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




2013 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 2013.

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 carefully responded to the external market environment, integrated and optimized resources of the industry, strengthened internal management and moderately controlled expenses and expenditures. Affected by the complex and volatile business environment, depressed economy, sluggish external markets and other unfavorable factors, the Company has remained capable of timely taking favorable conditions to steadily advance the integration of the industry and to boost the growth of water treatment eco-friendly chemicals business. In order to share the results with our shareholders, the Board has proposed to pay a final dividend of HK$0.0390 (RMB0.0312) per share for the year ended 31 December 2013 at an aggregate amount of approximately HK$31.302 million (RMB25.026 million) with a dividend ratio of 10%.

Market Review

Between 2012 and 2013, the global economy had experienced an extended downturn. Domestically, the economic growth decelerated and the economic growth model was facing a change. The extensive economic development model, the rapidly growing population and the disorderly emission and discharge of industrial wastage have resulted in a very severe scenario of water pollution seen today.

According to the Opinions on Accelerating the Development of Energy Conservation and Environmental Protection Industry published by the State Council in August 2013, by 2015, all cities and towns are required to have a daily-centralized sewage treatment capacity of over 200 million cubic meters. In September 2013, the State Council passed the Regulation on the Urban Water Drainage and Wastewater Treatment to enable sewage treatment to be legalized with both surveillance and punishment thereof intensified. As the government will increase investment in the field of wastewater treatment and recycling and strengthen law enforcement, enterprises engaged in wastewater treatment will face a broader market.

By the first half of 2013, the products of the Company had been mainly applied in the traditional bleaching and disinfection fields such textile, paper production, pulping and dyeing. Under the guidance of the national policy and with the intensifying law enforcement efforts of environmental protection, our eco-friendly products such as sodium chlorate and hydrogen peroxide have been used in the urban and industrial wastewater treatment in great numbers since the second half of 2013, reflecting a fast growth momentum in user demand.

Business Review

Starting from the second half of 2013, the selling price of eco-friendly products such as sodium chlorate and hydrogen peroxide has been rising compared to that over the same period last year, thus enabling sewage treatment to be a new engine to drive market demands. In 2013, sales revenue of eco-friendly bleaching and disinfectant chemicals amounted to RMB669 million, representing an increase of 12% as compared against sales revenue of RMB597 million in 2012. The proportion of revenue from eco-friendly bleaching and disinfectant chemicals increased to 44.3% in 2013 from 36.9% in 2012. Revenue from sales of other products was RMB841 million in 2013, representing a decrease of 17.8% as compared against sales revenue of RMB1,022 million in 2012. The proportion of revenue from other products decreased to 55.7% in 2013 from 63.1% in 2012. As a result of foregoing, the effects of adjusting our product structure have preliminarily shown.

In February 2013, the Company and the Haixi Research Institute of Chinese Academy of Sciences jointly established a "Research Centre of Green Chemical Technology". The Company will deepen cooperation with Chinese Academy of Sciences, constantly cultivate and reserving new technologies, accelerate the research and development of the products related to water treatment, and develop high value-added product portfolio, so as to keep raising the gross profit margin of the Company. In addition, after years of development, the Company has formed its relatively complete operating systems including employment, training and management, and has cultivated a large group of professionals with experience in management and proficient in technologies through cooperation with scientific research departments and colleges, thus accumulating valuable human resources for the Company to further expand by way of acquisitions and mergers.

In April 2013, the Company entered into an agreement with Chengdu Huaxi Hope Group Co., Ltd in relation to acquire 30% of the equity of Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd. Sichuan Minjiang Snow currently possesses a combined production capacity of 180,000 tons of chlorate per annum, its production capacity of sodium chlorate is approximately two times of our production capacity of sodium chlorate. It is now the largest sodium chlorate production base in the PRC with its production capacity ranked number one across Asia.

In December 2013, Fujian Rongping Chemical Co., Ltd., a wholly-owned subsidiary of the Company, and Deutsche Investitions und Entwicklungsgesellschaft GmbH (DEG) entered into a facility agreement worth US$22 million with a repayment term of 7 years. Through the cooperation with DEG, the Company will proactively expand its international market.

In 2013, the Company invested funds of RMB214 million, mainly in a series of technical transformation and upgrade for the production equipment producing main products, power transfer routes and transformer substation. The Company focuses on technical innovation, energy conservation and energy consumption reduction, and has achieved remarkable results in the enhancement of power efficiency and the reduction of energy consumption. After technical transformation, our new annual production capacity of eco-friendly bleaching and disinfection products and other chemical products amounted to 50,000 tons and 15,000 tons respectively. It is expected that the aforesaid annual production capacity will be leashed and become the new growth point of our result performance.

Financial Review

The interest-bearing debt to equity ratio of the Company of approximately 26% from the Company's latest published Consolidated Financial Statements as at 31 December 2012 continues to improve to 21% as at 31 December 2013 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 RMB1,510.0 million, representing a decrease of approximately RMB109.6 million or 6.8% from the revenue of approximately RMB1,619.6 million for the corresponding period last year. The decrease in revenue was mainly attributable to the decrease in the sales of other chemical products but partly offset by the increase in the sales of eco-friendly bleaching and disinfectant products during the year.

Chairman's Statement *(CONTINUED)*

The gross profit for the year was RMB466.6 million, representing an increase of approximately RMB1.9 million or 5.7% from the gross profit of approximately RMB464.7 million for the corresponding period last year. The overall profit margin increased from 28.7% for 2012 to 30.9% for 2013, mainly due to (i) the increase of the average selling prices of eco-friendly bleaching and disinfection products affected by the improved market environment; (ii) the adjustment to the product structure which resulted in a rapid growth of sales of products with relatively higher gross profit margin; and (iii) the fact that the Company owns a complete package of key process technologies and has the advantages of stable and reliable production and sound energy-saving effects, whose product indicators outperform that of other domestic enterprises.

Outlook

Notwithstanding that the external operating environment remains complex and austere in 2014, the Company will integrate the current market through acquisitions and mergers to cement its leading position within the industry, and constantly enhance the bargaining power for main products. Through intensive cooperation with the Haixi Research Institute of Chinese Academy of Sciences and colleges to research and develop new technologies on the one hand and to reserve backbone talents on the other, the Company will continue to improve the added value of its products. Leveraging on the "12th Five-year" Plan and other national policies to invest more investments in the comprehensive environmental protection treatment as its base, the Company will propel the explosively growing demand for our eco-friendly bleaching and disinfection products by fully utilizing the opportunities from the urban and industrial wastewater treatment, follow the trend of the times, and share those results achieved in performing the PRC environmental protection cause.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue for the year under review was approximately RMB1,510.0 million, representing a decrease of approximately RMB109.6 million or 6.8% from approximately RMB1,619.6 million for the corresponding period last year. The decrease was mainly attributable to the decrease in the sales of other chemical products, and partially offset by increase in the sales of bleaching and disinfectant chemicals during the year.

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

	2013		2012	
	Amount	% of Revenue	Amount	% of Revenue
Revenue (RMB'000)				
Bleaching and disinfectant chemicals	669,280	44.3%	596,835	36.8%
Other chemical products	840,742	55.7%	1,022,799	63.2%
Total	1,510,022	100.0%	1,619,634	100.0%
Sales (tons)				
Bleaching and disinfectant chemicals	339,985		278,566	
Other chemical products	104,014		115,067	
Total	443,994		393,633	

	2013	2012
	Amount	Amount
Average selling price (RMB/per ton)		
Bleaching and disinfectant chemicals	1,969	2,143
Other chemical products	8,083	8,889

Management Discussion and Analysis *(CONTINUED)*

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

	Pro-rated designed production capacity Tons	Actual output Tons	Utilization rate %		Pro-rated designed production capacity Tons	Actual output Tons	Utilization rate %
2013:				2012:			
Bleaching and disinfectant chemicals	380,000	339,330	89%	Bleaching and disinfectant chemicals	317,125	281,300	89%
Other chemical products	183,583	151,338	82%	Other chemical products	145,500	135,155	93%
Total	563,583	490,668	87%	Total	462,625	416,455	90%

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 2013 and 31 December 2012, the pro-rated designed production capacity of bleaching and disinfectant chemicals was 380,000 tons and 317,125 tons respectively. In 2013, the annual pro-rated designed production capacity of bleaching and disinfectant chemicals increased by approximately 62,875 tons, which was mainly attributable to the upgrade in production facilities for sodium chlorate and hydrogen peroxide by increase of 11,625 tons 50,000 tons, respectively, that completed and commenced operation during the year.

During the year under review, the total revenue for the bleaching and disinfectant chemicals was RMB669.3 million, representing an increase of approximately 12.1% or RMB72.4 million from that in 2012. The increase was a net effect of: (1) the sales of sodium chlorate increased by approximately 10.1% to RMB422.5 million due to the production capacity expansion and the increase in sales volumes of sodium chlorate; and (2) the sales of hydrogen peroxide increased by approximately 26.3% to RMB232.4 million due to increase in sales volumes of hydrogen peroxide as a result of improvement of market condition.

In 2013, the utilization rate of the Group's bleaching and disinfectant product segment (i.e. actual output to pro-rated designed production capacity) reached 89% (2012: 89%), which was demonstrating the new production capacity being absorbed by the strong demand of downstream enterprises.

Other chemical products

This segment mainly consists of basic and modified grades of foaming agents, potassium chlorate, sodium perchlorate, potassium perchlorate, caustic soda, biurea and others.

As at 31 December 2013 and 31 December 2012, the pro-rated designed capacity of other chemical products was 183,583 tons and 145,500 tons respectively. In 2013, the annual pro-rated designed capacity of other chemical products increased by approximately 38,083 tons, which was mainly attributable to the upgrade in production facilities for foaming agent, potassium chlorate, biurea and concentrated acid by increase of 15,000 tons, 3,500 tons, 4,583, and 25,000 tons, respectively, that completed and commenced operation during the year. The increase is partially offset by 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 chemical products was RMB840.7 million, representing a decrease of approximately 17.8% or RMB182.1 million from that in 2012. The decrease was mainly attributed to the decrease in outsourced production and increase in self-produced sales volumes after the upgrade of our production facilities, and the decrease in sales volume of caustic soda due to conversion into self-production of foaming agent during the year.

In 2013, the utilization rate of the Group's other chemical products reached 82% (2012: 93%), demonstrating the new production facilitates of the Group's other chemical products 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 59.7% and 66.6% of our total cost of sales for the year ended 31 December 2013 and 2012, respectively.

During the year under review, our cost of sales decreased by approximately RMB111.5 million or 9.7% to RMB1,043.4 million from RMB1,155.0 million in the corresponding period last year, which was primarily due to the decrease in outsourced production volume of foaming agent. The percentage for cost of sales to revenue decreased from 71.3% for the year ended 31 December 2012 to 69.1% for the year ended 31 December 2013 reflecting decrease in cost of outsourcing production.

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Gross profit and gross margin

Our gross profit increased by approximately RMB1.9 million or 0.4% to RMB466.6 million for the year under review from RMB464.7 million for the corresponding period last year. The overall gross margin increased from 28.7% in 2012 to 30.9% in 2013, which was primarily due to: (i) the increase of the average selling prices of eco-friendly bleaching and disinfection products affected by the improved market environment; (ii) the adjustment to the product structure which resulted in a rapid growth of sales of products with relatively higher gross profit margin; and (iii) the fact that the Company owns a complete package of key process technologies and has the advantages of stable and reliable production and sound energy-saving effects, whose product indicators outperform that of other domestic enterprises.

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

	For the year ended 31 December		
Gross margin (%)	2013	2012	Change
Bleaching and disinfectant chemicals	34.7%	33.1%	4.8%
Other chemical products	27.9%	26.1%	6.9%
Overall	30.9%	28.7%	7.7%

Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals increased from 33.1% for the year ended 31 December 2012 to 34.7% for the year ended 31 December 2013, which was primarily attributed to: (1) the increase in sales volume of hydrogen peroxide which has higher gross profit margin as a result of improving market condition; and (2) the decrease in cost of sales as a result of decreasing raw material price and cost saving after the upgrade of production facilities.

Other chemical products

The gross margin of other chemical products increased from 26.1% for the year ended 31 December 2012 to 27.9% for the year ended 31 December 2013, which was primarily attributed to 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 improved the gross margin of foaming agent.

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 9.4% to RMB41.9 million for the year ended 31 December 2013 from RMB38.3 million for the year ended 31 December 2012, which was primarily attributed to the expansion of sales volume 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 decreased by 0.2% to RMB66.3 million for the year ended 31 December 2013 from RMB66.4 million for the year ended 31 December 2012, which was primarily attributed to which was primarily 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 by 65.2% to RMB3.4 million for the year ended 31 December 2013 from RMB2.0 million for the year ended 31 December 2012, which was primarily attributed to the increase in government subsidies as a result of energy saving.

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 8.1% to RMB1.9 million for the year ended 31 December 2013 from RMB1.8 million for the year ended 31 December 2012, which was primarily attributable to increase in loss on disposals of property, plant and equipment.

Finance income

Finance income primarily represents interest income from our bank deposits. The finance income of the Group decreased by 31.9% to RMB3.5 million for the year ended 31 December 2013 from RMB5.2 million for the year ended 31 December 2012, which was primarily attributed to the decrease in interest earned on our bank deposits as a result of decrease in term deposits during the year.

Finance expenses

Finance expenses 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 decreased by 1.3% to RMB28.0 million for the year ended 31 December 2013 from RMB28.4 million for the year ended 31 December 2012, which was primarily attributed to increased foreign exchange gains.

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 2.0% to RMB85.1 million for the year ended 31 December 2013 from RMB86.8 million for the year ended 31 December 2012. The effective tax rate decreased to 25.4% for the year ended 31 December 2013 from 25.7% for the year ended 31 December 2012 as a result of adjustments for income and expenses items which were not assessable or deductible for income tax purpose.

Profit for the year

As a result of the foregoing factors, the profit attributable to the equity holders of the Company increased by 0.2% to RMB250.3 million for the year ended 31 December 2013 from RMB249.7 million for the year ended 31 December 2012.

Profit attributable to non-controlling interests

There is no profit attributable to non-controlling interests of the Company for the year ended 31 December 2013 (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 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 RMB784.2 million (2012: approximately RMB778.6 million), most of which were denominated in Renminbi. As at 31 December 2013, the interest bearing bank borrowings of the Group amounted to approximately RMB391.1 million (2012: approximately RMB418.1 million).

The Group's current ratio (calculated as current assets divided by current liabilities) was 2.17 (2012: 1.84). The Group was in a strong net cash position as at 31 December 2012 and 2013. The Group has sufficient and readily available finance resource for both general working capital purpose and foreseeable capital expenditure.

Working capital

Inventories were approximately RMB156.0 million in total as at 31 December 2013, as compared with approximately RMB166.1 million as at 31 December 2012. The decrease was primarily due to utilisation in work in process namely, working solution to be used to produce hydrogen peroxide. Average inventory turnover days was 56 days for the year 2013 (2012: 42 days).

As at 31 December 2013, trade receivables amounted to approximately RMB229.3 million in total, as compared with approximately RMB256.1 million as at 31 December 2012. The decrease was in line with decrease in our sales during the year. The average trade receivables turnover days was 58 days for the year 2013 (2012: 66 days).

As at 31 December 2013, trade and bills payables amounted to approximately RMB178.7 million in total, as compared with approximately RMB299.4 million as at 31 December 2012. The decrease was mainly due to the decrease 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 83 days for the year 2013 (2012: 84 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 2013, the net proceeds were applied in the following manner:

Use of proceeds	Net proceeds from initial public offering		
	Available	Applied	Not yet applied
		(HK$ million)	
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 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 31 December 2013, the capital commitments of the Group was NIL.

Contingent liabilities

As at 31 December 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.

Employees and Remuneration Policy

As at 31 December 2013, the Group employed a total of 1,269 full time employees. For the year ended 31 December 2013, the employee benefit expense was approximately RMB67.8 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

The year 2014 will be the first year for the PRC to thoroughly implement the spirit of the third plenary session of the 18th CPC Central Committee and to extensively deepen the reform. It is also crucial for the PRC to accomplish the "12th Five-year" Plan. Under the guidance of the national policies and more enforcement efforts to protect environment being increasingly intensified, the Group will propel the explosively growing demand for our eco-friendly bleaching and disinfectant products by fully utilizing the opportunities from the urban and industrial wastewater treatment and providing financial support to our major products such as sodium chlorate and hydrogen peroxide, so as to cement our leading position in the industry and to boost the rapid development of our water treatment chemical business.

Market recovery with the rising price of major products

Over the past two years, the global economy has remained sluggish and the growth speed of the domestic economy has slowed down. Under this background, the Group had strengthened internal management and moderately controlled each of expenses and expenditures, by adopting a series of measures such as technical transformation and energy conservation, whereby maintaining a higher profit margin over that achieved by other peers in the industry. In 2014, with the demand of the downstream industries resumed and driven by the strong growth of the needs from the wastewater treatment industry, the price of our major products is expected to rise step by step, which will in turn help raise the profit margin of the Group.

Wastewater treatment to shore up the market demand as a new engine

By the first half of 2013, the products of the Group had been mainly applied in the traditional bleaching and disinfection fields such textile, paper production, pulp and dyeing. Starting from the second half of 2013, our eco-friendly products such as sodium chlorate and hydrogen peroxide have been used in the urban and industrial wastewater treatment in great numbers, reflecting a fast growth momentum in user demand.

According to the up-to-date market survey, the production capacity of sodium chlorate is approximately 0.6 million tons, and the demand and supply are basically balanced. It is expected that by 2015, with the demand of the urban and industrial wastewater treatment for the eco-friendly bleaching and disinfectant products keeping rising, the market demand would be likely to increase dramatically.

Benefiting from the industrial development opportunities presented by the long-term national policy on environmental protection

According to the policy documents concerning the wastewater treatment industry successively introduced by the PRC Government, such as the Opinions on Accelerating the Development of Energy Conservation and Environmental Protection Industry and the Regulation on the Urban Water Drainage and Wastewater Treatment, by 2015, all cities and towns are required to have a daily-centralized sewage treatment capacity of over 200 million cubic meters.

In 2014, the government will introduce the "wastewater prevention and control campaign" scheme and the total investment worth RMB2 trillion is expected. As the government will increase investment in the field of wastewater treatment and recycling and strengthen law enforcement, enterprises engaged in wastewater treatment are now facing a broader market. The Group will benefit from the industrial development opportunities as presented by the long-term national policy on environmental protection and accelerate to develop into the leading water treatment and eco-friendly chemical supplier in the PRC.

Promotion of technical transformation and release of new production capacity

In 2013, the Group invested funds of RMB214 million, mainly in a series of technical transformation and upgrade for the production equipment producing main products, power transfer routes and transformer substation. After technical transformation, our new annual production capacity of hydrogen peroxide and foaming agent was 50,000 tons and 15,000 tons, respectively. It is expected that the aforesaid annual production capacity will be leashed and become the new growth point of our result performance.

Solidifying our leading position through acquisition and merger

In April 2013, the Company entered into an agreement with Chengdu Huaxi Hope Group Co., Ltd in relation to acquire 30% of the equity of Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd. Sichuan Minjiang Snow currently possesses a combined production capacity of 180,000 tons of chlorate per annum, its production capacity of sodium chlorate is approximately two times of our production capacity of sodium chlorate. It is now the largest sodium chlorate production base in the PRC with its production capacity ranked number one across Asia.

In 2014, the Group will solidify its leading position through acquisition and merger, and leverage on its edges in advanced technologies and brands to substantially lower the costs of merger. Currently, the Group has a lower level of debt than that of other companies in the industry and sufficient cash flow, which have provided financial guarantee for our rapid expansion in the future.

Accelerating the research and development of the products related to water treatment

In February 2013, the Company and the Haixi Research Institute (海西研究院) of Chinese Academy of Sciences jointly established a "Research Centre of Green Chemical Technology" (綠色化工技術研發中心). The Company will deepen cooperation with Chinese Academy of Sciences, constantly cultivate and reserving new technologies, accelerate the research and development of the products related to water treatment, and develop high value-added product portfolio, so as to keep raising the gross profit margin of the Group.

Proactively expanding our international market

The Group is largest sodium chlorate supplier in Japan and also the largest sodium chlorate exporter in China, whose brands enjoy a good reputation both at home and abroad. In December 2013, Fujian Rongping Chemical Co., Ltd., a wholly-owned subsidiary of the Company, and Deutsche Investitions und Entwicklungsgesellschaft GmbH (DEG) entered into a facility agreement worth US$22 million with a repayment term of 7 years. The interest rate is determined with reference to the six-month LIBOR plus 4.0%.

DEG is a development finance institution which is specialized in financing private sectors in developing and transition countries in order to contribute to sustainable progress, and has now become one of the largest European development finance institutions. Through the cooperation with DEG, the Group will proactively expand its international market.

Looking ahead, notwithstanding the macroeconomic conditions will tend to be more complex in 2014, facing the challenges from the decelerated growth and structural adjustment, the Group will propel the explosively growing demand for our eco-friendly bleaching and disinfectant products by fully utilizing the opportunities from the urban and industrial wastewater treatment, follow the trend of the times, and share those results achieved in performing the PRC environmental protection cause.

DIRECTORS AND SENIOR MANAGEMENT

Biographies of Directors

Chairman and non-executive Director

Mr. Liem Djiang Hwa (林強華), aged 59, has been a non-executive Director and chairman of our Company since 10 June 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 49, has been an executive Director since 10 June 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 40, has been an executive Director since 10 June 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 57, has been an executive Director since 10 June 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 51, has been an independent non — executive Director since 10 June 2011. Dr. Chen has been appointed as an independent non-executive director and chairman of audit committee of Jintian Pharmaceutical Group Limited, a Company listed on the main board of Hong Kong Stock Exchange (stock code: 2211) since 18 November 2013. 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 was a professor in and chairman of the Department of Accounting at the School of Economics and Management of Tsinghua University (清華大學). He had taught and conducted academic research in the fields of accounting and taxation at Tsinghua University for a period of 16 years. Dr. Chen is experienced in accountings 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 46, has been an independent non-executive Director since 10 June 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 51, has been an independent non-executive Director since 10 June 2011. Mr. Li has more than 30 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"). He is also an independent director of the following companies: Shangdong Hualu-Hengsheng Chemical Co., Ltd. (山東華魯恒升化工股份有限公司) (stock code: 600426), Nantong Jiangshan Agrochemical & Chemicals Co., Ltd. (南通江山農藥化工股份有限公司) (stock code: 600389) and Weifang Yaxing Chemical Co., Ltd (濰坊衛星化學股份有限公司) (stock code: 600319), all 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.

Directors and Senior Management *(CONTINUED)*

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 38, 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 14 years of experience in the financial industry and capital market. 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 36, 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 CA member of the Institute of Singapore Chartered Accountants 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 46, 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 54, 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 46, 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 50, 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 57, 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 50, is the director and executive vice general manager of Fujian Rongchang. Mr. Lin has more than 22 years of experience in the chemical production industry. Mr. Lin joined our Group in 1988 and was general manager of Fuzhou Yihua from 2001 to 2005. From 2006 to 2007, Mr. Lin was vice general manager of Fujian Rongchang, where he managed production systems and led technical research activities. Mr. Lin obtained a bachelor's degree in engineering from Fuzhou University (福州大學) in 1988. Mr. Lin is also a senior chemical engineer. In December 2004, Mr. Lin was awarded the title of "Senior Engineer" (高級工程師) by the Fujian Province Personnel Affairs Bureau, a provincial government authority responsible for employment and personnel matters, recognizing his achievements and knowledge in the industry.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The 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 and 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.

In the opinion of the directors, throughout the year ended 31 December 2013, 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 2013.

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 14 to 15 of the annual report for the year ended 31 December 2013. 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 2013, 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 coordinating the daily operation and management of the Company are delegated to the management.

Corporate Governance Report *(CONTINUED)*

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 October 2013, the Company has organised training session on updates on Listing Rules which was attended by all directors.

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 pages 97 and 98.

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 three meetings to review interim and annual financial results and reports in respect of the year ended 31 December 2013 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 and diversity (including but not limited to gender, age, cultural and educational background, professional and industry experience, skills, knowledge and experience) of the board, 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 Company has adopted a Board Diversity Policy on 28 August 2013 which aims to set out the approach to achieve diversity on the Company's board of directors. The Company recognizes and embraces the benefits of having a diverse board, and see diversity at Board level as an essential element in maintaining a competitive advantage.

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 2013 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	2/6	–	–	–	1/1
Chen Hong	6/6	–	–	–	1/1
Miao Fei	6/6	–	1/1	–	1/1
Lam Wai Wah	5/6	1/1	–	–	1/1
Chen Xiao	6/6	–	1/1	3/3	1/1
Kou Huizhong	6/6	1/1	1/1	3/3	1/1
Li Junfa	6/6	1/1	–	3/3	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.

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

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 2013.

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 33 to 34.

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 2013 amounted to RMB3,150,000.

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 2013 is set out below:

Service Category	Fees Paid/Payable RMB
Audit Services	3,150,000
Non-audit Services	–
	3,150,000

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 2013, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (For the attention of the Board of Directors)
Email:	yihua@cfc2121.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 ongoing 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.

REPORT OF THE DIRECTORS

The directors are pleased to present to shareholders their report and the audited financial statements of the Group for the year ended 31 December 2013.

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 2013 are set out in the consolidated statement of comprehensive income on page 38.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 95 of this annual report.

Dividend

The Board has not recommended the payment of any interim dividend for the six months ended 30 June 2013.

The Board recommended the payment of a final dividend of HK3.90 cents (RMB3.12 cents) per Share for the year ended 31 December 2013 to shareholders whose names appear on the register of members of the Company on 20 June 2014. The proposed final dividend is subject to the approval by the shareholders at the forthcoming annual general meeting to be held on Friday, 13 June 2014. The final dividend is expected to be paid on or about 27 June 2014.

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, 12 June 2014 and Friday, 13 June 2014, both days inclusive, during which no transfer of Shares will be registered. In order to be eligible to attend and vote at the 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 11 June 2014.

In order to determine the entitlements of shareholders of receiving the proposed final dividend, the register of members of the Company will be closed on Thursday, 19 June 2014 and Friday, 20 June 2014, both days inclusive, during which 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 the above address for registration no later than 4:30 p.m. on Wednesday, 18 June 2014.

Reserves

Details of movements in the reserves are set out in the consolidated statement of changes in equity on page 39 and Note 16 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 RMB1,014.6 million (2012: RMB789.7 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 17 to the consolidated financial statements.

Share capital

Details of movements in the share capital of the Company are set out in Note 15 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 2013.

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. Chen Hong, Ms. Miao Fei and Mr. Lam Wai Wah will retire at the forthcoming annual general meeting of the Company, and, being eligible, offer 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 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 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)*
Lam Wai Wah	Long position	Interests in controlled corporation	419,949,888	52.35%	*(2)*
		Beneficial owner	4,000,000	0.49%	*(2)*
Chen Hong	Long position	Beneficial owner	4,000,000	0.49%	*(3)*
Miao Fei	Long position	Beneficial owner	4,000,000	0.49%	*(3)*
Chen Xiao	Long position	Beneficial owner	800,000	0.09%	*(3)*
Kou Huizhong	Long position	Beneficial owner	400,000	0.04%	*(3)*
Li Junfa	Long position	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 our 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 Share 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.

Report of the Directors *(CONTINUED)*

Save as those disclosed above, as at 31 December 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 31 December 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 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)
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 our 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 31 December 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.

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:

	2013	2012
As a percentage of the Group's total sales		
The largest customer	9.7%	10.4%
Five largest customers in aggregate	38.3%	36.2%
As a percentage of Group's total purchases		
The largest supplier	18.6%	13.3%
Five largest suppliers in aggregate	59.3%	49.2%

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 2013.

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 2013, 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 2013, 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 23 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 2013 is set out in Note 35 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 2013.

Continuing connected transactions

During the year ended 31 December 2013 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, 21 March 2014

INDEPENDENT AUDITOR'S REPORT

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 35 to 94, which comprise the consolidated and company balance sheets as at 31 December 2013, 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

Independent Auditor's Report *(CONTINUED)*

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 2013, 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, 21 March 2014

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Land use rights	*6*	73,803	75,567
Property, plant & equipment	*7*	1,165,438	1,064,238
Intangible assets	*8*	4,105	4,499
Investment accounted for using the equity method	*21b*	–	–
Deferred income tax assets	*9*	1,425	523
		1,244,771	1,144,827
Current assets			
Inventories	*10*	156,001	166,148
Trade and other receivables	*11*	239,904	296,901
Cash and cash equivalents	*13*	784,153	778,553
Restricted cash	*14*	112,617	61,491
		1,292,675	1,303,093
Total Assets		2,537,446	2,447,920
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*15*	65,346	65,346
Reserves	*16*	780,100	777,033
— Proposed final dividend	*30*	25,026	25,007
— Others		755,074	752,026
Retained earnings	*16*	1,014,644	789,743
Total equity		1,860,090	1,632,122

Consolidated Balance Sheet *(CONTINUED)*

		As at 31 December	
		2013	2012
	Note	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*17*	68,078	90,750
Deferred income	*18*	14,006	15,508
Deferred income tax liabilities	*9*	743	–
		82,827	106,258
Current liabilities			
Derivative financial instruments	*19*	–	–
Trade and other payables	*20*	246,135	369,837
Current income tax liabilities		25,397	12,346
Borrowings	*17*	322,997	327,357
		594,529	709,540
Total liabilities		677,356	815,798
Total equity and liabilities		2,537,446	2,447,920
Net current assets		698,146	593,553
Total assets less current liabilities		1,942,917	1,738,380

The notes on pages 41 to 94 are an integral part of these financial statements.

The financial statements on pages 35 to 94 were approved by the Board of Directors on 21 March, 2014 and were signed on its behalf.

CHEN HONG
Director

MIAO FEI
Director

COMPANY BALANCE SHEET

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*21a*	1,449,426	1,449,426
Due from subsidiaries	*12*	393,838	–
		1,843,264	1,449,426
Current assets			
Cash and cash equivalents	*13*	114	721
Trade and other receivables	*11*	–	483,040
		114	483,761
Total Assets		1,843,378	1,933,187
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*15*	65,346	65,346
Reserves	*16*	1,815,274	1,837,563
— Proposed final dividend	*30*	25,026	25,007
— Others		1,790,248	1,812,556
Accumulated losses	*16, 31*	(37,242)	(20,606)
Total equity		1,843,378	1,882,303
Liabilities			
Current liabilities			
Trade and other payables	*20*	–	50,884
		–	50,884
Total liabilities		–	50,884
Total equity and liabilities		1,843,378	1,933,187
Net current assets		114	432,877
Total assets less current liabilities		1,843,378	1,882,303

The notes on pages 41 to 94 are an integral part of these financial statements.

The financial statement on pages 35 to 94 was approved by the Board of Directors on 21 March 2014 and was signed on its behalf.

CHEN HONG
Director

MIAO FEI
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2013	2012
	Note	RMB'000	RMB'000
Revenue	*5*	1,510,022	1,619,634
Cost of sales	*22*	(1,043,436)	(1,154,950)
Gross profit		466,586	464,684
Selling and marketing expenses	*22*	(41,934)	(38,302)
Administrative expenses	*22*	(66,273)	(66,394)
Other income	*24*	3,369	2,039
Other losses — net	*25*	(1,897)	(1,755)
Operating profit		359,851	360,272
Finance income	*26*	3,512	5,157
Finance expenses	*27*	(28,004)	(28,379)
Finance expenses-net		(24,492)	(23,222)
Share of profit/loss of an investment accounted for using equity method	*21b*	–	–
Profit before income tax		335,359	337,050
Income tax expense	*28*	(85,102)	(86,801)
Profit and total comprehensive income for the year		250,257	250,249
Attributable to:			
— Equity holders of the Company		250,257	249,712
— Non-controlling interests		–	537
		250,257	250,249
Earnings per share attributable to the equity holders of the Company (RMB Yuan)			
— Basic	*29*	0.31	0.31
— Diluted	*29*	0.31	0.31
Proposed final dividend	*30*	25,026	25,007

The notes on pages 41 to 94 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company							Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000 (Note 15)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Share-based payment reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000		
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	*16(a)*	–	–	–	25,823	–	(25,823)	–	–	–
Issue of ordinary shares in connection with the IPO over-allotment		178	4,629	–	–	–	–	4,807	–	4,807
Share-based payment expense	*33(a)*	–	–	–	–	2,403	–	2,403	–	2,403
Acquisition of non-controlling interests		–	–	(61)	–	–	–	(61)	(10,939)	(11,000)
Dividend distribution	*30*	–	–	(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
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 year		–	–	–	–	–	250,257	250,257	–	250,257
Profit appropriation to statutory reserves	*16(a)*	–	–	–	25,356	–	(25,356)	–	–	–
Share-based payment expense	*33(a)*	–	–	–	–	2,403	–	2,403	–	2,403
Dividend distribution	*30*	–	–	(24,692)	–	–	–	(24,692)	–	(24,692)
Balance at 31 December 2013		65,346	317,328	305,700	152,121	4,951	1,014,644	1,860,090	–	1,860,090

The notes on pages 41 to 94 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cash flows from operating activities			
Cash generated from operations	32	421,625	443,551
Interest paid		(33,529)	(32,788)
Interest received		3,512	5,157
Income tax paid		(72,210)	(104,127)
Net cash generated from operating activities		319,398	311,793
Cash flows from investing activities			
Purchases of property, plant and equipment		(214,071)	(338,540)
Proceeds from sale of property, plant and equipment	32	–	6,376
Purchases of intangible assets		–	(4,717)
Restricted cash reserve for serving loan and bills payable		(51,126)	–
Proceeds from government grants	18	–	2,030
Net cash used in investing activities		(265,197)	(334,851)
Cash flows from financing activities			
Borrowings from banks		483,509	338,990
Repayments of bank borrowings		(505,239)	(394,976)
Acquisition of non-controlling interests		–	(11,000)
Proceeds from issuing ordinary shares in connection with the IPO over-allotment		–	4,807
Payments of IPO expenses		(1,517)	(20,749)
Dividend paid	30	(24,692)	(40,697)
Net cash generated used in financing activities		(47,939)	(123,625)
Net increase/(decrease) in cash and cash equivalents		6,262	(146,683)
Cash and cash equivalents at beginning of year		778,553	926,148
Exchange loss on cash and cash equivalents		(662)	(912)
Cash and cash equivalents at end of year		784,153	778,553

The notes on pages 41 to 94 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED 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.

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 21 March 2014.

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 2013.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through profit or loss, which are carried at fair value.

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.

2.1.1 Changes in accounting policy and disclosures

(a) *New and amended standard adopted by the Group*

The following standard has been adopted by the Group for the first time for the financial year beginning on 1 January 2013:

- Amendment to IAS1, '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 classifiable to profit or loss subsequently (reclassification adjustments).

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(a) New and amended standard adopted by the Group (Continued)

- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offseting. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

- IFRS 10, '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.

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

- 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 aligned 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.

- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

The adoption of the new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

(b) New standards and interpretations not yet adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group:

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(b) New standards and interpretations not yet adopted by the Group (Continued)

- 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. Changes effective for the financial reporting periods is left open.

- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. Changes effective for periods commencing after 1 January 2014.

- IAS 32 (Amendment), 'Offsetting financial assets and financial liabilities' will be effective for annual periods beginning on or after 1 January 2014. These amendments clarify the offsetting criteria in IAS 32 and address inconsistencies in their application. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective from annual periods beginning after 1 January 2014.

- IAS 36 (Amendments) 'Recoverable amount disclosures for non-financial assets'. The IASB made consequential amendments to the disclosure requirements of IAS 36 when it issued IFRS 13. One of the amendments was drafted more widely than intended. The unintended result requires to disclose the recoverable amount for each CGU with significant amount of goodwill or intangible assets with indefinite useful lives no matter whether there has been impairment. IASB has published limited amendments to remove such requirement for CGU without impairment and introduces additional disclosures about fair value measurements when there has been impairment or a reversal of impairment. The amendments are effective from annual periods beginning after 1 January 2014.

- IAS 39 (Amendments) 'Novation of derivatives'. IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of the derivative contract which is designated as a hedging instrument to a central counterparty meets specified criteria. The amendments are effective from annual periods beginning after 1 January 2014.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(b) New standards and interpretations not yet adopted by the Group (Continued)

- IFRS 10, IFRS 12 and IAS 27 (Amendments) 'Investment entities'. The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendments are effective from annual periods beginning after 1 January 2014.

- IFRS 7 and IFRS 9 (Amendments) "Mandatory effective date and transition disclosures" delay the effective date to annual periods beginning on or after 1 January 2015, and also modify the relief from restating prior periods. As part of this relief, additional disclosures on transition from IAS 39 to IFRS 9 are required. The amendments are effective from annual periods beginning after 1 January 2015.

- Annual improvements 2012, these amendments include changes from the 2010–2012 cycle of the annual improvements project that affect below standards. The amendments are effective from annual periods beginning after 1 July 2014.

  — IFRS2, 'Share-based payment'

  — IFRS3, 'Business combinations' and consequential amendments to IFRS9, 'Financial instruments', IAS37, 'Provisions, contingent liabilities and contingent assets', and IAS39, 'Financial instruments — Recognition and measurement'

  — IFRS8, 'Operating segments'

  — IAS16, 'Property, plant and equipment' and IAS38, 'Intangible assets'

  — IAS24, 'Related Party Disclosures'

- Annual improvements 2013, these amendments include changes from the 2011–2013 cycle of the annual improvements project that affect below standards. The amendment are effective from annual periods beginning after 1 July 2014.

  — IFRS3, 'Business combinations'

  — IFRS13, 'Fair value measurement'

  — IAS40, 'Investment property'

2 Summary of significant accounting policies *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(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 the consolidated statement of comprehensive income.

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.

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 Summary of significant accounting policies *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

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

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

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

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

2 Summary of significant accounting policies *(Continued)*

2.3 Associates *(Continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income.

2.4 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 executive directors that makes strategic decisions.

2.5 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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the income statement within 'Other losses — net'.

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

2.5 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.

2.6 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.

2 Summary of significant accounting policies *(Continued)*

2.6 Property, plant and equipment *(Continued)*

Gains and losses on disposals are determined by comparing net sales proceeds with the carrying amount and are recognised within 'other losses — net' (Note 25) in the consolidated statement of comprehensive income.

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

2.7 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.

2.8 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 of 12 years.

2.9 Financial assets

2.9.1 Classification

The Group's financial assets include financial assets at fair value through profit or loss and 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.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within12 months; otherwise, they are classified as non-current.

(b) *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' and 'cash and cash equivalents' in the balance sheet (Notes 11 and 13).

2 Summary of significant accounting policies *(Continued)*

2.9 Financial assets *(Continued)*

2.9.2 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.

Gains or losses arising from changes in the fair value of the 'financial liability at fair value through profit or loss' category are presented in the consolidated statement of comprehensive incomes within 'Other losses — net' in the period in which they arise.

2.9.3 Offsetting

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.

2.9.4 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.

Evidence of impairment may include indications that the debtors or a Group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 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.

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 Summary of significant accounting policies (Continued)

2.10 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.

2.11 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.

2.12 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.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 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.

2.15 Borrowings

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

2 Summary of significant accounting policies *(Continued)*

2.15 Borrowings *(Continued)*

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

2.16 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.

(a) Current income tax

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.

(b) Deferred income tax

Inside basis differences

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 income 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.

2 Summary of significant accounting policies *(Continued)*

2.16 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

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.

2.17 Employee benefits

(a) 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.

(b) 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 Summary of significant accounting policies *(Continued)*

2.18 Share-based payment

Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.19 Provision

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 Summary of significant accounting policies *(Continued)*

2.20 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.

(c) Dividend income

Dividend income is recognised when the right to receive prepayment is established.

2.21 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.

2.22 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.

2.23 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.

Notes to the Consolidated Financial Statements *(CONTINUED)*

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

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 2013 and 2012, approximately 15% and 14%, 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, 20, and 17), the Group's assets and liabilities are primarily denominated in RMB.

At 31 December 2013, if RMB had weakened/strengthened by 5% against foreign currencies with all other variables held constant, profit after tax for the year ended 31 December 2013 would have been RMB5,031,000 lower/higher (2012: RMB3,741,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of USD, JPY and HKD denominated cash and trade receivables, 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 2013 and 2012, 92% and 95% 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.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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 2013, the exposure to the top 15 customers did not exceed 68% (2012: 63%) of the gross trade and other receivables, with the exposure to the largest customer representing less than 9% (2012: 14%).

(c) Liquidity risk

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

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

At 31 December 2013 and 2012 the Group held cash and cash equivalents of RMB784,153,000 and RMB778,553,000 (Note 13), trade receivables of RMB229,253,000 and RMB256,144,000 (Note 11) and restricted cash of RMB112,617,000 and RMB61,491,000 (Note 14) respectively, that are expected to readily generate cash inflows for managing liquidity risk.

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 2013 and 2012 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 2013			
Borrowings and interest payable	335,789	51,594	20,307
Trade and other payables	246,132	–	–
	581,921	51,594	20,307
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

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(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 2013 and 2012, approximately RMB305,735,000 and RMB225,834,000 of the Group's borrowings were at variable rates, respectively.

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

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

At 31 December 2013 and 2012, 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 RMB2,528,000 higher/lower and 2,210,000 higher/lower respectively.

3.2 Capital 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%.

3 Financial risk management *(Continued)*

3.2 Capital management *(Continued)*

The gearing ratios at 31 December 2013 and 2012 were as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bank borrowings *(Note 17)*	391,075	418,107
Less: cash and cash equivalents *(Note 13)*	(784,153)	(778,553)
Net debt	(393,078)	(360,446)
Total equity	1,860,090	1,632,122
Total capital	1,467,012	1,271,676
Gearing ratio	N/A	N/A

3.3 Fair value estimation

As at 31 December 2013 and 2012, 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.

Notes to the Consolidated Financial Statements *(CONTINUED)*

4 Critical accounting estimates and judgements *(Continued)*

(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 business units where the principal operations of the Group is located are presented to the chief operating decision maker (the executive Directors) who reviews the internal reports in order to assess performance and allocate resources. Due to the differences in gross profit, customers etc. for Bleaching and disinfectant chemicals, Forming agent and Other special chemicals respectively, operations of the Group are considered to be three reportable segments in accordance with IFRS 8 "Operating 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 overseas, no single customer accounted for more than 10% of the Group's total revenues for the year ended 2013 and 2012.

The revenue from external customers and the cost, the total assets and the total liabilities are measured in a manner consistent with that of the Group's consolidated financial statements.

The Board of Directors assesses the performance of the operating segments based on a measure of gross profit.

5 Segment information *(Continued)*

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2013 and as at 31 December 2013 is as follows:

	Year ended 31 December 2013			
	Bleaching and disinfectant chemicals RMB'000	Forming agent RMB'000	Other specialty chemicals RMB'000	Total RMB'000
Segment revenue	669,280	586,841	253,901	1,510,022
Inter-segment revenue	–	–	–	–
Revenue from external customers	669,280	586,841	253,901	1,510,022
Gross profit	232,062	144,713	89,811	466,586
Unallocated				
Depreciation and amortisation				94,443
Finance income				3,512
Finance expense				(28,004)
Income tax expense				(85,102)
Total assets				2,537,446
Total liabilities				677,356

Notes to the Consolidated Financial Statements *(CONTINUED)*

5 Segment information *(Continued)*

	Year ended 31 December 2012			
	Bleaching and disinfectant chemicals RMB'000	Forming agent RMB'000	Other specialty chemicals RMB'000	Total RMB'000
Segment revenue	596,835	759,378	263,421	1,619,634
Inter-segment revenue	–	–	–	–
Revenue from external customers	596,835	759,378	263,421	1,619,634
Gross profit	197,739	160,204	106,741	464,684
Unallocated				
Depreciation and amortisation				69,161
Finance income				5,157
Finance expenses				(28,379)
Income tax expense				(86,801)
Total assets				2,447,920
Total liabilities				815,798

There is no information in relation segment assets and segment liabilities provided to CODM.

Revenue from external customers by geographical area is based on the geographical location of the customers.

Revenue is allocated based on the countries in which the customers are located.

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Revenue		
Mainland China	1,313,329	1,398,811
Overseas	196,693	220,823
	1,510,022	1,619,634

6 Land use rights

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Cost	88,206	88,206
Accumulated amortisation	(14,403)	(12,639)
Net book value	73,803	75,567
Representing:		
Opening net book amount	75,567	77,331
Amortisation *(Note 22)*	(1,764)	(1,764)
Closing net book amount	73,803	75,567

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 RMB34,798,000 and RMB15,075,000 as at 31 December 2013 and 2012 respectively were secured for bank borrowings (Note 17).

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

Notes to the Consolidated Financial Statements *(CONTINUED)*

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 2012						
Opening net book amount	368,262	355,887	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 22)*	(14,454)	(51,046)	(903)	(776)	–	(67,179)
Closing net book amount	386,222	607,685	5,168	4,518	60,645	1,064,238
At 31 December 2012						
Cost	523,664	925,960	9,261	8,821	60,645	1,528,351
Accumulated depreciation and impairment	(137,442)	(318,275)	(4,093)	(4,303)	–	(464,113)
Net book amount	386,222	607,685	5,168	4,518	60,645	1,064,238
Year ended 31 December 2013						
Opening net book amount	386,222	607,685	5,168	4,518	60,645	1,064,238
Additions	–	21,944	793	2,178	170,467	195,382
Transfer upon completion	49,255	181,857	–	–	(231,112)	–
Disposals	(449)	(1,443)	–	(5)	–	(1,897)
Depreciation *(Note 22)*	(16,259)	(73,575)	(997)	(1,454)	–	(92,285)
Closing net book amount	418,769	736,468	4,964	5,237	–	1,165,438
At 31 December 2013						
Cost	572,272	1,124,191	10,054	10,721	–	1,717,238
Accumulated depreciation and impairment	(153,503)	(387,723)	(5,090)	(5,484)	–	(551,800)
Net book amount	418,769	736,468	4,964	5,237	–	1,165,438

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	
	2013	2012
	RMB'000	RMB'000
Cost of sales	84,990	61,513
Selling and marketing expenses	107	109
Administrative expenses	7,188	5,557
	92,285	67,179

(b) During the year, the Group has capitalised borrowing costs amounting to RMB2,305,000 (2012: RMB4,311,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 6.45% (2012: 6.01%) (Note 27).

(c) As at 31 December 2013 and 2012, certain buildings and machinery with an aggregate carrying value of RMB154,509,000 and RMB156,282,000 were secured for bank borrowings respectively (Note 17).

(d) Lease rentals expenses amounting to RMB1,518,000 (2012: RMB1,349,000) relating to the lease of property is included in the consolidated statement of comprehensive income (Note 22).

8 Intangible assets

Intangible assets represent patents and details are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Year ended 31 December		
Opening net book amount	4,499	–
Additions	–	4,717
Amortisation *(Note 22)*	(394)	(218)
Closing net book amount	4,105	4,499
At 31 December		
Cost	4,717	4,717
Accumulated amortisation	(612)	(218)
Net book amount	4,105	4,499

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

9 Deferred income tax assets and liabilities

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 and liabilities are as follows:

	Employee benefit obligation RMB'000	Bargain purchase RMB'000	Share of loss from the associate RMB'000	Impairment losses RMB'000	Total RMB'000
Deferred income tax assets					
At 1 January 2012	170	–	–	–	170
Credited to the consolidated statement of comprehensive income	353	–	–	–	353
At 31 December 2012	523	–	–	–	523
At 1 January 2013	523	–	–	–	523
(Charged)/credited to the consolidated statement of comprehensive income	(41)	–	743	200	902
At 31 December 2013	482	–	743	200	1,425
Deferred income tax liabilities					
At 1 January 2013	–	–	–	–	–
Charged to the consolidated statement of comprehensive income	–	(743)	–	–	(743)
At 31 December 2013	–	(743)	–	–	(743)

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

Deferred income tax liabilities of RMB12,439,000 (2012: RMB9,418,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled RMB995,131,000 at 31 December 2013 (2012: RMB753,473,000).

10 Inventories

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Raw materials	18,600	15,659
Work in progress	126,119	133,796
Finished goods	11,282	16,693
	156,001	166,148

The cost of inventories recognised as expense and included in cost of sales for the years ended 31 December 2013 and 2012 amounted to RMB623,290,000 and RMB769,009,000 respectively.

11 Trade and other receivables

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables *(a)*	229,253	256,144	–	–
Due from third parties	230,052	256,144	–	–
Less: Provision for impairment of receivables	(799)	–	–	–
Prepayments *(b)*				
Prepayments for purchase goods from related parties	2,000	–	–	–
Prepayments for purchase goods from third parties	2,000	2,117	–	–
Value added tax input credits	6,000	37,996	–	–
Other receivables *(c)*				
Due from subsidiaries	–	–	–	483,040
Due from third parties	651	644	–	–
	239,904	296,901	–	483,040

The carrying amounts of receivables approximate their fair values.

11 Trade and other receivables *(Continued)*

(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 2013 and 2012, the ageing analysis of the trade receivables is set as follows:

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	228,409	253,653	–	–
Between 4 and 6 months	45	12	–	–
Between 7 and 12 months	–	2,479	–	–
Between 1 and 2 years	1,598	–	–	–
	230,052	256,144	–	–

As of 31 December 2013 and 2012, trade receivables of RMB45,000 (2012: RMB2,491,000) were past due but not impaired. These relate to a number of independent customers, for whom there is no significant financial difficulty and based on past experiences, the overdue can be recovered. The ageing analysis of these past due but not impaired receivables is as follows:

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Between 4 and 6 months	45	12	–	–
Between 7 and 12 moths	–	2,479	–	–
	45	2,491	–	–

11 Trade and other receivables *(Continued)*

(a) *(Continued)*

As of 31 December 2013, trade receivables of RMB799,000 (2012: nil) were impaired. The amount of the provision was RMB799,000 as of 31 December 2013 (2012: nil). The individually impaired receivables mainly relate to one customer, which is in unexpectedly difficult economic situation. It was assessed that a portion of the receivables is expected to be recovered. The ageing of this receivable is as follows:

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Between 1 and 2 years	1,598	–	–	–

The creation of provisions for impaired receivables has been included in "administrative expenses" in the consolidated statement of comprehensive income (Note 22).

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

(b) Prepayments

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments for raw materials	4,000	2,000	–	–
Value added tax input credits	6,000	37,996	–	–
Others	–	117	–	–
	10,000	40,113	–	–

11 Trade and other receivables *(Continued)*

(c) Other receivables

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due from subsidiaries	–	–	–	483,040
Advance to employees	20	40	–	–
Others	631	604	–	–
	651	644	–	483,040

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

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	222,745	236,298	–	127,224
USD	7,159	20,490	–	127,702
HKD	–	–	–	228,114
	229,904	256,788	–	483,040

12 Due from subsidiaries

	Company	
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Due from subsidiaries	393,838	–

As at 31 December 2013, due to changes in the Company's operation plan and capital fund budget, all the balances due from subsidiaries were non-interest bearing and will not be collected within one year. The fair value of the balance of due from subsidiaries is approximately equal to its carrying amount.

12 Due from subsidiaries *(Continued)*

(a) The carrying amounts of the Company's due from subsidiaries are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
— RMB	29,113	–
— HKD	221,193	–
— USD	143,562	–
	393,838	–

13 Cash and cash equivalents

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash in hand	80	40	–	–
Bank deposits	784,073	778,513	114	721
	784,153	778,553	114	721

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
— RMB	748,913	775,265	6	3
— HKD	256	742	51	530
— USD	34,984	2,546	57	188
	784,153	778,553	114	721

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 Restricted cash

	As at 31 December 2013 RMB'000	2012 RMB'000
For serving loan *(a)*	62,100	–
For bills payable *(b)*	50,517	61,491
	112,617	61,491

(a) As at 31 December 2013, RMB62,100,000 (2012: nil) were restricted deposits held at bank for serving loans.

(b) As at 31 December 2013 and 2012, RMB50,517,000 and RMB61,491,000 of restricted cash were secured for issuing of bills to its suppliers amounting to RMB127,660,000 and RMB231,783,000 respectively (Note 20(b)).

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

15 Share capital

	Number of ordinary shares	Nominal value of ordinary shares HKD
Authorised:		
Ordinary shares of HKD 0.1 each	5,000,000,000	500,000,000

	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 2012		800,000,000	80,000,000	65,168,000
Issue of ordinary shares in connection with the IPO over-allotment	*(a)*	2,191,000	219,100	178,000
As at 31 December 2012 and 2013		802,191,000	80,219,100	65,346,000

(a) 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.

16 Reserves and Retained earnings

Group

	Note	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Share-based payment reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000
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		4,629	–	–	–	–	4,629
Share-based payment expense	33(a)	–	–	–	2,403	–	2,403
Acquisition of non-controlling interests		–	(61)	–	–	–	(61)
Dividends distribution	30	–	(40,697)	–	–	–	(40,697)
Balance at 31 December 2012		317,328	330,392	126,765	2,548	789,743	1,566,776
Balance at 1 January 2013		317,328	330,392	126,765	2,548	789,743	1,566,776
Profit for the year		–	–	–	–	250,257	250,257
Profit appropriations to statutory reserves	(a)	–	–	25,356	–	(25,356)	–
Share-based payment expense	33(a)	–	–	–	2,403	–	2,403
Dividends distribution	30	–	(24,692)	–	–	–	(24,692)
Balance at 31 December 2013		317,328	305,700	152,121	4,951	1,014,644	1,794,744

(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.

16 Reserves and Retained earnings *(Continued)*

Company

	Note	Share premium RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Accumulated Losses RMB'000	Sub-total RMB'000
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		4,629	–	–	–	4,629
Dividends distribution	*30*	–	(40,697)	–	–	(40,697)
Share-based payment expense	*33(a)*	–	–	2,403	–	2,403
Balance at 31 December 2012		317,328	1,517,687	2,548	(20,606)	1,816,957
Balance at 1 January 2013		317,328	1,517,687	2,548	(20,606)	1,816,957
Losses for the year		–	–	–	(16,636)	(16,636)
Dividends distribution	*30*	–	(24,692)	–	–	(24,692)
Share-based payment expense	*33(a)*	–	–	2,403	–	2403
Balance at 31 December 2013		317,328	1,492,995	4,951	(37,242)	1,778,032

17 Borrowings

	As at 31 December 2013 RMB'000	2012 RMB'000
Non-current		
Bank borrowings	68,078	90,750
Current		
Current portion of long-term bank borrowings	47,845	46,560
Short-term bank borrowings	275,152	265,797
Short-term borrowings in financial institutions	–	15,000
	322,997	327,357
Total borrowings	391,075	418,107

17 Borrowings *(Continued)*

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

	As at 31 December 2013 RMB'000	2012 RMB'000
Group's assets		
Buildings and land use rights *(Note 6, Note 7(c))*	30,000	29,200
Restricted cash *(Note 14)*	57,873	–
	87,873	29,200

(b) The Group's borrowings are guaranteed by:

	As at 31 December 2013 RMB'000	2012 RMB'000
Corporate guarantee provided by subsidiaries of the Group	303,202	388,907

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

	As at 31 December 2013 RMB'000	2012 RMB'000
Within 1 year	322,997	327,357
Between 1 and 2 years	48,108	47,060
Between 2 and 5 years	19,970	43,690
	391,075	418,107

Notes to the Consolidated Financial Statements *(CONTINUED)*

17 Borrowings *(Continued)*

(d) 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	
	2013	2012
	RMB'000	RMB'000
Bank borrowings		
— fixed rates	85,340	192,273
— floating rates	305,735	225,834
	391,075	418,107

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bank borrowings	5.87%	5.68%

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.

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
— RMB	231,320	296,332
— HKD	23,733	24,324
— USD	136,022	–
— JPY	–	97,451
	391,075	418,107

17 Borrowings *(Continued)*

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Undrawn borrowing facilities	742,724	896,359

On 6 December 2013, a subsidiary of the Group and the DEG-Deutsche Infestations-undEntwicklungsgesellschaft (a financial institution incorporated and existing as a limited liability company under the law of the Federal Republic of Germany) have entered into a long-term loan agreement with a credit limit of USD22,000,000. The fund is intended to be used to upgrade the subsidiary's sodium chlorate and hydrogen peroxide plants. As at 31 December 2013, no drawn down have been made.

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	
	2013	2012
	RMB'000	RMB'000
Opening net book amount	15,508	14,743
Additions	–	2,030
Amortisation	(1,502)	(1,265)
Closing net book amount	14,006	15,508
At end of year		
Cost	17,730	17,730
Accumulated amortisation	(3,724)	(2,222)
Net book amount	14,006	15,508

19 Derivative financial instruments

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Financial liability at fair value through profit or loss		
Forward foreign exchange contracts	–	–

For the purpose of hedging foreign currency risk, the management entered into a forward foreign exchange contract (between RMB and JPY) for the loan denominated in Japanese Yen amounted to JPY950,000,000 at a pre-determined fixed rate with a bank in 2013.

The Group executed forward foreign exchange contract in September 2013 and the loss amounted to RMB16,708,000 (2012: Nil) was recorded in "finance expenses" (Note 27).

20 Trade and other payables

	Group		Company	
	As at 31 December			
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables *(a)*				
Due to third parties	51,047	67,640	–	–
Bills payable *(b) (Note 14)*				
Due to related parties *(Note 35(b))*	1,500	–	–	–
Due to third parties	126,160	231,783	–	–
Other payables and accrual *(c)*				
Due to subsidiaries	–	–	–	50,884
Due to third parties	67,428	70,414	–	–
	246,135	369,837	–	50,884

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

	Group		Company	
	As at 31 December			
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	51,032	67,640	–	–
Between 4 and 6 months	15	–	–	–
	51,047	67,640	–	–

(b) As at 31 December 2013 and 2012, the entire balances of bills payable were secured by restricted cash of RMB50,517,000 and RMB61,491,000 respectively (Note 14).

20 Trade and other payables *(Continued)*

(c) Details of other payables are as follows:

	Group		Company	
	As at 31 December			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due to subsidiaries	–	–	–	50,884
Advance from customers	3	164	–	–
Payable for property, plant and equipment purchases	10,409	29,098	–	–
Freight charges	8,846	10,082	–	–
Water and electricity	23,397	10,880	–	–
Salary and welfare payable	8,625	10,499	–	–
Taxes	11,651	2,086	–	–
Payable for IPO expenses	–	1,517	–	–
Auditor's remuneration	1,275	2,550	–	–
Others	3,222	3,538	–	–
	67,428	70,414	–	50,884

(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			
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
— RMB	246,132	368,157	–	49,368
— USD	–	9	–	9
— HKD	–	1,507	–	1,507
	246,132	369,673	–	50,884

21a Investments in subsidiaries

	Company As at 31 December 2013 RMB'000	2012 RMB'000
Investments in unlisted shares, at cost	1,449,426	1,449,426

As at 31 December 2013, 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	USD1	100%
Yihua Sub-Holding Beta (BVI) Limited	BVI/3 December 2010	Investment holding	USD1	100%
Indirectly owned				
Longpower Corporation Limited	HK/3 December 2009	Investment holding	HKD1	100%
Sun Champ Group Holdings Limited	HK/18 March 2010	Investment holding	HKD1	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	RMB254,500,000	100%
Fuzhou Yihua Chemical Stock Co., Ltd.	PRC/7 June 2003	Manufacturing and sale of chemical products	RMB240,000,000	100%
Fujian Jinrong Technical Co., Ltd.	PRC/14 August 2012	Manufacturing and sale of chemical products	RMB100,000,000	100%

21b Investments accounted for using the equity method

	As at 31 December RMB'000
Share of net assets, as at 1 January 2013	–
Addition	2,973
Share of loss of investments accounted for using the equity method	(2,973)
Share of net assets, as at 31 December 2013	–

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
9,910	30%	2,973	–	2,973

The Group recognised bargain purchase of RMB2,973,000 in the share of profit/loss of investment accounted for using the equity method.

Nature of investment in Minjiang Snow and financial information of Minjiang Snow as at 31 December 2013 are as follow:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of relationship	Measurement method
Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd.	PRC	30	*Note 1*	Equity

Note 1: Mingjiang Snow is a 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.

Mingjiang Snow is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interests in Mingjiang Snow.

21b Investments accounted for using the equity method (Continued)

Summarised financial information for the associate

	2013 RMB'000
Total assets	700,780
Total liabilities	781,185
Net liabilities	(80,405)
Total revenue	138,478
Net Loss	(68,722)

The Group's share of losses in Minjing Snow in 2013 was only up to the investment amount as the Group has no obligations to make payment on behalf of this associate.

22 Expenses by nature

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Raw materials used and changes in inventories	623,290	769,009
Depreciation of property, plant and equipment *(Note 7)*	92,285	67,179
Electricity and other utility fees	283,845	269,872
Employee benefit expenses *(Note 23)*	67,836	66,799
Transportation and related charges	36,403	26,975
Tax and surcharges	9,028	12,984
Amortisation of land use rights *(Note 6)*	1,764	1,764
Amortisation of intangible assets *(Note 8)*	394	218
Office and entertainment expenses	10,982	14,771
Operating leases expenses	1,518	1,349
Property insurance fee	2,231	2,048
Travelling expenses	1,407	1,833
Repairs and maintenance	6,330	9,985
Auditors' remuneration	3,150	3,050
Research and development costs	1,361	–
Impairment loss for trade and other receivables *(Note 11)*	799	–
Other expenses	9,020	11,810
	1,151,643	1,259,646

23 Employee benefit expenses

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Wages, salaries and bonuses	48,529	46,934
Contributions to pension plan *(a)*	8,774	8,286
Welfare and other expenses	8,130	9,176
Pre-IPO option scheme expense *(Note 33(a))*	2,403	2,403
	67,836	66,799

(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.

(b) Directors' emoluments

The details of emoluments paid and payable to the directors for the year ended 31 December 2013 are set out below:

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Salaries, wages and bonuses	2,350	2,329
Contributions to pension plan	52	49
Pre-IPO option scheme expenses	2,043	2,043
	4,445	4,421

23 Employee benefit expenses *(Continued)*

(b) Directors' emoluments *(Continued)*

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

	Year ended 31 December 2013			
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	28	601	1,229
Ms. Miao Fei	500	24	601	1,125
Mr. Lam Wai Wah	500	–	601	1,101
Dr. Chen Xiao*	130	–	120	250
Mr. Kou Huizhong*	130	–	60	190
Mr. Li Junfa*	130	–	60	190
Total	2,350	52	2,043	4,445

	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
Dr. 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

* represent the independent non-executive directors

23 Employee benefit expenses *(Continued)*

(c) Five highest paid individuals

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
In the capacity as:		
Directors	3,809	3,812
Senior management	413	324

The five highest paid individuals include four directors during the year, whose emoluments were reflected in the analysis presented above. Details of remuneration of the remaining highest paid individual is as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Salaries, wages and bonuses	388	300
Contributions to pension plan	25	24
	413	324

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

	Number of individuals Year ended 31 December	
	2013	2012
Nil to HKD1,000,000	1	1

24 Other income

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Subsidy income granted by government	3,369	2,039

25 Other losses — net

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Loss on disposals of Property, plant and equipment	(1,897)	(1,755)

26 Finance income

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interest income from bank deposits	3,512	5,157

27 Finance expenses

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Interest expenses:		
— Bank borrowings	24,285	27,796
— Discount interest for bill payables	8,880	7,521
— Other charges	2,669	1,782
	35,834	37,099
Less: Interest capitalised in property, plant and equipment	(2,305)	(4,311)
	33,529	32,788
Loss on forward foreign exchange contracts *(Note 19)*	16,708	–
Net foreign exchange gains	(22,233)	(4,409)
	28,004	28,379

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Weighted average effective interest rates used to calculate capitalisation amount	6.45%	6.01%

28 Income tax expense

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Current income tax		
— PRC enterprise income tax *(a)*	85,155	87,154
— Hong Kong profits tax *(b)*	106	–
Deferred tax *(Note 9)*	(159)	(353)
	85,102	86,801

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 2013 RMB'000	2012 RMB'000
Profit before income tax	335,359	337,050
Tax calculated at domestic tax rates applicable to profits in the respective countries	83,697	84,262
Expenses not deductible for tax purposes	2,470	2,690
Income not subject to taxation	(1,065)	(151)
	85,102	86,801

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.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2013.

29 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2013	2012
Profit attributable to equity holders of the Company (RMB'000)	250,257	249,712
Weighted average number of ordinary shares in issue (thousand)	802,191	802,167
Basic earnings per share (RMB yuan)	0.31	0.31

(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 2013 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.

30 Dividend

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Proposed final dividend	25,026	25,007
Dividend paid	24,692	40,697

The final dividend in respect of the year ended 31 December 2012 of HKD0.0386 per share, amounting to a total dividend of HKD30,965,000 (equivalent to RMB24,692,000) was paid in June 2013.

A dividend in respect of the year ended 31 December 2013 of HKD0.0390 (equivalent to RMB0.0312) per share, amounting to a total dividend of HKD31,302,000 (equivalent to RMB25,026,000) is to be proposed at the annual general meeting on 13 June 2014. The consolidated financial statements do not reflect this dividend payable.

31 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 RMB16,636,000 (2012: RMB8,362,000).

32 Notes to consolidated cash flow statements

Cash generated from operations

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit for the year	250,257	250,249
Adjustments for:		
— Income tax expenses *(Note 28)*	85,102	86,801
— Depreciation *(Note 7)*	92,285	67,179
— Amortisation of land use rights *(Note 6)*	1,764	1,764
— Amortisation of intangible assets *(Note 8)*	394	218
— Deferred income amortisation *(Note 18)*	(1,502)	(1,265)
— Finance income *(Note 26)*	(3,512)	(5,157)
— Finance expenses *(Note 27)*	28,004	28,379
— Loss on disposals of property, plant and equipment *(Note 25)*	1,897	1,755
— Pre-IPO Option Scheme expense *(Note 33(a))*	2,403	2,403
Changes in working capital:		
— Inventories	10,147	(65,092)
— Trade and other receivables	57,882	45,079
— Trade and other payables	(103,496)	55,037
— Restricted cash	–	(23,799)
Cash generated from operations	421,625	443,551

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2013	2012
	RMB'000	RMB'000
Net book amount *(Note 7)*	1,897	8,131
Loss on disposal of property, plant and equipment *(Note 25)*	(1,897)	(1,755)
Proceeds from disposal of property, plant and equipment	–	6,376

33 Share-based payment

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 instalments at each of the first three anniversaries of the listing date and will only become exercisable from the respective vesting dates up to the third anniversary of the listing date. Commencing from the first, second and third anniversaries of the date of grant of an option, the relevant grantee may exercise up to 30%, 60%, and 100%, respectively, of the shares comprised in his or her option.

   As at 31 December 2013, 9,600,000 outstanding options had been vested but not exercised (As at 31 December 2012: 4,800,000), 6,400,000 had not been vested and not exercised (As at 31 December 2012: 11,200,000). 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.

   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 statement of comprehensive income over the vesting period of the options. Total share option expense charged to the consolidated income statement during the year ended 31 December 2013 amounted to RMB2,403,000 (2012: RMB2,403,000).

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 2013.

34 Commitments

(a) Capital commitments

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Authorised and contracted but not provided for property, plant and equipment	–	4,559

(b) Operating lease commitments

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
No later than 1 year	378	1,494
1–2 years	1,512	378

35 Related parties 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) Purchases of goods from related parties

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
— Associate	11,667	–

Prepayment in relation to purchase of goods

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
— Associate	2,000	–

Notes to the Consolidated Financial Statements *(CONTINUED)*

35 Related parties transactions *(Continued)*

(b) Year-end balances

	As at 31 December 2013 RMB'000	2012 RMB'000
Due to related parties		
— Associate *(Note 20(b))*	1,500	–

The payables to related parties arise mainly from purchase transactions and are due one year after the date of purchase. The payables bear no interest.

(c) Key management compensation:

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Salaries, wages and bonuses	3,590	2,790
Contributions to pension plan	176	173
Pre-IPO option scheme expenses	1,803	1,803
	5,569	4,766

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

36 Subsequent events

There is no significant subsequent event after 31 December 2013.

FIVE-YEAR FINANCIAL SUMMARY

	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Operating results					
Revenue	1,510,022	1,619,634	1,524,833	1,211,826	1,006,502
Gross profit	466,586	464,684	492,741	320,817	275,656
Operating profit	359,851	360,272	390,930	247,356	214,123
Finance costs – net	24,492	23,222	24,144	19,581	29,225
Profit before income tax	335,359	337,050	366,786	229,396	185,335
Profit and total comprehensive income for the year attributable to equity holders of the Company	250,257	249,712	268,169	168,051	134,413
Profit margin					
Gross profit margin	30.9%	28.7%	32.3%	26.5%	27.4%
Operating profit margin	23.8%	22.2%	25.6%	20.4%	21.3%
Net profit margin	16.6%	15.4%	17.6%	13.9%	13.4%
Earnings per share *Basic and diluted (RMB)*	0.31	0.31	0.49	0.38	0.30
Assets and liabilities					
Total assets	2,537,446	2,447,920	2,259,800	1,595,950	1,283,894
Equity attributable to the equity holders of the Company	1,860,090	1,632,122	1,415,958	660,819	475,951
Total liabilities	677,356	815,798	833,440	927,084	801,522
Net asset value/total equity	1,860,090	1,632,122	1,426,360	668,866	482,372
Interest-bearing bank borrowings	391,075	418,107	478,646	387,850	468,212
Cash and cash equivalent	784,153	778,553	926,148	397,231	195,834
Quick ratio (X)	1.9	1.6	1.9	0.9	0.8
Current ratio (X)	2.2	1.8	2.1	1.1	0.9
Inventory turnover (days)	56	42	36	34	26
Trade receivables turnover (days)	58	66	70	75	64
Trade and notes payables turnover (days)	83	84	80	88	67
Net asset value per share (RMB)	2.32	2.03	2.62	1.49	1.07
Gearing ratio	N/A	N/A	N/A	24%	37%
Total interest-bearing bank borrowings to total equity	21%	26%	34%	58%	97%

Five-year Financial Summary *(CONTINUED)*

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, for the year ended 31 December 2012 was 802,167,000, and for the year ended 31 December 2013 was 802,191,000.

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

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

Headquarters in the PRC

19A, Ping An Building,
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Fujian Province,
PRC

Place of Business in Hong Kong

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

Company's Website

www.cfc2121.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
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Corporate Information *(CONTINUED)*

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 Province
PRC