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

# INTERIM REPORT 2013

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It has been one and a half years since the Company's shares successfully listed on the main board of The Stock Exchange of Hong Kong Limited on 9 December 2011. During this period, a number of measures were launched which had strengthened our leading position in the PRC market and further expanded our market share through further acquisitions over the course of industrial integration.

During the period under review, the revenue of the Group was approximately RMB767.5 million, representing a decrease of approximately 10.5% from the revenue of approximately RMB857.8 million for the corresponding period of 2012. The gross profit decreased by 25.2% to approximately RMB201.0 million from the same period of 2012. During the six months ended 30 June 2013, the net profit attributable to the equity holders of the Company and the basic earnings per share were approximately RMB104.5 million and approximately RMB0.13, representing a decrease of approximately 31.3% and a decrease of approximately 31.3% as compared with the corresponding period last year.

## Business Review

As early as the first half of 2012, as the production capacity of major competitors was gradual released, the Group's major products, including bleaching and disinfectant chemicals as well as its foaming agent, were faced against a relatively fierce market competition. Impacted by fierce price wars and the deceleration in growth of downstream industries, the price of the Group's major products started to decline, hitting its lowest point at the end of the fourth quarter of 2012. As a result of these abovementioned factors, the Group's operating results drastically dropped during the second half of 2012.

In 2013, the global economy continues to experience an adjustment period after the financial crisis while the global environment abounds with complexities and uncertainties. As a result of slowing macroeconomic growth trends in China as well as the accelerated adjustment of the economic structure by the Chinese government, the gross domestic product reported a growth of 7.6% in the first half of 2013, and the overall economy achieved a stabilized and accelerated development. During the first half of 2013, the Group 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 would 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. In addition, as of now, the Group has completed its acquisition of a 30% equity interest in Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd. By acquiring the equity interest in the largest Chinese sodium chlorate production base as well as through mutually-beneficial collaboration with Chengdu Huaxi Hope Group Co., Ltd (a famous private enterprise), the Group fortified its market share and regional deployment in the industry, which focuses on sodium chlorate and other specialty chemicals, thereby improving its result performance in the future.

In the first half of 2013, to seize opportunities arising from market development and industrial integration as well as satisfying and guaranteeing the growing market demand, the Group invested a total of RMB190 million. The Group completed its technological transformation and expansion for 5,000 tons of biurea and 15,000 tons of its foaming agent, thus successfully operating its new production line. Moreover, the Group utilized the abovementioned capital to complete the transformation and upgrade of the major power transfer routes for three factories. With more technological investment, the Group further lowered its energy consumption of each product unit, and improved its overall economic benefits.

Benefiting from industrial integration, more technological investment, and continued efforts taken by its entire employee force, the Group's revenue amounted to approximately RMB767.5 million in the first half of 2013, representing a slight increase of 0.7% as compared with that for the second half year of 2012, while the net profit attributable to the equity holders of the Company was approximately RMB104.5 million, representing a slight increase of 7.1% as compared with that for the second half year of 2012.

## Future Prospects

As a result of the 12th Five-year Plan implemented by the Chinese government, the policy of energy conservation and emission reduction is determined as a long-term policy. According to the Plan, the first and second categories out of the five major categories set out by the policy of energy conservation and emission reduction will comprise businesses related "Urban wastewater treatment" and "more effort taken to handle wastewater treatment and technical and technological transformation by focusing on processing industries (pulp and paper production, printing and dyeing, food processing, and agricultural by products)". Currently, the government is sorting out an investment plan worth RMB2 trillion for the "wastewater prevention and control campaign" scheme. Owing to the policy guidance and large-scale investments, issues related to the wastewater treatment industry will be resolved, including its constraints on environmental technologies and power to purchase products due to insufficient investments in technological transformation.

In addition, according to the 12th Five-Year Plan for the development of the pulp and paper industry issued by the National Development and Reform Commission in January 2012, specific limitations are imposed on new projects involved in traditional elemental chlorine-bleaching techniques, and current enterprises will promote an elemental chlorine-free technique. By 2015, the adoption rate of the elemental chlorine-free technique adopted in the entire pulp and paper industry across the country is required to reach 40%. This compulsory requirement will promote further growth in the sales of bleaching and disinfectant products of the Group.

According to the Opinions on Accelerating the Development of Energy Conservation and Environmental Protection Industry (hereinafter referred to as the "Opinions") issued by the State Council in August 2013, to accelerate the development of urban environmental infrastructure, the local government bodies and corporate investment serve as major players, while the central government only renders appropriate fiscal support. By 2015, all cities and towns are required to have a daily-centralized sewage treatment capacity of 200 million cubic meters. The Group believes that the ongoing implementation of the abovementioned policies sets a clear course for the government to treat environmental pollution, improve the ecological environment, and sustain economic and social development, thus presenting new development opportunities to the Group.

In the second half of 2013, the Group will continue to implement the turnover and revenue growth program that is planned out at the beginning of this year, and consolidate its leading position in the industry during market integration. The Group has full confidence that there will be growth in the results for the second half of the year, and believes its technological advantages and industrial leadership will continue to generate substantial returns for the shareholders.

## Financial Review

### Revenue

Revenue for the period under review was approximately RMB767.5 million, representing a decrease of approximately RMB90.3 million or 10.5% from approximately RMB857.8 million for the corresponding period last year. The decrease was mainly attributable to the decrease in the sales of bleaching and disinfectant chemicals and foaming agent during the period.

The table below sets out our revenue by product groups for the period under review:

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Amount | % of Revenue | Amount | % of Revenue |
| Revenue (RMB'000) | | | | |
| Bleaching and disinfectant chemicals | 301,595 | 39.3% | 307,338 | 35.8% |
| Foaming agent | 335,660 | 43.7% | 414,994 | 48.4% |
| Other specialty chemicals | 130,201 | 17.0% | 135,433 | 15.8% |
| Total | 767,456 | 100.0% | 857,765 | 100.0% |

#### 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 elemental chlorine free ("ECF") and total chlorine free ("TCF") pulp bleaching process by our downstream customers, respectively.

During the period under review, the total revenue for the bleaching and disinfectant chemicals was RMB301.6 million, representing a decrease of approximately 1.9% or RMB5.7 million from the corresponding period last year. The decrease in revenue was mainly attributable to the decrease in average selling price for hydrogen peroxide as a result of market condition, sales of hydrogen peroxide decreased by approximately 7.1% to RMB102.5 million.

### 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.

During the period under review, the total revenue for the foaming agent was RMB335.7 million, representing a decrease of approximately 19.1% or RMB79.3 million from the corresponding period last year. The decrease was mainly attributable to the decrease in average selling price for foaming agent as a result of market condition.

### Other specialty chemicals

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

During the period under review, the total revenue for other specialty chemicals was RMB130.2 million, representing a decrease of approximately 3.9% or RMB5.2 million from the corresponding period last year. The decrease was mainly attributable to the decrease in average selling price for other specialty chemicals as a result of market condition.

### Cost of sales

Our cost of sales primarily consists 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, taxes and levies on main operations, office and entertainment expenses, traveling expenses and other expenses. Raw materials used and changes in inventories, including foaming agent sourced from third parties, is the largest component of our cost of sales, representing 63.3% and 66.5% of our total cost of sales in the period ended 30 June 2013 and 2012, respectively.

During the period under review, our cost of sales decreased by approximately RMB22.7 million or 3.8% to RMB566.4 million from RMB589.1 million in the corresponding period last year, which was primarily due to the increase in sales volume of both bleaching and disinfectant chemicals. The percentage for cost of sales to revenue was 73.8% and 68.7% for the six months ended 30 June 2013 and 2012, respectively, reflecting efficient cost control.

### Gross profit and gross margin

Our gross profit decreased by approximately RMB67.7 million or 25.2% to RMB201.0 million for the period under review from RMB268.7 million for the corresponding period last year. The overall gross margin decreased from 31.3% for the six months ended 30 June 2012 to 26.2%

for the six months ended 30 June 2013, which was primarily due to faster increase in sales of foaming agent which had lower margin.

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

| | For the six months ended 30 June | | |
|---|---|---|---|
| Gross margin (%) | 2013 | 2012 | Change |
| Bleaching and disinfectant chemicals | 30.3% | 37.6% | (19.4%) |
| Foaming agent | 19.3% | 23.0% | (16.1%) |
| Other specialty chemicals | 34.4% | 42.5% | (19.1%) |
| Overall | 26.2% | 31.3% | (16.3%) |

#### Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals decreased from 37.6% for the six months ended 30 June 2012 to 30.3% for the six months ended 30 June 2013, which was primarily attributable to the decrease in average selling price of hydrogen peroxide as a result of market condition.

#### Foaming agent

The gross margin of foaming agent decreased from 23.0% for the six months ended 30 June 2012 to 19.3% for the six months ended 30 June 2013, which was primarily attributable to: (1) the decrease in average selling price of foaming agent as a result of market condition; and (2) the upgrade of our production facilities and the increase in the usage of self-produced raw materials, for example 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 42.5% for the six months ended 30 June 2012 to 34.4% for the six months ended 30 June 2013, which was primarily attributable to: (1) the decrease in average selling price of other specialty chemicals as a result of market condition; and (2) higher margin of caustic soda by applying the ion membrane production method which is of higher quality had mitigated the impact of decrease of average selling price.

### Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation and related charges for the transport of our products, sales taxes such as urban maintenance and construction tax, educational surtax, and other selling and marketing expenses including travelling expenses. The selling and marketing expenses of the Group increased by 0.3% to RMB19.1 million for the six months ended 30 June 2013 from RMB19.0 million for the six months ended 30 June 2012, which was primarily attributable to the expansion of sales by the Group resulting in higher selling expenses.

**Administrative expenses**

Administrative expenses primarily consist of depreciation of property, plant and equipment, employee benefit expenses and office and entertainment expenses. The administrative expenses of the Group increased by 1.6% to RMB31.2 million for the six months ended 30 June 2013 from RMB30.8 million for the six months ended 30 June 2012, which was primarily attributable to effective cost control.

**Other income**

Other income primarily consists of profit from sales of raw materials and government subsidies. The other income of the Group increased to RMB1.9 million for the six months ended 30 June 2013 from RMB0.6 million for the six months ended 30 June 2012, which was primarily attributable to the increase in the governmental subsidies.

**Other losses, net**

Other losses, net, mainly consists of the net gain or loss from the disposal of property, plant and equipment. The other losses, net, of the Group increased to RMB12.9 million for the six months ended 30 June 2013 from RMB0.1 million for the six months ended 30 June 2012, which was primarily attributable to fair value losses arising from the derivative financial instrument.

**Finance income**

Finance income relates primarily to interest earned on our bank deposits and foreign exchange gains. The finance income of the Group increased by 500% to RMB20.9 million for the six months ended 30 June 2013 from RMB3.5 million for the six months ended 30 June 2012, which was primarily attributable to the increase in foreign exchange gains arising from the foreign currency borrowings.

**Finance costs**

Finance costs primarily consist of interest expenses on bank borrowings, discount interest for bill receivables and other finance charges, less interest capitalized in property, plant and equipment and foreign exchange gains. The finance costs of the Group decreased by 3.3% to RMB17.2 million for the six months ended 30 June 2013 from RMB17.8 million for the six months ended 30 June 2012, which was primarily attributable to increase in interest capitalised in property, plant and equipment during the period.

**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 31.5% to RMB35.9 million for the six months ended 30 June 2013 from RMB52.4

million for the six months ended 30 June 2012. The effective tax rate increased to 25.6% for the six months ended 30 June 2013 from 25.5% for the six months ended 30 June 2012 as a result of adjustments for income and expenses items which were not assessable or deductible for income tax purpose.

**Profit for the period**

As a result of the foregoing factors, the profit attributable to the equity holders of the Company decreased by 31.3% to RMB104.5 million for the six months ended 30 June 2013 from RMB152.1 million for the six months ended 30 June 2012.

**Profit attributable to non-controlling interests**

There is no profit attributable to non-controlling interests of the Company for the six months ended 30 June 2013 (for the six months ended 30 June 2012: RMB0.5 million), 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 last period. 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 RMB673.3 million as at 30 June 2013 (31 December 2012: approximately RMB778.6 million), most of which were denominated in Renminbi. As at 30 June 2013, the interest bearing bank borrowings of the Group amounted to approximately RMB430.0 million (31 December 2012: approximately RMB418.1 million).

As at 30 June 2013, the Group's current ratio (calculated as current assets divided by current liabilities) was 1.71 (31 December 2012: 1.84). The Group was in a net cash position as at 30 June 2013 and 31 December 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 RMB159.9 million in total as at 30 June 2013, as compared with approximately RMB105.9 million as at 30 June 2012. The increase was primarily due to increase in work in progress namely, working solution to be used to produce hydrogen peroxide. Average inventory turnover days were 53 days for the six months ended 30 June 2013 (for the six months ended 30 June 2012: 32 days).

As at 30 June 2013, trade receivables amounted to approximately RMB338.2 million in total, as compared with approximately RMB327.9 million as at 30 June 2012. The increase was primarily attributable to increased sales in credit term with 90 days. The average trade receivables turnover days were 70 days for the six months ended 30 June 2013 (for the six months ended 30 June 2012: 70 days).

As at 30 June 2013, trade and bills payables amounted to approximately RMB302.9 million in total, as compared with approximately RMB290.4 million as at 30 June 2012. 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 were 96 days for the six months ended 30 June 2013 (for the six months ended 30 June 2012: 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 and 2,191,000 new shares, at an offer price of HK$2.7 per share upon the listing on the Stock Exchange on 9 December 2011, and upon the exercise of over-allotment option on 3 January 2012, respectively, after deducting brokerage and other costs and expenses payable by the Company, amounted to approximately HK$449.3 million (equivalent to approximately RMB366.0 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 six months ended 30 June 2013, the net proceeds were applied in the following manner:

| Use of proceeds | Net proceeds from initial public offering (HK$ million) Available | Applied | Not yet applied |
|---|---|---|---|
| To be used for the upgrade and expansion of existing production facilities | 292.1 | 292.1 | – |
| To be used in merger and acquisition | 112.3 | – | 112.3 |
| To be used for general working capital | 44.9 | 44.9 | – |
| Total | 449.3 | 337.0 | 112.3 |

To the extent that the net proceeds were not yet applied as at 30 June 2013, 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 30 June 2013, the capital commitments of the Group were approximately RMB5.9 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 30 June 2013, 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.

# CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | *7* | 74,685 | 75,567 |
| Property, plant & equipment | *8* | 1,212,405 | 1,064,238 |
| Intangible assets | | 4,301 | 4,499 |
| Investment in Associate | *9* | – | – |
| Deferred income tax assets | | 4,566 | 523 |
| Prepayment for Property, plant & equipment | | 1,546 | – |
| | | 1,297,503 | 1,144,827 |
| **Current assets** | | | |
| Inventories | *10* | 159,854 | 166,148 |
| Trade and other receivables | *11* | 364,129 | 296,901 |
| Restricted cash | | 92,670 | 61,491 |
| Cash and cash equivalents | | 673,289 | 778,553 |
| | | 1,289,942 | 1,303,093 |
| **Total Assets** | | 2,587,445 | 2,447,920 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | | 65,346 | 65,346 |
| Reserves | | 753,514 | 777,033 |
| Retained earnings | | 894,208 | 789,743 |
| **Total equity** | | 1,713,068 | 1,632,122 |

| | Note | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | *12* | 104,750 | 90,750 |
| Deferred income | | 14,757 | 15,508 |
| Deferred income tax liability | | 743 | – |
| | | 120,250 | 106,258 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | 385,361 | 369,837 |
| Derivative financial instruments | *14* | 15,292 | – |
| Current income tax liabilities | | 28,216 | 12,346 |
| Borrowings | *12* | 325,258 | 327,357 |
| | | 754,127 | 709,540 |
| **Total liabilities** | | 874,377 | 815,798 |
| **Total equity and liabilities** | | 2,587,445 | 2,447,920 |
| **Net current assets** | | 535,815 | 593,553 |
| **Total assets less current liabilities** | | 1,833,318 | 1,738,380 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Six months ended 30 June 2013 RMB'000 (Unaudited) | 2012 RMB'000 (Unaudited) |
|---|---|---|---|
| Revenue | *15* | 767,456 | 857,765 |
| Cost of sales | *15, 16* | (566,445) | (589,096) |
| **Gross profit** | | 201,011 | 268,669 |
| Selling and marketing expenses | *16* | (19,053) | (18,995) |
| Administrative expenses | *16* | (31,240) | (30,763) |
| Other income | | 1,880 | 571 |
| Other losses — net | *17* | (12,910) | (116) |
| **Operating profit** | | 139,688 | 219,366 |
| Finance income | *18* | 20,885 | 3,477 |
| Finance costs | *19* | (17,196) | (17,792) |
| Finance income/(cost) — net | | 3,689 | (14,315) |
| Share of loss of an associate | *9* | (2,973) | – |
| **Profit before income tax** | | 140,404 | 205,051 |
| Income tax expense | *20* | (35,939) | (52,380) |
| **Profit and total comprehensive income for the period** | | 104,465 | 152,671 |
| **Attributable to:** | | | |
| — Equity holders of the Company | | 104,465 | 152,134 |
| — Non-controlling interests | | – | 537 |
| | | 104,465 | 152,671 |
| **Earnings per share attributable to the equity holders of the Company (RMB Yuan)** | | | |
| — Basic | *21* | 0.13 | 0.19 |
| — Diluted | *21* | 0.13 | 0.19 |
| **Dividends** | *22* | 24,692 | 40,697 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital RMB'000 | 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 |
| (Unaudited) | | | | | | | | | | |
| 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 period | | – | – | – | – | – | 152,134 | 152,134 | 537 | 152,671 |
| Issue of ordinary shares in connection with the IPO over-allotment | | 178 | 4,629 | – | – | – | – | 4,807 | – | 4,807 |
| Share-based payment expense | 23 | – | – | – | – | 1,193 | – | 1,193 | – | 1,193 |
| Acquisition of non-controlling interests | | – | – | (61) | – | – | – | (61) | (10,939) | (11,000) |
| Dividend distribution | 22 | – | – | (40,697) | – | – | – | (40,697) | – | (40,697) |
| Balance at 30 June 2012 | | 65,346 | 317,328 | 330,392 | 100,942 | 1,338 | 717,988 | 1,533,334 | – | 1,533,334 |
| (Unaudited) | | | | | | | | | | |
| Balance at 1 January 2013 | | 65,346 | 317,328 | 330,392 | 126,765 | 2,548 | 789,743 | 1,632,122 | – | 1,632,122 |
| Profit for the period | | – | – | – | – | – | 104,465 | 104,465 | – | 104,465 |
| Share-based payment expense | 23 | – | – | – | – | 1,173 | – | 1,173 | – | 1,173 |
| Dividend distribution | 22 | – | – | (24,692) | – | – | – | (24,692) | – | (24,692) |
| Balance at 30 June 2013 | | 65,346 | 317,328 | 305,700 | 126,765 | 3,721 | 894,208 | 1,713,068 | – | 1,713,068 |

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| **Net cash generated from operating activities** | 97,944 | 227,547 |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | (188,765) | (52,992) |
| Proceeds from government grants | – | 450 |
| Net cash used in investing activities | (188,765) | (52,542) |
| **Cash flows from financing activities** | | |
| Borrowings from banks | 191,795 | 197,657 |
| Repayments of borrowings to banks | (179,894) | (221,541) |
| Acquisition of non-controlling interests | – | (11,000) |
| Proceeds from issue of ordinary shares in connection with the IPO over-allotment | – | 4,807 |
| Payments of IPO expenses | (1,517) | (6,118) |
| Dividends paid | (24,692) | (40,697) |
| Net cash used in financing activities | (14,308) | (76,892) |
| **Net (decrease)/increase in cash and cash equivalents** | (105,129) | 98,113 |
| Cash and cash equivalents at beginning of period | 778,553 | 926,148 |
| Exchange loss on cash and cash equivalents | (135) | (551) |
| **Cash and cash equivalents at end of period** | 673,289 | 1,023,710 |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1. General information

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.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in thousands of Renminbi ("RMB'000"), unless otherwise stated, and approved for issue on 28 August 2013 by the Board of Directors.

This condensed consolidated interim financial information has not been audited.

## 2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with International Accounting Standards ("IAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

## 3. Summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual 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 has adopted IFRS 10 from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

- 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 assesses IFRS11's full impact and has adopted IFRS 11 from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

- 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 assesses IFRS 12's full impact and has adopted IFRS 12 from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

- 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 assesses IFRS 13's full impact and has adopted IFRS 13 from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

## 3. Summary of significant accounting policies *(Continued)*

- 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 assesses the full impact of IAS 19 and has adopted IAS 19 (Amendment) from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

- IAS 1 (Amendment) "Financial statement presentation", regarding other comprehensive income. the main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' ("OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group assesses IAS 1 (Amendment)'s full impact and has adopted IAS 1 (Amendment) from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

- IFRSs 10, 11 and 12 (Amendment) on transition guidance, these amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The Group assesses IFRSs 10, 11 and 12 (Amendment)'s full impact and has adopted IFRSs 10, 11 and 12 (Amendment) from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

- IFRIC–Int 20 "Stripping costs in the production phase of a surface mine", the interpretation sets out the accounting for overburden waste removal (stripping) costs that are incurred in surface mining activity during the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. It does not have significant impact on the Group's condensed consolidated interim financial information.

## 3. Summary of significant accounting policies *(Continued)*

- IAS 27 (revised 2011) "Separate financial statements" includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. Early adoption is permitted, and IFRS 11, IFRS 12, IAS 27 (revised 2011) and IAS 28 (revised 2011) shall be applied at the same time. The Group assesses IAS 27 (revised 2011)'s full impact and has adopted IAS 27 (revised 2011) from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

- 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 assesses the full impact of IAS 28 (Amendment) and has adopted IAS 28 (Amendment) from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

## 3. Summary of significant accounting policies *(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 has assesses the full impact of IFRS 7 (Amendment) and has adopted IFRS 7 (Amendment) from 1 January 2013. It does not have significant impact on the Group's condensed consolidated interim financial information.

There are no other effective IFRS or IFRIC interpretations that would be expected to have a material impact on the group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted:

- IFRS 9 "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

  There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. The derecognition rules have been transferred from IAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The Group has not yet decided when to adopt IFRS 9.

## 3. Summary of significant accounting policies *(Continued)*

- IAS 32 (Amendment) "Financial instruments: Presentation" on asset and liability offsetting, are to the application guidance in IAS 32, "Financial instruments: Presentation", and clarify some of the requirements for offsetting financial assets and financial liabilities on the condensed consolidated balance sheet.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

## 4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.



## 5. Financial risk management

### 5.1 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 interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

There have been no changes in the risk management department since period end or in any risk management policies.

### 5.2 Liquidity risk factors

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

## 5. Financial risk management *(Continued)*

### 5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2012 and 30 June 2013.

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **As at 31 December 2012** | | | | |
| Liabilities | – | – | – | – |
| **As at 30 June 2013** | | | | |
| Liabilities | | | | |
| Forward foreign exchange contracts | – | 15,292 | – | 15,292 |



## 6. Segment information

The Group is principally engaged in the chemical products business in the PRC. Separate individual financial information of the three locations where the principal operations of the Group is located are presented to the chief operating decision maker (the Board of Directors) who reviews the internal reporting in order to assess performance and allocate resources. Due to the similarities in economic characters, nature of products and production, customers, etc, they are aggregated into a single reportable segment. Majority of the Group's products are sold to customers in the PRC. The Group has a large number of customers, which are widely dispersed within the PRC and Southeast Asia, no single customer accounted for more than 10% of the Group's total revenues for the six months ended 30 June 2013.

## 7. Land use rights

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| Opening net book amount | 75,567 | 77,331 |
| Amortisation *(Note 16)* | (882) | (882) |
| **Closing net book amount** | 74,685 | 76,449 |

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 for 50 to 70 years.

Land use rights with net value of RMB11,608,000 as at 30 June 2013 (31 December 2012: RMB15,075,000) were secured for bank borrowings (Note 12).



## 8. Property, plant and equipment

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| **Opening net book amount** | 1,064,238 | 773,606 |
| Additions | 192,424 | 37,018 |
| Disposals | (591) | (116) |
| Depreciation *(Note 16)* | (43,666) | (32,815) |
| **Closing net book amount** | 1,212,405 | 777,693 |

## 8. Property, plant and equipment *(Continued)*

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

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| Cost of sales | 40,054 | 30,042 |
| Selling and marketing expenses | 53 | 55 |
| Administrative expenses | 3,559 | 2,718 |
| | 43,666 | 32,815 |

(b) As at 30 June 2013, certain buildings with an aggregate carrying value of RMB26,214,000 (31 December 2012: RMB156,282,000) were secured for bank borrowings (Note 12).

## 9. Investment in Associate

| | Six months ended 30 June 2013<br>RMB'000<br>(Unaudited) |
|---|---|
| Share of net assets, as at 1 January 2013 | – |
| Addition (a) | 2,973 |
| Share of loss of an associate | (2,973) |
| **Share of net assets, as at 30 June 2013** | – |

## 9. Investment in Associate *(Continued)*

(a) On 12 April 2013, the Company acquired 30% of shares in Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd. ("Minjiang Snow") at nil consideration. As a result, Minjiang Snow became an associate of the Company. Details of Minjiang Snow as at the date of acquisition are as follow:

| Provisional fair value on acquisition date RMB'000 | Effective equity interest held by the Group | The Group's attributable share of the provisional fair value of the associate RMB'000 | Consideration | Bargain purchase RMB'000 *(Note 17)* |
|---|---|---|---|---|
| 9,910 | 30% | 2,973 | – | 2,973 |

## 10. Inventories



| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Raw materials | 15,485 | 15,659 |
| Work in progress | 130,002 | 133,796 |
| Finished goods | 14,367 | 16,693 |
| | 159,854 | 166,148 |
| Less: provision for write-down of inventories | – | – |
| | 159,854 | 166,148 |

The cost of inventories recognised as expense and included in cost of sales for the six months ended 30 June 2013 amounted to RMB358,412,000 (for the six months ended 30 June 2012: RMB391,922,000).

## 11. Trade and other receivables

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Trade receivables (a) | 338,207 | 256,144 |
| Prepayments | 25,414 | 40,113 |
| Other receivables | 508 | 644 |
| | 364,129 | 296,901 |

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 and overseas customers. There is no concentration of credit risk with respect to trade receivables. As at 30 June 2013 and 31 December 2012, the aging analysis of the trade receivables is set as follows:

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Within 3 months | 335,716 | 253,653 |
| Between 4 and 6 months | 69 | 12 |
| Between 7 and 12 months | 2,422 | 2,479 |
| | 338,207 | 256,144 |

## 12. Borrowings

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| **Non-current** | | |
| Secured bank borrowings | 104,750 | 90,750 |
| **Current** | | |
| Current portion of long-term secured bank borrowings | 46,560 | 46,560 |
| Short-term secured bank borrowings | 278,698 | 265,797 |
| Other short-term secured borrowings | – | 15,000 |
| | 325,258 | 327,357 |
| Total borrowings | 430,008 | 418,107 |



Movements in borrowings is analysed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | 2013 RMB'000 (Unaudited) | 2012 RMB'000 (Unaudited) |
| **Opening amount** | 418,107 | 478,646 |
| Additions | 191,795 | 197,657 |
| Repayments of borrowings | (179,894) | (221,541) |
| **Closing amount** | 430,008 | 454,762 |

## 12. Borrowings *(Continued)*

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

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Group's assets | | |
| — Buildings and land use rights *(Note 8(b), Note 7)* | 17,000 | 29,200 |
| — Restricted cash | 33,000 | – |
| | 50,000 | 29,200 |
| Guarantees provided by | | |
| — Subsidiaries of the Group | 380,008 | 388,907 |
| | 430,008 | 418,107 |

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

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Within 1 year | 325,258 | 327,357 |
| Between 1 and 2 years | 61,060 | 47,060 |
| Between 2 and 5 years | 43,690 | 43,690 |
| | 430,008 | 418,107 |

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

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Undrawn borrowing facilities | 737,518 | 896,359 |

## 12. Borrowings *(Continued)*

(d) Interest expense on borrowings for the six months ended 30 June 2013 was RMB11,912,000 (for the six months ended 30 June 2012: RMB12,835,000).

## 13. Trade and Other Payables

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Trade payables (a) | 83,633 | 67,640 |
| Bills payable (b) | 219,272 | 231,783 |
| Other payables and accrual (c) | 82,456 | 70,414 |
| | 385,361 | 369,837 |

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

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Within 3 months | 78,173 | 67,640 |
| Between 4 and 6 months | 136 | – |
| Between 7 and 12 months | 5,324 | – |
| | 83,633 | 67,640 |

(b) As at 30 June 2013, the entire balances of bills payable were secured by restricted cash of RMB59,670,000 (31 December 2012: RMB61,491,000).

## 13. Trade and Other Payables *(Continued)*

(c) Details of other payables and accrual are as follows:

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Payable for property, plant and equipment purchases | 33,409 | 28,204 |
| Water and electricity | 14,349 | 10,880 |
| Freight charges | 11,668 | 10,082 |
| Salary and welfare payable | 7,171 | 10,499 |
| Taxes | 6,673 | 2,086 |
| Advance from customers | 2,427 | 164 |
| Interests payable | 1,282 | – |
| Payable for repair and maintenance | 1,043 | 894 |
| Auditor's remuneration | 600 | 2,550 |
| Payable for IPO expenses | – | 1,517 |
| Others | 3,834 | 3,538 |
| | 82,456 | 70,414 |

## 14. Derivative financial instruments

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| **Financial liability at fair value through profit or loss** | | |
| Forward foreign exchange contracts | 15,292 | – |

Forward foreign exchange contracts are classified as a current liability.

For the six months ended 30 June 2013, changes in fair values of financial liability at fair value through profit or loss amounting to RMB15,292,000 (For the six months ended 30 June 2012: Nil) were recorded in "other losses — net" (Note 17).

## 15. 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 periods are as follows:

| | Bleaching and disinfectant chemicals RMB'000 | Foaming agent RMB'000 | Other specialty chemicals RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **(Unaudited)** | | | | |
| **Six months ended 30 June 2013** | | | | |
| Revenue | 301,595 | 335,660 | 130,201 | 767,456 |
| Costs of sales | (209,750) | (270,737) | (85,958) | (566,445) |
| | 91,845 | 64,923 | 44,243 | 201,011 |
| **(Unaudited)** | | | | |
| **Six months ended 30 June 2012** | | | | |
| Revenue | 307,338 | 414,994 | 135,433 | 857,765 |
| Costs of sales | (191,664) | (319,622) | (77,810) | (589,096) |
| | 115,674 | 95,372 | 57,623 | 268,669 |

## 16. Expenses by nature

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| Raw materials used and changes in inventories | 358,412 | 391,922 |
| Electricity and other utility fees | 142,993 | 141,739 |
| Depreciation of property, plant and equipment *(Note 8)* | 43,666 | 32,815 |
| Employee benefit expenses | 34,725 | 33,174 |
| Transportation and related charges | 15,907 | 13,994 |
| Office and entertainment expenses | 3,674 | 4,145 |
| Taxes and levies on main operations | 3,459 | 7,606 |
| Repairs and maintenance | 3,005 | 3,844 |
| Property insurance fee | 1,322 | 1,471 |
| Research and development costs | 913 | – |
| Amortisation of land use rights *(Note 7)* | 882 | 882 |
| Operating leases expenses | 752 | 625 |
| Travelling expenses | 715 | 1,047 |
| Auditors' remuneration | 600 | 500 |
| Amortisation of intangible assets | 197 | – |
| Other expenses | 5,516 | 5,090 |
| | 616,738 | 638,854 |

## 17. Other losses — net

| | Six months ended 30 June | |
|---|---|---|
| | 2013 RMB'000 (Unaudited) | 2012 RMB'000 (Unaudited) |
| Bargain purchase *(Note 9)* | 2,973 | – |
| Financial liabilities at fair value through profit or loss: | | |
| Fair value losses *(Note 14)* | (15,292) | – |
| Loss on disposals of property, plant and equipment | (591) | (116) |
| | (12,910) | (116) |

## 18. Finance income

| | Six months ended 30 June | |
|---|---|---|
| | 2013 RMB'000 (Unaudited) | 2012 RMB'000 (Unaudited) |
| Interest income from bank deposits | 1,713 | 3,023 |
| Foreign exchange gains | 19,172 | 454 |
| | 20,885 | 3,477 |

## 19. Finance costs

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| Interest expenses: | | |
| — Bank borrowings | 11,912 | 12,835 |
| — Discount interest for bill payables | 5,603 | 3,823 |
| — Other charges | 1,865 | 2,235 |
| | 19,380 | 18,893 |
| Less: Interest capitalised in property, plant and equipment | (2,184) | (1,101) |
| | 17,196 | 17,792 |

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| Weighted average effective interest rates used to calculate capitalisation amount | 7.16% | 7.06% |

## 20. Income tax expense

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| Current income tax | | |
| — PRC enterprise income tax (a) | 39,017 | 52,210 |
| — Hong Kong profits tax (b) | 222 | – |
| Deferred income tax (credit)/charge | (3,300) | 170 |
| | 35,939 | 52,380 |

## 20. Income tax expense *(Continued)*

(a) 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.

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the period ended 30 June 2013.

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 six months ended 30 June 2013 and 2012, 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 periods and to the extent they are expected to be distributed in future.

## 21. Earnings per share

**(a) Basic**

Basic earnings per share is calculated by dividing the profit for the period of six months ended 30 June attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period of six months ended 30 June.

| | Six months ended 30 June | |
|---|---|---|
| | 2013 (Unaudited) | 2012 (Unaudited) |
| Profit attributable to equity holders of the Company (RMB'000) | 104,465 | 152,134 |
| Weighted average number of ordinary shares in issue (thousand) | 802,191 | 802,125 |
| Basic earnings per share (RMB yuan) | 0.13 | 0.19 |

## 21. Earnings per share *(Continued)*

**(b) Diluted**

Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The pre-IPO share options granted by the Company are taken into the consideration when the Company calculates the diluted earnings per share. The average market price of the shares for the period from 1 January 2013 to 30 June 2013 is lower than the exercise price of the pre-IPO share options, the pre-IPO share options is not included in the diluted earnings per share calculation. The diluted earnings per share is the same as the basic earnings per share.

## 22. Dividend

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| Dividend | 24,692 | 40,697 |

The final dividend for the year ended 31 December 2012 amounting to RMB24,692,000 was paid in June 2013 (2011: RMB40,697,000).

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2013.

## 23. Share-based payment

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

As at 30 June 2013, 16,000,000 outstanding options had not been vested and not exercised. These options with an exercise price of HK$2.70 per share upon vesting will be expired on 8 December 2014.

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 six months ended 30 June 2013 amounted to RMB1,173,000 (for the six months ended 30 June 2012: RMB1,193,000).

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

No share option has been granted under the Share Option Scheme as at 30 June 2013.

## 24. Commitments

### (a) Capital commitments

The Group has the following capital commitments not provided for:

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| Authorised and contracted but not provided for | | |
| — property, plant and equipment | 5,914 | 4,559 |

### (b) Operating lease commitments

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

| | As at 30 June 2013 RMB'000 (Unaudited) | As at 31 December 2012 RMB'000 (Audited) |
|---|---|---|
| No later than 1 year | 1,526 | 1,494 |
| 1–2 year | 382 | 378 |
| | 1,908 | 1,872 |

## 25. 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

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| Purchase of goods | 10,007 | – |

### (b) Balances with related parties

| | As at<br>30 June<br>2013<br>RMB'000<br>(Unaudited) | As at<br>31 December<br>2012<br>RMB'000<br>(Audited) |
|---|---|---|
| Trade and other payables | 1,508 | – |

### (c) Key management compensation

| | Six months ended 30 June | |
|---|---|---|
| | 2013<br>RMB'000<br>(Unaudited) | 2012<br>RMB'000<br>(Unaudited) |
| Salaries, wages and bonuses | 1,960 | 1,393 |
| Contributions to pension plan | 87 | 87 |
| | 2,047 | 1,480 |

## Purchase, Sale and Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2013.

## Directors' interests in securities

As at 30 June 2013, 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 positions in the shares and underlying shares of the Company

| Name of directors | Nature of interest | Number of shares/ underlying shares held | Percentage of issued share capital | *Note* |
|---|---|---|---|---|
| Liem Djiang Hwa | Interests in controlled corporation | 419,949,888 | 52.35% | *(1)* |
| Lam Wai Wah | Beneficial owner and interests in controlled corporation | 423,949,888 | 52.84% | *(2)* |
| Chen Hong | Beneficial owner | 4,000,000 | 0.49% | *(3)* |
| Miao Fei | Beneficial owner | 4,000,000 | 0.49% | *(3)* |
| Chen Xiao | Beneficial owner | 800,000 | 0.09% | *(3)* |
| Kou Huizhong | Beneficial owner | 400,000 | 0.04% | *(3)* |
| Li Junfa | Beneficial owner | 400,000 | 0.04% | *(3)* |

## (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 | 26,498,838 | 37.86% |

*Notes:*

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

(2) Mr. Lam Wai Wah is indirectly interested in 419,949,888 shares of the Company through Yihua Fortune Limited, which in turn is indirectly interested in the Company through China First Chemical Ltd. Mr. Lam is also interested in 4,000,000 shares in the underlying shares of the Company by virtue of the options granted to him under the Pre-IPO Share Option Scheme.

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

Save as those disclosed above, as at 30 June 2013, 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 30 June 2013, 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 positions 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) |
| Mr. Lam Wai Wah | Interests in controlled corporation | 419,949,888 | 52.35%(2) |
| | Beneficial owner | 4,000,000 | 0.49% |
| Yihua Crown Limited | Interests in controlled corporation | 419,949,888 | 52.35%(1) |
| Yihua Fortune Limited | Interests in controlled corporation | 419,949,888 | 52.35%(2) |
| 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%(3) |
| China Renaissance Capital Investment II, L.P | Interests in controlled corporation | 180,050,112 | 22.44%(4) |
| China Harvest Fund II, L.P | Interests in controlled corporation | 180,050,112 | 22.44%(5) |
| 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 the Company through China First Chemical Ltd.

(2) Mr. Lam Wai Wah is indirectly interested in the Company through Yihua Fortune Limited, which in turn is indirectly interested in the Company through China First Chemical Ltd.

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

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

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

Save as those disclosed above, as at 30 June 2013, 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.

## Corporate Governance

The Company has adopted the code provisions in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code of corporate governance. The Board considers that up to the date of this interim results announcement, the Company has complied with all the code provisions of the CG Code.

## Model Code for Securities Transactions by Directors

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code during the six months ended 30 June 2013.

## Audit Committee

The Audit Committee reviewed the analysis on the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2013, the accounting principles and practices adopted by the Group, and the Group's internal control functions.

## Interim Dividend

The Directors have not recommended the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

## Share Option Scheme

Our Company has adopted the Share Option Scheme on 10 June 2011 and 12 June 2011. A summary of the principal terms and conditions of the Share Option Scheme are set out in the section headed "Share Option Scheme" in Appendix VI of the Prospectus. Up to 30 June 2013, no option has been granted pursuant to the Share Option Scheme.

# 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

P.O. Box 309,
Ugland House Grand Cayman,
KY1-1104 Cayman Islands

## Headquarters in the PRC

19A, Ping An Building,
No. 88 Wu Yi Zhong Road,
Fuzhou City,
Fujian Province, PRC

## Place of Business in Hong Kong

Level 54, Hopewell Centre,
183 Queen's Road East, Hong Kong

## 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

## Principal Share Registrar

Maples Fund Services (Cayman) Limited
P.O. Box 1093,
Boundary Hall Cricket Square,
Grand Cayman,
KY1-1102,
Cayman Islands

## Hong Kong Share Registrar

Tricor Investor Services Limited
26/F, Tesbury Centre,
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
1st and 2nd Floor, Oriental Pearl Tower
No. 88 Cheng Guan Pearl Tower
Pingnan County, Ningde
Fujian Province
PRC

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