year ended 31 December 2011, which was primarily attributed to: (1) increase in the urban maintenance and construction tax and educational surtax as a result of the increase in proportion of domestic sales; (2) the expansion of sales of 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 decrease by 8.4% to RMB66.4 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 decreased by 45% to RMB2.0 million for the year ended 31 December 2012 from RMB3.7 million for the year ended 31 December 2011, which was primarily attributed to the decrease in both the sales of raw materials and government subsidies.

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 increased by 157.1% to RMB1.8 million for the year ended 31 December 2012 from RMB0.7 million for the year ended 31 December 2011, which was primarily attributed to the increase in net losses arising from the disposal of property, plant and equipment.

Finance income

Finance income primarily represents interest income from our bank deposits. The finance income of the Group increased by 92.6% to RMB5.2 million for the year ended 31 December 2012 from RMB2.7 million for the year ended 31 December 2011, which was primarily attributed to the increase in interest earned on our bank deposits as a result of increase in bank deposits during the year.

Finance costs

Finance costs primarily consist of interest expenses on bank borrowings, discount interest for bill payables, other finance charges and foreign exchange losses, less interest capitalized in property, plant and equipment. The finance costs of the Group increased by 6.0% to RMB28.4 million for the year ended 31 December 2012 from RMB26.8 million for the year ended 31 December 2011, which was primarily attributed to the increase in borrowings and usage of bill payable 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 decreased by 9.9% to RMB86.8 million for the year ended 31 December 2012 from RMB96.3 million for the year ended 31 December 2011. The effective tax rate decreased to 25.7% for the year ended 31 December 2012 from 26.2% for the year ended 31 December 2011 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 decreased by 6.9% to RMB249.7 million for the year ended 31 December 2012 from RMB268.2 million for the year ended 31 December 2011.

Profit attributable to non-controlling interests

The profit attributable to non-controlling interests of the Company decreased by 79.2% to RMB0.5 million for the year ended 31 December 2012 from RMB2.4 million for the year ended 31 December 2011, which was primarily attributed to the acquisition of the non – controlling interest of Fuzhou Yihua Chemical Stock Co., Ltd. ("Fuzhou Yihua") by Fujian Rongping Chemical Co., Ltd ("Fujian Rongping") during the year. Both Fuzhou Yihua and Fujian Rongping are subsidiaries of the Group.

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 RMB778.6 million (2011: approximately RMB926.1 million), most of which were denominated in Renminbi. As at 31 December 2012, the interest bearing bank borrowings of the Group amounted to approximately RMB418.2 million (2011: approximately RMB478.6 million). Please refer to note 16 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 1.84 (2011: 2.06). The Group was in a strong net cash position as at 31 December 2011 and 2012. The Group has sufficient and readily available finance resource for both general working capital purpose and foreseeable capital expenditure.

Working capital

Inventories were approximately RMB166.1 million in total as at 31 December 2012, as compared with approximately RMB101.1 million as at 31 December 2011. The increase was primarily due to increase in work in process namely, working solution to be used to produce hydrogen peroxide. Average inventory turnover days was 42 days for the year 2012 (2011: 36 days).

As at 31 December 2012, trade receivables amounted to approximately RMB256.1 million in total, as compared with approximately RMB336.8 million as at 31 December 2011. The decrease was primarily attributed to the continuous growth in our sales against the effective control on trade receivables. The average trade receivables turnover days was 66 days for the year 2012 (2011: 70 days).

As at 31 December 2012, trade and bills payables amounted to approximately RMB299.4 million in total, as compared with approximately RMB236.6 million as at 31 December 2011. The increase was mainly due to the increase in usage of 90 days letter of credit and bills guaranteed by banks in our payment. The average trade and bills payables turnover days was 84 days for the year 2012 (2011: 80 days).

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 2012, the net proceeds were applied in the following manner:

Use of proceeds	Net proceeds from initial public offering (HK$ million) Available	Applied	Not Applied
To be used for the upgrade and expansion of existing production facilities	288.2	288.2	–
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	332.5	110.9

To the extent that the net proceeds were not yet applied as at 31 December 2012, 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 2012, the capital commitments of the Group were approximately RMB4.6 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 2012, 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 2012, the Group employed a total of 1,181 full time employees. For the year ended 31 December 2012, the employee benefit expense was approximately RMB66.8 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

2013 would be a year of opportunities and challenges. On the premise of stable operation, the Company would stick to its emphasis on technological innovation and technical improvement. It would increase its market shares in the industry by adopting the following measures:

Stable improvement in production capacity

The Company expected that, during the year, it could complete the technical upgrade project of 50,000 tonnes of hydrogen peroxide for its existing plants and the technical upgrade of the production facilities of 15,000 tonnes of foaming agents and commence production. In addition, the Company will start construction of new plants during the year.

Active exploration of acquisition opportunities

Apart from completing the technical upgrades of the existing plants and preparing for the construction of new plants, the Company intends to actively explore the acquisition opportunities to increase its market shares in bleaching and disinfectant chemicals and foaming agent industry and strengthen its regional distribution so as to maintain its leading position in the industry.

Increase investment in technology and expand the effect of economy of scale

The Company and The Western Taiwan Strait Region Research Center of Chinese Academy of Sciences held a signing ceremony for R&D cooperation, pursuant to which both parties will co-construct an "Environmental-friendly Chemicals Research and Development Center" and formulate and implement major technology research issues. It aims at promoting healthy and sustainable development of the industry and the Company.

Moreover, through enhancement of the establishment of R&D technical team, the Company would focus on upgrading the product quality and value-added products. By technical upgrades of modifying technical formulation and advancing the technical process, energy consumption of unit products would be lowered and economy of scale of the Company enhanced.

Looking forward, the Company would continue to focus on implementing well-formulated strategies to maintain its leading position in the market and create benefits for shareholders and investors all the time, although there are still uncertainties in the market condition in 2013.

Biographies of Directors

Chairman and non-executive Director

Mr. Liem Djiang Hwa (林強華), aged 58, 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 48, 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 39, 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 56, 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, a non-executive Director and the Chairman of the Company. 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

Dr. Chen Xiao (陳曉), age 50, has been an independent non – executive Director since June 10, 2011. Dr. Chen is a professor in and chairman of the Department of Accounting at the School of Economics and Management of Tsinghua University (清華大學), For the past 16 years, he has been teaching and conducting academic research in the fields of accounting and taxation at Tsinghua University. Since August 2012, Dr. Chen has served as an independent director of Changyou.com Ltd. (stock code: CYOU), a company listed on NASDAQ. Since June 2007, he has also served as an independent 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. Prior to 2012, he served as an independent director of five public companies listed on the Shanghai and Shenzhen Stock Exchanges. Dr. Chen obtained a bachelor's degree in chemical engineering and machinery from Wuhan Institute of Technology (武漢工程大學) in 1983. He 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. Dr. 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. Dr. Chen is also a board member of the Accounting Society of China and International Tax Society of China.

Mr. Kou Huizhong (寇會忠), aged 45, 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 and a doctorate degree from Nankai University (南開大學) in 1990 and 1999 respectively. Mr. Kou then conducted his postdoctoral 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 50, 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) ("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) 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) 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 37, 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 35, 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 obtained a master's degree in business administration from Nanyang Technological University, Singapore in July 2012.

Mr. Chen Li (陳力), aged 45, 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 53, 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 45, 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 49, 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 56, 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 since 2007, 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 49, 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 Practices

The board of directors (the "Board") of the Company has committed to maintaining high corporate governance standards.

The Company's corporate governance practices are based on the principles code provisions as set out in the Corporate Governance Code (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").

The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles set out in the Corporate Governance Code (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").

In the opinion of the directors, throughout the year ended 31 December 2012, the Company has complied with all the code provisions as set out in the CG Code, save and except details as set out below.

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 throughout the year ended 31 December 2012.

Board of Directors

The Board of the Company comprises the following directors:

Non-executive Director:

Mr. Liem Djiang Hwa *(Chairman)*

Executive Directors:

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

Independent Non-executive Directors:

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

The biographical information of the directors are set out in the section headed "Biographies of Directors" on pages 11 to 12 of the annual report for the year ended 31 December 2012. The relationships between the members of the Board are also disclosed in the same section.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Liem Djiang Hwa and Mr. Chen Hong respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the directors of the Company is appointed for a term of 3 years with effect from 9 December 2011 and is subject to retirement by rotation once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

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.

All directors have full and timely access to all the information of the Company. The directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive 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 should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

In February 2012, the Company has organised training session on updates on Listing Rules which was attended by all directors.

In December 2012, Mr. Chen Hong and Ms. Miao Fei had attended the seminar on (1) statutory backing of issuer's obligations to disclose inside information and consequential changes to the Listing Rules; and (2) connected transactions, which were organised by the Stock Exchange of Hong Kong Limited in Shanghai, PRC.

Board Committees

The Board has established 3 committees, namely, the Audit Committee, Remuneration Committee and Nomination 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 posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 79.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held two meetings to review interim and annual financial results and reports in respect of the year ended 31 December 2012 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all directors and senior management; and 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.

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of Independent Non-executive Directors.

The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations.

The Nomination Committee met once to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting.

Attendance Record of Directors and Committee Members

The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2012 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**	**Annual General Meeting**
Liem Djiang Hwa	1/4	–	–	–	1/1
Chen Hong	4/4	–	–	–	1/1
Miao Fei	4/4	–	1/1	–	1/1
Lam Wai Wah	4/4	1/1	–	–	1/1
Chen Xiao	4/4	–	1/1	2/2	1/1
Kou Huizhong	4/4	1/1	1/1	2/2	1/1
Li Junfa	4/4	1/1	–	2/2	1/1

Apart from regular Board meetings, the Chairman also held meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

Directors' Responsibility 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 2012.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 27 to 28.

Auditors' Remuneration

The remuneration paid to the Company's external auditors of the Company in respect of audit services for the year ended 31 December 2012 amounted to RMB3,050,000.

An analysis of the remuneration paid to the external auditors of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2012 is set out below:

Service Category	**Fees Paid/ Payable** RMB
Audit Services	3,050,000
Non-audit Services	–
	3,050,000

Internal Controls

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

Company Secretary

Ms. Yuen Wing Yan, Winnie of Tricor Services Limited, external service provider, has been engaged by the Company as its company secretary. Its primary contact person at the Company is Ms. Miao Fei, Director of the Company. During 2012, the Company Secretary undertook over 20 hours of professional training to update her skills and knowledge.

Shareholders' 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.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Level 28, Three Pacific Place,
1 Queen's Road East, Hong Kong
(For the attention of the Board of Directors)
Email: yihua@chinafirstchemical.com

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors

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 endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, all Non-executive Directors, Independent Non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

The directors are pleased to present to shareholders their report and the audited financial statements of the Group for the year ended 31 December 2012.

Principal activities

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

Results

The results of the Group for the year ended 31 December 2012 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 page 78 of this annual report.

Dividend

The Board has not recommended the payment of any interim dividend for the six months ended 30 June 2012.

The Board recommended the payment of a final dividend of HK3.86 cents (RMB3.12 cents) per Share for the year ended 31 December 2012 to shareholders whose names appear on the register of members of the Company on 17 June 2013. The proposed final dividend is subject to the approval by the shareholders at the forthcoming annual general meeting to be held on Friday, 7 June 2013. The final dividend is expected to be paid on or about 28 June 2013.

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 Thursday, 6 June 2013 to Friday, 7 June 2013, 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 Wednesday, 5 June 2013.

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 Friday, 14 June 2013 and Monday, 17 June 2013, 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 Thursday, 13 June 2013.

Reserves

Details of movements in the reserves are set out in the consolidated statement of changes in equity on page 33 and Note 15 to the consolidated financial statements.

Distributable reserves

The Company's reserves available for distribution to shareholders at the end of the reporting period amounted to RMB789.7 million (2011: RMB565.9 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 consolidated financial statements.

Borrowings

Details of the borrowings of the Group are set out in Note 16 to the consolidated financial statements.

Share capital

Details of movements in the share capital of the Company are set out in Note 14 to the consolidated 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 2012.

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

In accordance with Article 16.18 of the Articles of Association of the Company, Mr. Liem Djiang Hwa, Dr. Chen Xiao, Mr. Kou Huizhong and Mr. Li Junfa 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 Dr. 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' interests in contracts
No contract of significance has been entered into during the year between the Company or any of its subsidiaries and the controlling Shareholders or any of its subsidiaries.

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 2012, 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	0.49%	(2)
Miao Fei	Long position	Beneficial owner	4,000,000	0.49%	(2)
Lam Wai Wah	Long position	Beneficial owner	4,000,000	0.49%	(2)
Chen Xiao	Long position	Beneficial owner	800,000	0.09%	(2)
Kou Huizhong	Long position	Beneficial owner	400,000	0.04%	(2)
Li Junfa	Long position	Beneficial owner	400,000	0.04%	(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 2012, 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 2012, 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 2012, 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:

	2012	2011
As a percentage of the Group's total sales		
The largest customer	**10.4%**	7.6%
Five largest customers in aggregate	**36.2%**	24.9%
As a percentage of Group's total purchases		
The largest supplier	**13.3%**	24.7%
Five largest suppliers in aggregate	**49.2%**	67.0%

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 2012.

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; and

(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 2012, 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; and

(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 2012, 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.

Retirement Schemes

The Group participates in a state-managed retirement scheme operated by the PRC government which covers the Group's eligible employees in the PRC. Particulars of these retirement plans are set out in note 22 to the consolidated financial statements in this annual report.

Material related party transactions

A summary of the related parties transactions entered into by the Group during the year ended 31 December 2012 is set out in Note 34 to the consolidated financial in this annual report 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 2012.

Continuing connected transactions

During the year ended 31 December 2012 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, 25 March 2013

羅兵咸永道

To the shareholders of China First Chemical Holdings Limited
(incorporated in Cayman Islands with limited liability)

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 29 to 77, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 2012, 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.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2013

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	75,567	77,331
Property, plant & equipment	7	1,064,238	773,606
Intangible assets	8	4,499	–
Deferred income tax assets	9	523	170
Prepayment for property, plant & equipment		–	1,834
		1,144,827	852,941
Current assets			
Inventories	10	166,148	101,056
Trade and other receivables	11	296,901	341,963
Restricted cash	12	61,491	37,692
Cash and cash equivalents	13	778,553	926,148
		1,303,093	1,406,859
Total Assets		2,447,920	2,259,800
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	14	65,346	65,168
Reserves	15	777,033	784,936
– Proposed final dividend	29	25,007	40,697
– Others		752,026	744,239
Retained earnings	15	789,743	565,854
		1,632,122	1,415,958
Non-controlling interests		–	10,402
Total equity		1,632,122	1,426,360

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*16*	**90,750**	137,310
Deferred income	*18*	**15,508**	14,743
		106,258	152,053
Current liabilities			
Trade and other payables	*17*	**369,837**	310,732
Current income tax liabilities		**12,346**	29,319
Borrowings	*16*	**327,357**	341,336
		709,540	681,387
Total liabilities		**815,798**	833,440
Total equity and liabilities		**2,447,920**	2,259,800
Net current assets		**593,553**	725,472
Total assets less current liabilities		**1,738,380**	1,578,413

The notes on pages 35 to 77 are an integral part of these financial statements.

The financial statements on pages 29 to 77 were approved by the Board of Directors on 25 March, 2013 and were signed on its behalf.

CHEN HONG
Director

MIAO FEI
Director

COMPANY BALANCE SHEET

		As at 31 December	
	Note	**2012 RMB'000**	2011 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	19	**1,449,426**	1,449,426
		1,449,426	1,449,426
Current assets			
Trade and other receivables	11	**483,040**	256,124
Cash and cash equivalents	13	**721**	282,526
		483,761	538,650
Total Assets		**1,933,187**	1,988,076
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	14	**65,346**	65,168
Reserves	15	**1,837,563**	1,871,228
– Proposed final dividend	29	**25,007**	40,697
– Others		**1,812,556**	1,830,531
Accumulated losses	15	**(20,606)**	(12,244)
Total equity		**1,882,303**	1,924,152
Liabilities			
Current liabilities			
Trade and other payables	17	**50,884**	63,924
Total liabilities		**50,884**	63,924
Total equity and liabilities		**1,933,187**	1,988,076
Net current assets		**432,877**	474,726
Total assets less current liabilities		**1,882,303**	1,924,152

The notes on pages 35 to 77 are an integral part of these financial statements.

The financial statements on pages 29 to 77 were approved by the Board of Directors on 25 March, 2013 and were signed on its behalf.

CHEN HONG
Director

MIAO FEI
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2012 RMB'000	2011 RMB'000
		Year ended 31 December	
Revenue	20	**1,619,634**	1,524,833
Cost of sales	20, 21	**(1,154,950)**	(1,032,092)
Gross profit		**464,684**	492,741
Selling and marketing expenses	21	**(38,302)**	(32,388)
Administrative expenses	21	**(66,394)**	(72,462)
Other income	23	**2,039**	3,720
Other losses – net	24	**(1,755)**	(681)
Operating profit		**360,272**	390,930
Finance income	25	**5,157**	2,679
Finance costs	26	**(28,379)**	(26,823)
Finance costs-net		**(23,222)**	(24,144)
Profit before income tax		**337,050**	366,786
Income tax expense	27	**(86,801)**	(96,262)
Profit and total comprehensive income for the year		**250,249**	270,524
Attributable to:			
– Equity holders of the Company		**249,712**	268,169
– Non-controlling interests		**537**	2,355
		250,249	270,524
Earnings per share attributable to the equity holders of the Company (RMB Yuan)			
– Basic	28	**0.31**	0.49
– Diluted	28	**0.31**	0.49
Proposed final dividend	29	**25,007**	40,697

The notes on pages 35 to 77 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital RMB'000 (Note 14)	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
		Attributable to equity holders of the Company								
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	15(a)	–	–	–	28,663	–	(28,663)	–	–	–
Gross proceeds from placing and public offering of shares	14(c)(d)	65,168	374,716	–	–	–	–	439,884	–	439,884
Share issuance costs		–	(62,017)	–	–	–	–	(62,017)	–	(62,017)
Share-based payment expense	32(a)	–	–	–	–	145	–	145	–	145
Issue of ordinary share for extinguishment of debts by the Parent Company	14(b)	–	–	209,332	–	–	–	209,332	–	209,332
Dividend distribution	29	–	–	(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
Balance at 1 January 2012		**65,168**	**312,699**	**371,150**	**100,942**	**145**	**565,854**	**1,415,958**	**10,402**	**1,426,360**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**249,712**	**249,712**	**537**	**250,249**
Profit appropriation to statutory reserves	15(a)	**–**	**–**	**–**	**25,823**	**–**	**(25,823)**	**–**	**–**	**–**
Issue of ordinary shares in connection with the IPO over-allotment	14(e)	**178**	**4,629**	**–**	**–**	**–**	**–**	**4,807**	**–**	**4,807**
Share-based payment expense	32(a)	**–**	**–**	**–**	**–**	**2,403**	**–**	**2,403**	**–**	**2,403**
Acquisition of non-controlling interests	15(b)	**–**	**–**	**(61)**	**–**	**–**	**–**	**(61)**	**(10,939)**	**(11,000)**
Dividend distribution	29	**–**	**–**	**(40,697)**	**–**	**–**	**–**	**(40,697)**	**–**	**(40,697)**
Balance at 31 December 2012		**65,346**	**317,328**	**330,392**	**126,765**	**2,548**	**789,743**	**1,632,122**	**–**	**1,632,122**

The notes on pages 35 to 77 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	*31*	**443,551**	405,389
Interest paid		**(32,788)**	(31,491)
Interest received		**5,157**	2,679
Income tax paid		**(104,127)**	(89,193)
Net cash generated from operating activities		**311,793**	287,384
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		**(338,540)**	(134,976)
Proceeds from sale of property, plant and equipment		**6,376**	1,179
Purchases of intangible assets		**(4,717)**	–
Proceeds from government grants		**2,030**	6,330
Repayments from related parties	*34*	**–**	6
Net cash used in investing activities		**(334,851)**	(127,414)
Cash flows from financing activities			
Borrowings from banks		**338,990**	456,406
Repayments of bank borrowings		**(394,976)**	(365,610)
Repayments of borrowings to related parties	*34*	**–**	(5,680)
Acquisition of non-controlling interests		**(11,000)**	–
Proceeds from issuing ordinary shares in connection with the IPO over-allotment		**4,807**	–
Repayments of borrowings to third parties		**–**	(589)
Proceeds from initial public offering ("IPO")		**–**	439,884
Payments of IPO expenses		**(20,749)**	(54,527)
Dividend paid		**(40,697)**	(100,374)
Net cash generated from/(used in) financing activities		**(123,625)**	369,510
Net (decrease)/increase in cash and cash equivalents		**(146,683)**	529,480
Cash and cash equivalents at beginning of year		**926,148**	397,231
Exchange loss on cash and cash equivalents		**(912)**	(563)
Cash and cash equivalents at end of year		**778,553**	926,148

The notes on pages 35 to 77 are an integral part of these financial statements.

1 General information and reorganisation

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

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.

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation"), the Group´s Business was carried out by the subsidiaries now comprising the Group and were all controlled by Mr. Liem Djiang Hwa (the "Controlling Shareholder"). The Group´s Reorganisation was completed on 14 June 2011 and thereafter, the Company became the holding Company of the Group. The ultimate parent company of the Company is Yihua Crown Limited.

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

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 25 March 2013.

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 2012.

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.

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.

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 2013 or later periods, but the Group has not early adopted them:

- IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board. It is not expected to have significant impact on the Group's consolidated financial statements.

- IFRS10, "Consolidated financial statements", builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group assesses IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013. It is not expected to have significant impact on the Group's consolidated financial statements.

- IFRS11 "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, "Disclosures of interests in other entities", includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 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 Measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. 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.

- 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.

- IAS 28 (Amendment) "Investments in Associates and Joint Ventures", prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 now permits an entity that has an investment in an associate, a portion of which is held indirectly through venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds, to elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with IFRS 9 regardless of whether these entities have significant influence over that portion of the investment. IAS 28 requires a portion of an investment in an associate or a joint venture to be classified as held for sale if the disposal of that portion of the interest would fulfil the criteria to be classified as held for sale in accordance with IFRS 5. The consensus of SIC-13 has been incorporated into IAS 28. As a result, gains and losses resulting from a contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in an associate or a joint venture are recognised only to the extent of unrelated investors' interests in the associate or joint venture, except when the contribution lacks commercial substance, as that term is described in IAS 16 Property, Plant and Equipment. The disclosure requirements have been placed in IFRS 12. 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) "Financial Instruments: Disclosures" issued in December 2011, amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity' recognised financial assets and recognised financial liabilities, on the entity's financial position. 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.

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

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.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(a) Business combinations *(Continued)*

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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 disposals to non-controlling interests are also recorded in equity.

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.

2.4 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 or valuation where items are re-measured. 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.

2 Summary of significant accounting policies *(Continued)*

2.4 Foreign currency translation *(Continued)*

(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.

2.5 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 and are included in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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

Patent right is shown at the fair value upon acquisition. Patent 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.

2.8 Financial assets

2.8.1 Classification

The Group's financial assets include loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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 11, 12 and 13).

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. Loans and receivables are carried at amortised cost using the effective interest method.

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

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.

For loans and receivables category, 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.

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.

2.11 Cash and cash equivalents

In the consolidated statement of cash flows, 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, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

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 Summary of significant accounting policies *(Continued)*

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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.

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 Summary of significant accounting policies *(Continued)*

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 year.

2.16 Provision and contingent liability

Provisions for environmental restoration, restructuring costs and legal claims 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return 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 Summary of significant accounting policies *(Continued)*

2.18 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.

2.19 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) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.20 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 2012 and 2011, approximately 14% 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 13, 11, 17, and 16), the Group's assets and liabilities are primarily denominated in RMB.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk *(Continued)*

At 31 December 2012, 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 2012 would have been RMB866,000 higher/lower (2011: RMB974,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of USD-denominated cash and trade receivables, other payables.

At 31 December 2012, 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 2012 would have been RMB3,654,000 lower/higher (2011: RMB3,815,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of JPY-denominated borrowings.

At 31 December 2012, 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 2012 would have been RMB953,000 lower/higher (2011: RMB11,787,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of HKD-denominated cash and cash equivalents, other payables and borrowings.

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 2012 and 2011, 95% and 97% 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 11. 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 2012, the exposure to the top 15 customers did not exceed 63% (2011: 55%) of the gross trade and other receivables, with the exposure to the largest customer representing less than 14% (2011: 8%).

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(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 16. 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 2012 and 2011 to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
At 31 December 2012			
Borrowings and interest payable	**342,030**	**52,059**	**50,520**
Trade and other payables	**369,673**	**–**	**–**
	711,703	**52,059**	**50,520**
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

(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 2012 and 2011, approximately RMB225,834,000 and RMB154,270,000 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 16, 12 and 13 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 16. 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.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Interest rate risk *(Continued)*

At 31 December 2012 and 2011, 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 RMB2,210,000 higher/lower and 2,426,000 higher/lower.

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 2012 and 2011 were as follows:

	As at 31 December	
	2012 **RMB'000**	2011 RMB'000
Bank borrowings *(Note 16)*	**418,107**	478,646
Less: cash and cash equivalents *(Note 13)*	**(778,553)**	(926,148)
Net debt	**(360,446)**	(447,502)
Total equity	**1,632,122**	1,426,360
Total capital	**1,271,676**	978,858
Gearing ratio	**N/A**	N/A

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. Management does not review the operating results by geographical areas to make decisions with respect to assets allocation and performance evaluation, nor does the Group prepare separate financial information by geographical areas. 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	
	2012	2011
	RMB'000	RMB'000
Cost	**88,206**	88,206
Accumulated amortisation	**(12,639)**	(10,875)
Net book value	**75,567**	77,331
Representing:		
Opening net book amount	**77,331**	79,095
Amortisation *(Note 21)*	**(1,764)**	(1,764)
Closing net book amount	**75,567**	77,331

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 RMB15,075,000 and RMB15,499,000 as at 31 December 2012 and 2011 respectively were secured for bank borrowings (Note 16).

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 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 21)*	(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
Year ended 31 December 2012						
Opening net book amount	**368,338**	**355,811**	**5,676**	**2,603**	**41,178**	**773,606**
Additions	**–**	**16,121**	**395**	**2,701**	**346,725**	**365,942**
Transfer upon completion	**32,414**	**294,844**	**–**	**–**	**(327,258)**	**–**
Disposals	**–**	**(8,121)**	**–**	**(10)**	**–**	**(8,131)**
Depreciation *(Note 21)*	**(14,454)**	**(51,046)**	**(903)**	**(776)**	**–**	**(67,179)**
Closing net book amount	**386,298**	**607,609**	**5,168**	**4,518**	**60,645**	**1,064,238**
At 31 December 2012						
Cost	**523,668**	**958,667**	**9,261**	**8,821**	**60,645**	**1,561,062**
Accumulated depreciation and impairment	**(137,370)**	**(351,058)**	**(4,093)**	**(4,303)**	**–**	**(496,824)**
Net book amount	**386,298**	**607,609**	**5,168**	**4,518**	**60,645**	**1,064,238**

7 Property, plant and equipment *(Continued)*

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of sales	**61,513**	53,711
Selling and marketing expenses	**109**	110
Administrative expenses	**5,557**	5,267
	67,179	59,088

(b) As at 31 December 2012 and 2011, certain buildings and machinery with an aggregate carrying value of RMB156,282,000 and RMB164,356,000 were secured for bank borrowings respectively (Note 16).

8 Intangible assets

Intangible assets represent patents and details are as follows:

	RMB'000
Year ended 31 December 2012	
Opening net book amount	–
Additions	4,717
Amortisation *(Note 21)*	(218)
Closing net book amount	4,499
At 31 December 2012	
Cost	4,717
Accumulated amortisation	(218)
Net book amount	4,499

Amortisation of intangible assets has been charged to administrative expenses in the consolidated statement of comprehensive income.

9 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 2011	370
Charged to the consolidated statement of comprehensive income	(200)
At 31 December 2011	**170**
Credited to the consolidated statement of comprehensive income	**353**
At 31 December 2012	**523**

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

Dividends derived from the Company's subsidiaries in the PRC earned after 1 January 2008 are subject to withholding tax at the rate of 5%. During the year ended 31 December 2012 and 2011, the Group reassessed its needs to make distributions out of its subsidiaries in the PRC. As a result, no withholding income tax has been provided for the dividends distributed during the year and to the extent they are expected to be distributed in future.

10 Inventories

	As at 31 December	
	2012 **RMB'000**	2011 RMB'000
Raw materials	**15,659**	21,059
Work in progress	**133,796**	69,768
Finished goods	**16,693**	10,229
	166,148	101,056
Less: provision for write-down of inventories	**–**	–
	166,148	101,056

The cost of inventories recognised as expense and included in cost of sales for the years ended 31 December 2012 and 2011 amounted to RMB769,009,000 and RMB668,884,000 respectively.

11 Trade and other receivables

	Group		Company	
	As at 31 December			
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Trade receivables (a)				
Due from third parties	**256,144**	336,813	**–**	–
Prepayments (b)	**40,113**	4,095	**–**	–
Other receivables (c)				
Due from subsidiaries	**–**	–	**483,040**	256,124
Due from third parties	**644**	1,055	**–**	–
	296,901	341,963	**483,040**	256,124

The carrying amounts of receivables approximate their fair values.

(a) 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 2012 and 2011, the ageing analysis of the trade receivables is set as follows:

	Group		Company	
	As at 31 December			
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Within 3 months	**253,653**	336,160	**–**	–
Between 4 and 6 months	**12**	639	**–**	–
Between 7 and 12 months	**2,479**	14	**–**	–
	256,144	336,813	**–**	–

11 Trade and other receivables *(Continued)*

(a) *(Continued)*

As at 31 December 2012 and 2011, trade receivables of approximately RMB2,491,000 and RMB653,000 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:

	Group		Company	
	As at 31 December			
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Between 4 and 6 months	**12**	639	**–**	–
Between 7 and 12 moths	**2,479**	14	**–**	–
	2,491	653	**–**	–

As at 31 December 2012 and 2011, no trade receivables were impaired and provided for.

(b) Prepayments

	Group		Company	
	As at 31 December			
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Prepayments for raw materials	**2,000**	3,733	**–**	–
Value added tax input credits	**37,996**	–	**–**	–
Others	**117**	362	**–**	–
	40,113	4,095	**–**	–

11 Trade and other receivables *(Continued)*

(c) Other receivables

	Group		Company	
	As at 31 December			
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Due from subsidiaries	**–**	–	**483,040**	256,124
Advance to employees	**40**	272	**–**	–
Others	**604**	783	**–**	–
	644	1,055	**483,040**	256,124

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

	Group		Company	
	As at 31 December			
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
RMB	**236,298**	323,528	**127,224**	–
USD	**20,490**	14,340	**127,702**	128,011
HKD	**–**	–	**228,114**	128,113
	256,788	337,868	**483,040**	256,124

12 Restricted cash

As at 31 December 2012 and 2011, the entire balance of restricted cash was secured for issuing of bills to its suppliers amounted to RMB231,783,000 and RMB135,772,000 respectively (Note 17(b)).

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

13 Cash and cash equivalents

	Group		Company	
	As at 31 December			
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash in hand	**40**	18	**–**	–
Bank deposits	**778,513**	926,130	**721**	282,526
	778,553	926,148	**721**	282,526

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	As at 31 December			
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
– RMB	**775,265**	581,289	**3**	123,824
– HKD	**742**	332,418	**530**	157,339
– USD	**2,546**	12,441	**188**	1,363
	778,553	926,148	**721**	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.

14 Share capital

	Note	**Number of ordinary shares**	**Nominal value of ordinary shares** HKD
Authorised:			
Ordinary shares of HKD 0.1 each			
As at 31 December 2012 and 2011	*(a)*	5,000,000,000	500,000,000

14 Share capital *(Continued)*

	Note	**Number of ordinary shares**	**Nominal value of ordinary shares** HKD	**Equivalent nominal value of ordinary shares** RMB
Issued and fully paid:				
As at 1 January 2011		1	–	–
Issue of ordinary shares to China First Chemical Ltd. ("Parent Company")		2	–	–
Issue of ordinary shares for extinguishment of debts by Parent Company	*(b)*	1	–	–
Share issued under the capitalisation issue	*(c)*	599,999,996	60,000,000	48,876,000
New issue of shares	*(d)*	200,000,000	20,000,000	16,292,000
As at 31 December 2011		800,000,000	80,000,000	65,168,000
As at 1 January 2012		800,000,000	80,000,000	65,168,000
Issue of ordinary shares in connection with the IPO over-allotment	*(e)*	2,191,000	219,100	178,000
As at 31 December 2012		802,191,000	80,219,100	65,346,000

Notes:

(a) The Company was incorporated on 24 November 2010 with an initial authorized share capital of HKD250,000,000 divided into 2,500,000,000 ordinary shares with par value of HKD0.10 each. By written resolutions of the sole shareholder of the Company dated 14 June 2011, the authorized 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 14 June 2011, the Parent Company assigned all the outstanding loan due and payable by Longpower Corporation Limited, a subsidiary of the Company, of approximately RMB209,332,000 to the Company, in settlement of which, the Company issued and allotted 1 ordinary share to Parent Company.

(c) 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 HKD60,000,000 (equivalent to RMB48,876,000) from the share premium account, in its share capital 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.

(d) On 9 December 2011, the Company issued 200,000,000 ordinary shares of HKD0.1 each at HKD2.70 per share in connection with the Listing, and raised gross proceeds of approximately HKD540,000,000 (equivalent to RMB439,884,000), in which HKD20,000,000 (equivalent to RMB16,292,000) recognised as share capital and HKD 520,000,000 (equivalent to RMB423,592,000) recognised as share premium.

(e) On 5 January 2012, 2,191,000 ordinary shares (at par value of HKD0.1 each) of the Company were allotted and issued at the price of HKD2.70 per share in connection with the IPO over-allotment.

15 Reserves and retained earnings

Group

	Note	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
Balance at 1 January 2011		–	262,192	72,279	–	326,348	660,819
Profit for the year		–	–	–	–	268,169	268,169
Profit appropriations to statutory reserves	*(a)*	–	–	28,663	–	(28,663)	–
Gross proceeds from placing and public offering of shares		374,716	–	–	–	–	374,716
Share issuance costs		(62,017)	–	–	–	–	(62,017)
Share-based payment expense	*32(a)*	–	–	–	145	–	145
Issue of ordinary share for extinguishment of loan by the Parent Company		–	209,332	–	–	–	209,332
Dividends distribution		–	(100,374)	–	–	–	(100,374)
Balance at 31 December 2011		312,699	371,150	100,942	145	565,854	1,350,790
Balance at 1 January 2012		312,699	371,150	100,942	145	565,854	1,350,790
Profit for the year		–	–	–	–	249,712	249,712
Profit appropriations to statutory reserves	*(a)*	–	–	25,823	–	(25,823)	–
Issue of ordinary shares in connection with the IPO over-allotment	*14(e)*	4,629	–	–	–	–	4,629
Share-based payment expense	*32(a)*	–	–	–	2,403	–	2,403
Acquisition of non-controlling interests	*(b)*	–	(61)	–	–	–	(61)
Dividends distribution		–	(40,697)	–	–	–	(40,697)
Balance at 31 December 2012		317,328	330,392	126,765	2,548	789,743	1,566,776

(a) 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.

15 Reserves and retained earnings (continued)

Group *(Continued)*

(b) Acquisition of non-controlling interests

On 21 March 2012, Fujian Rongping Chemical Co., Ltd. ("Fujian Rongping"), a wholly owned subsidiary of the Group, acquired the remaining 2.73% equity interests of Fuzhou Yihua Chemical Stock Co., Ltd. ("Fuzhou Yihua") from a non-controlling shareholder at a cash consideration of RMB11,000,000.Thereafter, Fuzhou Yihua became a wholly owned subsidiary of the Group.

The effect of changes in the ownership interest of Fuzhou Yihua on the equity attributable to owners of the Group is summarised as follows:

	As at 31 December 2012 RMB'000
Carrying amount of non-controlling interests acquired	10,939
Consideration paid to non-controlling interests	(11,000)
Excess of consideration paid recognised within equity	(61)

Company

	Note	Share premium RMB'000	Capital reserve RMB'000	Share-based compensation reserve RMB'000	Accumulated losses RMB'000	Sub-total RMB'000
Balance at 1 January 2011		–	–	–	–	–
Losses for the year		–	–	–	(12,244)	(12,244)
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	*32(a)*	–	–	145	–	145
Balance at 31 December 2011		312,699	1,558,384	145	(12,244)	1,858,984
Balance at 1 January 2012		312,699	1,558,384	145	(12,244)	1,858,984
Losses for the year		–	–	–	(8,362)	(8,362)
Issue of ordinary shares in connection with the IPO over-allotment	*14(e)*	4,629	–	–	–	4,629
Share-based payment expense	*32(a)*	–	–	2,403	–	2,403
Dividends distribution		–	(40,697)	–	–	(40,697)
Balance at 31 December 2012		317,328	1,517,687	2,548	(20,606)	1,816,957

16 Borrowings

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Non-current		
Secured bank borrowings	**90,750**	137,310
Current		
Current portion of long-term secured bank borrowings	**46,560**	16,960
Short-term secured bank borrowings	**265,797**	324,376
Short-term secured borrowings in financial institutions	**15,000**	–
	327,357	341,336
Total borrowings	**418,107**	478,646

(a) The Group's borrowings are secured by:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Group's assets		
Buildings and land use rights *(Note 7(b), Note 6)*	**29,200**	24,500
Guarantees provided by		
Subsidiaries of the Group	**388,907**	454,146
	418,107	478,646

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**327,357**	341,336
Between 1 and 2 years	**47,060**	46,560
Between 1 and 2 years	**43,690**	90,750
	418,107	478,646

16 Borrowings *(Continued)*

(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	
	2012 **RMB'000**	2011 RMB'000
Bank borrowings		
– fixed rates	**192,273**	324,376
– floating rates	**225,834**	154,270
	418,107	478,646

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

	As at 31 December	
	2012 **RMB'000**	2011 RMB'000
Bank borrowings	**5.68%**	5.39%

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.

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

	As at 31 December	
	2012 **RMB'000**	2011 RMB'000
– RMB	**296,332**	376,910
– JPY	**97,451**	101,736
– HKD	**24,324**	–
	418,107	478,646

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

	As at 31 December	
	2012 **RMB'000**	2011 RMB'000
Undrawn borrowing facilities	**896,359**	684,602

17 Trade and other payables

	Group		Company	
	As at 31 December			
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (a)				
Due to third parties	**67,640**	100,871	**–**	–
Bills payable (b) *(Note 12)*				
Due to third parties	**231,783**	135,772	**–**	–
Other payables and accrual (c)				
Due to subsidiaries	**–**	–	**46,817**	39,458
Due to third parties	**70,414**	74,089	**4,067**	24,466
	369,837	310,732	**50,884**	63,924

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

	Group		Company	
	As at 31 December			
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**67,640**	100,611	**–**	–
Between 4 and 6 months	**–**	240	**–**	–
Between 7 and 12 months	**–**	20	**–**	–
	67,640	100,871	**–**	–

(b) As at 31 December 2012 and 2011, the entire balances of bills payable were secured by restricted cash of RMB61,491,000 and RMB37,692,000 respectively (Note 12).

17 Trade and other payables *(Continued)*

(c) Details of other payables are as follows:

	Group		Company	
	As at 31 December			
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Due to subsidiaries	**–**	–	**46,817**	39,458
Advance from customers	**164**	629	**–**	–
Payable for property, plant and equipment purchases	**29,098**	3,530	**–**	–
Freight charges	**10,082**	12,954	**–**	–
Water and electricity	**10,880**	13,147	**–**	–
Salary and welfare payable	**10,499**	7,549	**–**	–
Taxes	**2,086**	8,131	**–**	–
Payable for IPO expenses	**1,517**	22,266	**1,517**	22,266
Auditor's remuneration	**2,550**	2,200	**2,550**	2,200
Others	**3,538**	3,683	**–**	–
	70,414	74,089	**50,884**	63,924

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

	Group		Company	
	As at 31 December			
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
– RMB	**368,321**	264,262	**49,368**	17,454
– USD	**9**	33,237	**9**	33,237
– HKD	**1,507**	13,233	**1,507**	13,233
	369,837	310,732	**50,884**	63,924

18 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	
	2012	2011
	RMB'000	RMB'000
Opening net book amount	**14,743**	9,291
Additions	**2,030**	6,330
Amortisation	**(1,265)**	(878)
Closing net book amount	**15,508**	14,743
At end of year		
Cost	**17,730**	15,700
Accumulated amortisation	**(2,222)**	(957)
Net book amount	**15,508**	14,743

19 Investment in subsidiaries

Company

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Investments in unlisted shares, at cost	**1,449,426**	1,449,426

19 Investment in subsidiaries *(Continued)*

As at 31 December 2012, 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	RMB228,000,000	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.	PRC/ 7 June 2003	Manufacturing and sale of chemical products	RMB190,000,000	100%
Fujian Jinrong Technical Co., Ltd.	PRC/ 14 August 2012	Manufacturing and sale of chemical products	RMB100,000,000	100%

20 Revenue and cost of sales

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

	Bleaching and disinfectant chemicals RMB'000	Forming agent RMB'000	Other specialty chemicals RMB'000	Total RMB'000
Year ended 31 December 2012				
Revenue	596,835	759,378	263,421	1,619,634
Costs of sales	(399,096)	(599,174)	(156,680)	(1,154,950)
	197,739	160,204	106,741	464,684
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

21 Expenses by nature

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Raw materials used and changes in inventories	**769,009**	668,884
Depreciation of property, plant and equipment *(Note 7)*	**67,179**	59,088
Electricity and other utility fees	**269,872**	257,673
Employee benefit expenses *(Note 22)*	**66,799**	59,503
Transportation and related charges	**26,975**	22,708
Taxations	**12,984**	16,760
Amortisation of land use rights *(Note 6)*	**1,764**	1,764
Amortisation of intangible assets *(Note 8)*	**218**	–
Office and entertainment expenses	**14,771**	10,083
Operating leases expenses *(Note 7)*	**1,349**	1,031
Property insurance fee	**2,048**	2,071
Travelling expenses	**1,833**	1,979
Repairs and maintenance	**9,985**	7,352
Auditors' remuneration	**3,050**	2,273
IPO expenses	**–**	16,636
Other expenses	**11,810**	9,137
	1,259,646	1,136,942

22 Employee benefit expenses

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Wages, salaries and bonuses	**46,934**	42,492
Contributions to pension plan *(a)*	**8,286**	7,805
Welfare and other expenses	**9,176**	9,061
Pre-IPO option scheme expense *(Note 32(a))*	**2,403**	145
	66,799	59,503

(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.

22 Employee benefit expenses *(Continued)*

(b) Directors' emoluments

The details of emoluments paid and payable to the directors for the year ended 31 December 2012 are set out below:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries, wages and bonuses	**2,329**	2,347
Contributions to pension plan	**49**	52
Pre-IPO option scheme expenses	**2,043**	123
	4,421	2,522

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

	Year ended 31 December 2012			
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**
Mr. Liem Djiang Hwa	**360**	**–**	**–**	**360**
Mr. Chen Hong	**600**	**25**	**601**	**1,226**
Ms. Miao Fei	**500**	**24**	**601**	**1,125**
Mr. Lam Wai Wah	**500**	**–**	**601**	**1,101**
Mr. Chen Xiao*	**123**	**–**	**120**	**243**
Mr. Kou Huizhong*	**123**	**–**	**60**	**183**
Mr. Li Junfa*	**123**	**–**	**60**	**183**
Total	**2,329**	**49**	**2,043**	**4,421**

22 Employee benefit expenses *(Continued)*

(b) Directors' emoluments *(Continued)*

	Year ended 31 December 2011			
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
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

* represent the independent non-executive directors

(c) Five highest paid individuals

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
In the capacity as:		
Directors	**3,812**	2,360
Senior management	**324**	323

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Salaries, wages and bonuses	**300**	300
Contributions to pension plan	**24**	23
	324	323

22 Employee benefit expenses *(Continued)*

(c) Five highest paid individuals *(Continued)*

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

	Number of individuals Year ended 31 December	
	2012	2011
Nil to HKD1,000,000	**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.

23 Other income

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Profit from sales of raw materials	**–**	2,196
Subsidy income granted by government	**2,039**	1,524
	2,039	3,720

24 Other losses – net

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
(Loss)/gain on disposals of		
– Property, plant and equipment	**(1,755)**	(728)
– Available-for-sale financial assets	**–**	47
	(1,755)	(681)

25 Finance income

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Interest income from bank deposits	**5,157**	2,679

26 Finance costs

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Interest expenses:		
– Bank borrowings	**27,796**	24,508
– Discount interest for bill payables	**7,521**	4,232
– Other charges	**1,782**	3,564
	37,099	32,304
Less: Interest capitalised in property, plant and equipment	**(4,311)**	(813)
	32,788	31,491
Exchange gains	**(4,409)**	(4,668)
	28,379	26,823

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Weighted average effective interest rates used to calculate capitalisation amount	**6.01%**	5.33%

27 Income tax expense

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Current income tax – PRC enterprise income tax	**87,154**	96,062
Deferred income tax (credit)/charge *(Note 9)*	**(353)**	200
	86,801	96,262

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	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	**337,050**	366,786
Tax calculated at PRC statutory tax rates	**84,262**	91,697
Expenses not deductible for tax purposes	**2,690**	4,660
Income not subject to taxation	**(151)**	(95)
	86,801	96,262

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.

28 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.

	Year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**249,712**	268,169
Weighted average number of ordinary shares in issue (thousand)	**802,167**	544,247
Basic earnings per share (RMB yuan)	**0.31**	0.49

28 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 year ended 31 December 2012 is lower than the exercise price of the pre-IPO share options, the pre-IPO share options are therefore not included in the diluted earnings per share calculation. The diluted earnings per share is the same as the basic earnings per share.

29 Dividend

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Proposed final dividend	**25,007**	40,697
Dividend paid	**40,697**	100,374

On 29 April 2011, the Company declared a dividend of HKD0.27 per share totalled to HKD120 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 14) 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 June 2011.

The final dividend in respect of the year ended 31 December 2011 of HKD0.0623 per share, amounting to a total dividend of HKD49,840,000 (equivalent to RMB40,697,000) was paid in June 2012.

A dividend in respect of the year ended 31 December 2012 of HKD0.0386 (equivalent to RMB0.0312) per share, amounting to a total dividend of HKD30,965,000 (equivalent to RMB25,007,000) is to be proposed at the annual general meeting on 7 June 2013. The consolidated financial statements do not reflect this dividend payable.

30 Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company is dealt with in the financial statements of the company to the extent of RMB8,362,000 (2011: RMB12,244,000).

31 Notes to consolidated cash flow statements

Cash generated from operations

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit for the year	**250,249**	270,524
Adjustments for:		
– Income tax expenses *(Note 27)*	**86,801**	96,262
– Depreciation *(Note 7)*	**67,179**	59,088
– Amortisation of land use rights *(Note 6)*	**1,764**	1,764
– Amortisation of intangible assets *(Note 8)*	**218**	–
– Deferred income amortisation *(Note 18)*	**(1,265)**	(878)
– Interest income *(Note 25)*	**(5,157)**	(2,679)
– Finance cost *(Note 26)*	**28,379**	26,823
– Loss on disposals of property, plant and equipment *(Note 24)*	**1,755**	728
– Gain on disposal of available-for-sale of financial assets *(Note 24)*	**–**	(47)
– Pre-IPO Option Scheme expense *(Note 32(a))*	**2,403**	145
– IPO expenses *(Note 21)*	**–**	16,636
Changes in working capital:		
– Inventories	**(65,092)**	6,471
– Trade and other receivables	**45,079**	(73,919)
– Trade and other payables	**55,037**	11,268
– Restricted cash	**(23,799)**	(6,797)
Cash generated from operations	**443,551**	405,389

32 Share-based compensation

(a) The Group adopted a pre-IPO share option scheme which was 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 installments 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 2012 and 2011, 16,000,000 outstanding options had not been vested and not exercised. These options with an exercise price of HKD2.70 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 HKD9,843,000. The options have been divided into three batches according to different vesting periods.

32 Share-based compensation *(Continued)*

(a) *(Continued)*

The significant inputs to the model are summarised as below:

Stock price (HKD)	2.72
Exercise price (HKD)	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 2012 amounted to RMB2,403,000 (2011: RMB145,000).

(b) The Group adopted another share option scheme which was 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 2012.

33 Commitments

(a) Capital commitments

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

	As at 31 December	
	2012 **RMB'000**	2011 RMB'000
Authorised and contracted but not provided for – Property, plant and equipment	**4,559**	5,951

(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	
	2012 **RMB'000**	2011 RMB'000
No later than 1 year	**1,494**	251
1-2 year	**378**	–

34 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	
	2012	2011
	RMB'000	RMB'000
Repayment of loans from related parties	**–**	6
Repayment of borrowings to related parties	**–**	5,680

(b) Key management compensation:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries, wages and bonuses	**2,790**	3,022
Contributions to pension plan	**173**	179
	2,963	3,201

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

35 Subsequent events

In January 2013, the Company entered into a framework agreement (the "Framework Agreement") with an independent third party in relation to a proposed acquisition of 30% equity interest in a PRC enterprise (the "Target Company"), which is located in western China and principally engaged in production and sale of sodium chlorate and other specialty chemicals (the "Proposed Acquisition").

The entering into of the Framework Agreement does not constitute any legally binding obligations on the parties in respect of the Proposed Acquisition and the completion of which is subject to, among other things, the satisfaction of due diligence results of the Target Company and the entering into formal share sale and purchase agreement between the parties.

FOUR-YEAR FINANCIAL SUMMARY

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Operating results				
Revenue	**1,619,634**	1,524,833	1,211,826	1,006,502
Gross profit	**464,484**	492,741	320,817	275,656
Operating profit	**360,272**	390,930	247,356	214,123
Finance costs – net	**23,222**	24,144	17,960	28,788
Profit before income tax	**337,050**	366,786	229,396	185,335
Profit and total comprehensive income for the year attributable to equity holders of the Company	**249,712**	268,169	169,051	134,413
Profit margin				
Gross profit margin	**28.7%**	32.3%	26.5%	27.4%
Operating profit margin	**22.2%**	25.6%	20.4%	21.3%
Net profit margin	**15.4%**	17.7%	14.1%	13.5%
Earnings per share				
Basic and diluted (RMB)	**0.31**	0.49	0.38	0.30
Assets and liabilities				
Total assets	**2,447,920**	2,259,800	1,595,950	1,283,894
Equity attributable to the equity holders of the Company	**1,632,122**	1,415,958	660,819	475,951
Total liabilities	**815,798**	833,440	927,084	801,522
Net asset value/total equity	**1,632,122**	1,426,360	668,866	482,372
Interest-bearing bank borrowings	**418,107**	478,646	387,850	468,212
Cash and cash equivalent	**778,553**	926,148	397,231	195,834
Quick ratio (X)	**1.6**	1.9	0.9	0.7
Current ratio (X)	**1.8**	2.1	1.1	0.9
Inventory turnover (days)	**42**	36	34	26
Trade receivables turnover (days)	**66**	70	75	64
Trade and notes payables turnover (days)	**84**	80	88	67
Net asset value per share (RMB)	**2.03**	2.62	1.49	1.07
Gearing ratio	**N/A**	N/A	24%	37%
Total interest-bearing bank borrowings to total equity	**26%**	34%	58%	97%

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 2009 and 2010 was 450,000,000 shares, for the year ended 31 December 2011 was 544,247,000 shares, and for the year ended 31 December 2012 was 802,167,000.

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:

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

Registered Office

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1 Queen's Road East,
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Company's Website

www.chinafirstchemical.com

Company Secretary

Ms. Yuen Wing Yan, Winnie *FCIS, FCS*

Authorized Representatives

Mr. Lam Wai Wah
Ms. Miao Fei

Alternate Authorized Representative

Ms. Yuen Wing Yan, Winnie

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Compliance Adviser

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Grand Cayman, KY1–1102,
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Hong Kong Share Registrar

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28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Industrial and Commercial Bank of China Limited
Mindu Sub-branch
No. 108 Gu Tian Road, Fuzhou
Fujian Province
PRC

China Construction Bank Corporation Limited
Pingnan Sub-branch
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CHINA FIRST CHEMICAL HOLDINGS LIMITED
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