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

2016 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 2016.

In 2016, the Company increased the investment in eco-friendly bleaching and disinfectant chemicals such as sodium chlorate and hydrogen peroxide, and achieved the revenue of approximately RMB2,249.2 million, representing an increase of about 5.3% from the revenue of approximately RMB2,135.5 million for the corresponding period last year. As affected by the increase of financial expenses and income tax charges, the profit attributable to the equity holders of the Company decreased by about 4.9% to approximately RMB122.7 million for the year 2016 from approximately RMB129.0 million for the corresponding period last year. In consideration of the capital expenditure plan and future development opportunity of the Company in 2017, the Board has proposed not distributing the final dividend for the year ended 31 December 2016.

MARKET REVIEW

Year 2016 is the crucial year for China to advance the structural reform, as well as the beginning year for the Company to persist in scientific and technological innovation, strengthen independent R&D, and stimulate development dually by eco-friendly advanced oxidation technology and hydrogen energy technology. Reviewing the year, the management at various levels and all employees of the Company have united wholeheartedly and forged ahead to achieve a development turnaround as compared with 2015, and make the indicators such as gross profit margin and EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) enhanced, laying a favorable foundation for development of the next phase.

In 2016, the average selling prices of the Company's bleaching and disinfectant chemicals, mainly including sodium chlorate and hydrogen peroxide, rose slightly arising from the improvement of market conditions. As of 2016, the Company's sales volumes of sodium chlorate ranked first in China, while that of hydrogen peroxide ranked top throughout China.

BUSINESS REVIEW

In 2016, the sales revenue of eco-friendly bleaching and disinfectant chemicals amounted to RMB1,350.3 million, representing an increase of 6.2% as compared with sales revenue of RMB1,271.4 million in 2015. The percentage of revenue attributable to eco-friendly bleaching and disinfectant chemicals further increased from 59.5% in 2015 to 60.0% in 2016. Revenue from sales of other chemicals was RMB898.8 million in 2016, representing an increase of 4.0% as compared against sales revenue of RMB864.1 million in 2015. The percentage of revenue attributable to other chemicals further dropped from 40.5% in 2015 to 40.0% in 2016.

The Group accumulated technological and resource advantages in eco-friendly advanced oxidation technology and hydrogen energy technology in 2016. As a supplier of hydrogen purification equipment and hydrogen resources, the Company will fully integrate the high-quality industrial resources of its own and the industry circle, establish strategic partnership with high-quality industrial resources in respect of the HCNG (Hydrogen Enriched Compressed Natural Gas) hybrid vehicle projects, jointly promote and popularize HCNG hybrid vehicles nationwide, and facilitate the development of HCNG vehicle business. By taking this strategic partnership as the opportunity, the Company has implemented strategic upgrade and ushered in the new development routes as dually driven by the eco-friendly advanced oxidation technology and the hydrogen energy technology.

CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

Through sustainable operation and development, the interest-bearing debt to equity ratio of the Company was increased from approximately 57% shown on the Company's latest published consolidated financial statements as at 31 December 2015 to approximately 60% as at 31 December 2016.

Revenue of the Company for the year under review was approximately RMB2,249.2 million, representing an increase of approximately RMB113.7 million or 5.3% as compared to the revenue of approximately RMB2,135.5 million for the corresponding period in last year. The increase was mainly attributable to the increase in sales revenues arising from slight rise in the average selling prices of main products during the year.

The gross profit for the year was RMB445.5 million, representing an increase of approximately RMB50.5 million or 12.8% from the gross profit of approximately RMB395.0 million for the corresponding period last year. The gross profit margin increased from 18.5% for 2015 to 19.8% for 2016, mainly due to (i) the average selling prices of bleaching and disinfectant chemicals and other chemicals rose slightly arising from the improvement of market conditions; (ii) the fact that the Company owns a complete package of key process technologies and has the sustainable and stable power advantage, whose product indicators and added values are better than other enterprises in China.

OUTLOOK

Looking into Year 2017, despite the dim macroeconomic environment worldwide, the Company is fully confident in the sustained and steady growth of Chinese economy, and cautiously optimistic about the business development. The Company will attach great importance to conducting corporate governance effectively and returning to the society actively as always, develop the technological innovation spirit vigorously, implement various development strategies, and dedicate to creating more returns for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

Revenue for the year under review was approximately RMB2,249.2 million, representing an increase of approximately RMB113.7 million or 5.3% as compared to the revenue of approximately RMB2,135.5 million for the corresponding period in last year. The increase was mainly attributable to the increase in the sales of bleaching and disinfectant chemicals and foaming agent products during the year.

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

	For the year ended 31 December			
	2016		2015	
	Revenue amount	% of Revenue	Revenue amount	% of Revenue
Revenue (RMB'000)				
Bleaching and disinfectant chemicals	**1,350,337**	**60.0%**	1,271,415	59.5%
Other chemical products	**898,826**	**40.0%**	864,130	40.5%
Total	**2,249,163**	**100.0%**	2,135,545	100.0%

	2016	2015
Sales (tons)		
Bleaching and disinfectant chemicals	**637,430**	618,614
Other chemical products	**132,731**	141,194
Total	**770,161**	759,808

	2016 Amount	2015 Amount
Average selling price (RMB/per ton)		
Bleaching and disinfectant chemicals	**2,118**	2,055
Other chemical products	**6,772**	6,120

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Pro-rated designed production capacity Tons	Actual output Tons	Utilisation rate %		Pro-rated designed production capacity Tons	Actual output Tons	Utilisation rate %
2016:				2015:			
Bleaching and disinfectant chemicals	**545,900**	**417,293**	**76%**	Bleaching and disinfectant chemicals	545,900	417,719	77%
Other chemical products	**256,092**	**176,364**	**69%**	Other chemical products	229,687	178,678	78%
Total	**801,992**	**593,656**	**74%**	Total	775,587	596,397	77%

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 2016 and 31 December 2015, the pro-rated designed production capacity of bleaching and disinfectant products was 545,900 tons. There is not any new production facilities being constructed during the year.

During the year under review, the total revenue from the sales of bleaching and disinfectant chemicals was approximately RMB1,350.3 million, representing an increase of approximately 6.2% or RMB78.9 million from that in 2015. The increase in revenue was mainly attributable to expansion of sales during the year.

In 2016, the utilisation rate of the Group's bleaching and disinfectant products segment (i.e. actual output to pro-rated designed production capacity) reached 76% (2015: 77%), which was demonstrating our production capacity being absorbed by relatively stable demand of downstream enterprises.

Other chemical products

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

As at 31 December 2016 and 31 December 2015, the pro-rated designed production capacity of other chemical products was 256,092 tons and 229,687 tons, respectively. In 2016, the annual pro-rated designed production capacity of other chemical products increased by approximately 26,405 tons, which was mainly attributable to completion of the upgrade in production facilities for caustic soda and biurea during the year.

During the year under review, the total revenue from the sales of other chemical products was approximately RMB898.8 million, representing an increase of approximately 4.0% or RMB34.7 million from that in 2015. The increase was mainly attributed to expansion of sales of foaming agent products during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2016, the utilisation rate of the Group's other chemical products segment (i.e. actual output to pro-rated designed production capacity) reached 69% (2015: 78%), which was mainly attributable to new production facilities for caustic soda and biurea were during the completed year.

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. For the years ended 31 December 2016, raw materials used and changes in inventories (including foaming agent sourced from third parties) form the largest component of our cost of sales, representing approximately 61.5% (2015: 62.9%) of our total cost of sales.

During the year under review, our cost of sales increased by approximately RMB63.2 million or 3.6% to RMB1,803.7 million from approximately RMB1,740.5 million for the corresponding period in last year, which was primarily due to the increase in sales volume of sodium chlorate. The percentage for cost of sales to revenue was 80.2% and 81.5% for the years ended 31 December 2016 and 2015, as a result of increased production of sodium chlorate which lead the unit cost of production relatively lower.

GROSS PROFIT AND GROSS MARGIN

Our gross profit increased by approximately RMB50.5 million or 12.8% to RMB445.5 million for the year under review from approximately RMB395.0 million for the corresponding period in last year. The overall gross margin increased from 18.5% in 2015 to 19.8% in 2016, which was primarily due to: (i) an increase in the average selling prices of bleaching and disinfectant chemicals and other chemicals as a result of improving market condition; (ii) the fact that the Company has a whole package of advance technologies over all of its key production processes, has the sustainable and stable power advantage, and the Company's product indicators and added values are all 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 (%)	**2016**	2015	Change
Bleaching and disinfectant chemicals	**19.1%**	17.6%	8.5%
Other chemical products	**20.9%**	19.8%	5.6%
Overall	**19.8%**	18.5%	7.0%

Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals increased from 17.6% for the year ended 31 December 2015 to 19.1% for the year ended 31 December 2016, which was primarily attributable to the increase in average selling prices of bleaching and disinfectant chemicals as a result of improving market condition.

Other chemical products

The gross margin of other chemical products increased from 19.8% for the year ended 31 December 2015 to 20.9% for the year ended 31 December 2016, which was also primarily attributable to the increase in average selling prices of other chemical products as a result of improving market condition.

MANAGEMENT DISCUSSION AND ANALYSIS

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 approximately 8.6% to approximately RMB70.8 million for the year ended 31 December 2016 from approximately RMB65.2 million for the year ended 31 December 2015, which was primarily attributable to the increase in the sales volume of the Group's chemical products.

ADMINISTRATIVE EXPENSES

Administrative expenses primarily consist of depreciation of property, plant and equipment, employee benefit expenses and office and entertainment expenses. The administrative expenses of the Group increased by approximately 8.0% to approximately RMB92.9 million for the year ended 31 December 2016 from approximately RMB86.0 million for the year ended 31 December 2015, which was primarily attributable to the expansion in the operation of the Group.

OTHER INCOME

Other income primarily consists of government grant income and profit from sales of raw materials. The other income of the Group increased by approximately 73.5% to approximately RMB5.9 million for the year ended 31 December 2016 from approximately RMB3.4 million for the year ended 31 December 2015, which was primarily attributable to the increase in government grant income.

OTHER LOSSES — NET

Other losses — net, mainly consists of the fair value losses on financial liabilities at fair value through profit or loss and losses on disposal of property, plant and equipment, net of certain settlement/fair value gains on financial assets at fair value through profit or loss and foreign exchange gains. The other losses, net of the Group increased by approximately 69.6% to approximately RMB3.9 million for the year ended 31 December 2016 from approximately RMB2.3 million for the year ended 31 December 2015, which was primarily attributable to increase in fair value losses on financial liabilities at fair value through profit or loss.

FINANCE INCOME

Finance income primarily represents interest income from bank deposits. The finance income of the Group decreased by approximately 29.5% to approximately RMB10.3 million for the year ended 31 December 2016 from approximately RMB14.6 million for the year ended 31 December 2015, which was primarily attributable to the decrease in term deposits during the year.

FINANCE EXPENSES

Finance expenses primarily consist of interest expenses on bank borrowings, discount interest for bill receivables, bill payables, other finance charges and foreign exchange losses on financing activities, less interest capitalised in property, plant and equipment. The finance costs of the Group increased by approximately 13.3% to approximately RMB110.7 million for the year ended 31 December 2016 from approximately RMB97.7 million for the year ended 31 December 2015, which was primarily attributed to the increase in interest-bearing borrowings during the year.

INCOME TAX EXPENSE

The Group is subject to PRC enterprise income tax rate of 25% for all our PRC subsidiaries. The income tax expense of the Group increased by approximately 26.7% to approximately RMB55.5 million for the year ended 31 December 2016 from approximately RMB43.8 million for the year ended 31 December 2015. The effective tax rate increased to approximately 31.1% for the year ended 31 December 2016 from approximately 25.3% for the year ended 31 December 2015 is primarily attributable to the increase in certain expenses not deductible for income tax purpose and also certain tax deferred income tax assets associated with losses have not been recognised.

MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT FOR THE YEAR

As a result of the foregoing factors, the profit attributable to the equity holders of the Company decreased by approximately 4.9% to approximately RMB122.7 million for the year ended 31 December 2016 from approximately RMB129.0 million for the year ended 31 December 2015.

LIQUIDITY AND CAPITAL RESOURCES

Financial position and bank borrowings

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

The balance of the Group's cash and cash equivalents amounted to approximately RMB540.2 million (2015: RMB470.9 million), most of which were denominated in Renminbi. As at 31 December 2016, the Group's interest bearing borrowings and financial liabilities at fair value through profit or loss amounted to approximately RMB1,334.9 million (2015: RMB1,217.5 million).

The Group's current ratio (calculated as current assets divided by current liabilities) was approximately 1.11 (2015: 1.04). The gearing ratio (calculated as net debt divide by total capital) of the Group was 23.1% as at 31 December 2016 (2015: 19.5%). The Group has sufficient and readily available finance resource for both general working capital purpose and foreseeable capital expenditure.

Working capital

Inventories as at 31 December 2016 were approximately RMB208.7 million (2015: RMB236.8 million). The decrease was primarily due to better inventory control during the year. Average inventory turnover days was 44 days for the year 2016 (2015: 42 days).

As at 31 December 2016, trade receivables amounted to approximately RMB289.1 million (2015: RMB418.1 million). The decrease is primarily due to our effective control over trade receivables, despite the continuous growth in our sales. The average trade receivables turnover days was 56 days for the year 2016 (2015: 49 days).

As at 31 December 2016, trade and bills payables amounted to approximately RMB284.5 million (2015: RMB345.2 million). The decrease was mainly due to the decrease in the uses of letters of credit and bills guaranteed by banks as our payments to suppliers. The average trade and bills payables turnover days was 63 days for the year 2016 (2015: 42 days).

Capital commitments

Capital expenditure contracted for as of the year end but not yet incurred is as follow:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Property, plant and equipment	**15,024**	9,720

Contingent liabilities

As at 31 December 2016, the Group had not provided any form of guarantee for any company outside the Group. The Group does not have any pending/potential material legal litigation in which the Group is/will be involved.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group employed a total of 1,458 full time employees. For the year ended 31 December 2016, the employee benefit expense was approximately RMB90.0 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

PROSPECT

In November 2015, the Ministry of Environmental Protection issued an exposure draft — Discharge Standard of Pollutants for Urban Sewage Treatment Plants, proposing that: Since 1 July 2016, newly-built urban sewage treatment plants shall execute the first-class A standard; since 1 January 2018, existing urban sewage treatment plants within sensitive regions shall Execute the first-class A standard. While initiating the standard upgrading of sewage plants, the State has promoted the upgrade of various sewage discharge entities, which means China has genuinely ushered in a new era of sewage treatment.

Achieve development as dually driven by the eco-friendly advanced oxidation technology and the hydrogen energy technology

The Group has long been concentrating on and rooted in environment-friendly products and has developed into a leading provider of environment-friendly products and technical services for water treatment in China. Main products of the Group include sodium chlorate, hydrogen peroxide and other advanced eco-friendly oxidation products. As of 2016, sales volumes of sodium chlorate ranked first in China, while that of hydrogen peroxide ranked top throughout China.

In December 2016, Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Group, entered into the Strategic Cooperation Framework Agreement with the State Key Laboratory of Automotive Safety and Energy of Tsinghua University, Beijing Hydrogen Era Environmental Technology Company Limited, Sichuan Tianyi Science & Technology Co., Ltd., Chengdu Huaqi Houpu Holding Co., Ltd., Chengdu Bus Co., Ltd. and Shanghai Pujiang Specialty Gases Co., Ltd., pursuant to which all parties have agreed to establish strategic cooperation relationship in respect of the HCNG (Hydrogen Enriched Compressed Natural Gas) hybrid vehicle project, and promote HCNG (Hydrogen Enriched Compressed Natural Gas) hybrid vehicle in order to facilitate the development of HCNG vehicle business.

By taking this strategic cooperation as the opportunity, the Group has implemented strategic upgrade and ushered in the new development routes as dually driven by the eco-friendly advanced oxidation technology and the hydrogen energy technology. The Group has accumulated technological and resource advantages in eco-friendly advanced oxidation technology and hydrogen energy technology. As a supplier of hydrogen purification equipment and hydrogen resources, the Group will fully integrate the high-quality industrial resources of its own and the industry circle, and follow the development direction of hydrogen energy industry chain application.

MANAGEMENT DISCUSSION AND ANALYSIS

Advance the construction of Pingnan Fine Chemical Industrial Park by cooperating with SPIC

In July 2016, Fujian (Pingnan) Rongping Chemical Co., Ltd. (hereinafter referred to as "Fujian Rongping"), a wholly-owned subsidiary of the Group, completed the feasibility study report on Phase I technological improvement and expansion project in Pingnan Fine Chemical Industrial Park, which mainly involves the expansion project of bleaching and disinfectant chemicals such as sodium chlorate and hydrogen peroxide.

In the same month, Fujian Rongping entered into the Strategic Cooperation Framework Agreement on Construction of Comprehensive Energy Projects in Pingnan Fine Chemical Industrial Park with Pingnan County People's Government and the State Power Investment Corporation (hereinafter referred to as "SPIC") Fujian Branch, for the purpose of carrying out comprehensive strategic cooperation concerning the construction of clean energy project and the integrated intelligent energy field in Pingnan Fine Chemical Industrial Park.

In 2017, the Group will continue promoting the technological improvement and expansion projects in Pingnan Fine Chemical Industrial Park, jointly develop high-tech projects like hydrogen energy storage and hazardous wastes recovery by virtue of strategic cooperation with SPIC, thus establish the cooperation platform, and create recycling economy.

Persist in technological innovation and strengthen independent R&D

The Group persisted in technological innovation and continued to invest in independent R&D in 2016. Fujian Rongchang Chemical Co., Ltd., a wholly-owned subsidiary of the Group, succeeded in developing the "drinking water-related product — sodium hypochlorite". Through improvement in process and equipment as well as acceptance by the health department at the county, municipal and provincial level, its sodium hypochlorite solution was granted the hygiene license for sanitary and safe product of drinking water in Fujian.

In 2016, "a kind of multi-electrode multi-diaphragm electrolytic cell for disposing of the hyper-saline industrial wastewater", which was researched and developed by Fujian Chuangyuan Environmental Protection Limited, a wholly-owned subsidiary of the Group, gained the Utility Model Patent Certificate. The hydrogen peroxide for industrial use, produced by Fuzhou Yihua Chemical Stock Co., Ltd., was awarded the third prize certificate by China Petroleum and Chemical Industry Association.

The "the 13th Five-Year Plan" has just gone through the beginning year. In 2017, the Group will persist in technological innovation and strengthen independent R&D as supplemented by combination of production, education and research with colleges and universities, and create the development motives as dually driven by eco-friendly advanced oxidation technology and hydrogen energy technology.

DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF DIRECTORS

Chairman and Non-executive Director

Mr. Liem Djiang Hwa (林強華), aged 62, 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 52, has been an Executive Director since 10 June 2011 and he is currently the Chief Executive Officer ("CEO") of our Company. 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 43, 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.

Mr. Lam Wai Wah (林維華), aged 60, 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.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Dr. Wang Xin (王鑫), aged 39, has been an Independent Non-executive Director since 28 August 2015. Dr. Wang is now an associate professor of accounting at the School of Business, The University of Hong Kong ("HKU"). In 2014, Dr. Wang was awarded a tenured position by the HKU due to his excellent academic performance. Dr. Wang received his Ph.D. degree in accounting from Duke University in 2006. Before pursuing the Ph.D. degree, he studied in Tsinghua University for six years and earned both Bachelor's degree and Master's degree in accounting respectively in 1999 and 2001. Before he joined HKU, Dr. Wang worked at the Chinese University of Hong Kong until 2011. Dr. Wang has research interests in the fields of corporate governance, executive compensation, insider trading and financial disclosure quality. His papers were published on the top international academic journals such as Journal of Accounting and Economics, The Accounting Review, and Review of Accounting Studies. Dr. Wang has teaching experience of several accounting courses, including Introductory Financial Accounting, Intermediate Financial Accounting I, and Intermediate Financial Accounting II. He also teaches (as one of co-instructors) the Ph.D. course of Research Methods for Business Studies.

Dr. Lin Zhang (林璋), aged 45, has been an Independent Non-executive Director since 2 September 2015. Dr. Lin is currently the professor and doctoral supervisor of School of Environment and Energy, South China University of Technology. In 1999, Dr. Lin received her doctorate degree in chemistry from Chinese Academy of Sciences, and subsequently completed her postdoctoral fellowship in University of Wisconsin-Madison and Lawrence Berkeley National Laboratory, UC Berkeley in 2001 and 2004, respectively. Since 2005, Dr. Lin served from time to time as researcher and doctoral supervisor and head of the postgraduate department of Fujian Institute Substantial Structure, Chinese Academy of Sciences. Since March 2015, she has been the professor and doctoral supervisor of School of Environment and Energy, South China University of Technology. Dr. Lin is the winner of the 2011 National Science Fund for Distinguished Young Scholars (國家傑出青年基金), the national candidate under the "Millions of Talents Project" (百千萬人才工程), and a member of the Young and Middle-Aged Industrial Leaders of Science and Technology under the Ministry of Science and Technology (科技部中青年科技創新領軍). She has long been active in research on heavy metal pollution and control. Dr. Lin has been contributing a number of innovative efforts to understand and achieve the targets of "recyclable use" and "long-term solidification" of heavy metals with the application of the nanocrystal growth kinetics as well as basic research on bio-mineralization. In respect of the heavy metals which appear with a low and medium concentration level in wastewater and difficult to recycle, Dr. Lin develops the materials, techniques, and theories which could enable "closed-type" preliminary enrichment of heavy metals without chemical inputs and "reaction type" instant extraction of heavy metals, through applying nanocrystal growth kinetics and the surface/interfacial control theory, and conducted research on the actual application in this respect.

Dr. He Peipei (何佩佩), aged 34, has been an Independent Non-executive Director since 13 January 2017. Dr. He is a holder of doctorate degree in law, a teacher at the Law School of Fuzhou University and a lawyer of AllBright Law Offices (Fuzhou). Dr. He has long been engaged in the teaching and research of business law as well as environmental and resource protection law. She has accumulated a certain of hands-on experience from company listing, corporate governance, shareholding system reformation, corporate mergers and acquisitions, acquisition with management buyout, corporate bankruptcy liquidation, private equity funds, legal practice on finance lease, green finance, effectively combining the theory with practice. Since practicing as a lawyer, Dr. He has been providing professional services to various companies engaged in financial industries such as finance lease, guarantee, small loans, rural banking, pawn etc., thereby accumulating extensive experience. Dr. He regards financial and securities business as well as green finance business as the main area of development in the future, and is committed to provide services of legal practice on multi-level capital market, internet finance, as well as teaching, research and legal practice on legal issues in respect of green finance industry.

DIRECTORS AND SENIOR MANAGEMENT

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 41, 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 39, 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 ("ISCA") and a CPA member of the CPA Australia, Hong Kong Institute of Certified Public Accountant ("HKICPA"). Mr. Tan obtained a master's degree in business administration from Nanyang Technological University, Singapore in July 2012.

Mr. Chen Li (陳力), aged 49, 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 57, 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. He Zhong (何中), aged 49, 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 53, 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 60, 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 53, 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 2016, the Company has complied with all the code provisions as set out in the CG Code except for the change of Independent Non-executive Directors as detailed 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 2016.

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. Wang Xin
Dr. Lin Zhang
Dr. He Peipei (appointed on 13 January 2017)
Dr. Kou Huizhong (resigned on 15 October 2016)

The biographical information of the directors are set out in the section headed "Biographies of Directors" on pages 11 to 12 of the annual report for the year ended 31 December 2016. The relationships between the members of the Board are also disclosed in the same section.

CORPORATE GOVERNANCE REPORT

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 2016, the Board has endeavoured to meet 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.

On 15 October 2016, Dr. Kou Huichong resigned as an Independent Non-executive Director of the Company, chairman of Nomination Committee, chairman of Remuneration Committee and member of Audit Committee. Following the aforesaid resignation, the Company has two Independent Non-executive Directors and two members of each Committee.

The Board has made its best endeavours to appoint Dr. He Peipei as Independent Non-executive Director on 13 January 2017 and she was also appointed as chairman of Nomination Committee, chairman of Remuneration Committee and member of Audit Committee of the Company.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of their 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 specific term 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.

CORPORATE GOVERNANCE REPORT

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.

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.

BOARD COMMITTEES

The Board has established 3 committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 114.

Audit Committee

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

The Audit Committee held two meetings to review interim and annual financial results and reports in respect of the year ended 31 December 2016 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.

CORPORATE GOVERNANCE REPORT

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 recognises 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 meeting of the Company held during the year ended 31 December 2016 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	6/6	–	–	–	1/1
Chen Hong	6/6	–	–	2/2	1/1
Miao Fei	6/6	–	1/1	2/2	1/1
Lam Wai Wah	6/6	1/1	–	–	1/1
Kou Huizhong (resigned on 15 October 2016)	5/5	1/1	1/1	2/2	1/1
Wang Xin	6/6	–	–	2/2	1/1
Lin Zhang	6/6	1/1	1/1	2/2	1/1

Note: He Peipei was appointed on 13 January 2017

CORPORATE GOVERNANCE REPORT

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 2016.

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 39 to 43.

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 2016 amounted to RMB4,000,000.

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 2016 is set out below:

Service Category	Fees Paid/Payable RMB
Audit Services	4,000,000
Non-audit Services	–
	4,000,000

COMPANY SECRETARY

Ms. Yuen Wing Yan, Winnie of Tricor Services Limited, external service provider, has been engaged by the Company as its company secretary since 29 June 2012. Her primary contact persons at the Company are Ms. Miao Fei, Director of the Company and Mr. Zhang Heng, Chief Financial Officer of the Company. During 2016, 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.

CORPORATE GOVERNANCE REPORT

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.

Risk Management and Internal Control

Sufficient and effective risk management and internal control systems provide reasonable guarantee for the realization of the Company's strategic objectives. In order to guarantee the effectiveness of risk management and internal control systems, the Group, under the supervision and guidance of the Board, has adopted systematic risk management methods and established a risk management and internal control organization structure with clear responsibilities and reporting procedures to identify and alleviate the risks impeding the accomplishment of corporate objectives, which is in line with the requirements of the Stock Exchange on amendments to relevant CG Code provisions on risk management.

The Board is responsible for assessing and determining the nature and extent of risks that the issuer is willing to accept for achieving the purposes, and procuring the Company to set up and maintain proper and effective risk management and internal control systems; and supervising the management's design, implementation and monitoring of risk management and internal control system through the Audit Committee.

In addition to monitoring the Company's finance, internal control and risk management, the Audit Committee is also in charge of monitoring the implementation of relevant amended CG Code provisions on risk management.

The Management is responsible for the design, implementation and monitoring of risk management and internal control systems, and confirming the effectiveness of risk management and internal control systems and making a report to the Board in this regard at least once a year.

CORPORATE GOVERNANCE REPORT

The Internal Audit Department is responsible for the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

These systems aim at management instead of elimination of the risks that may impede us from realisation of the Company's strategy and making reasonable and non-absolute guarantee for material misrepresentation or loss.

Risk management procedures

The Group has established a risk management framework, including the construction of the architecture for the aforementioned organisation and definition of the responsibilities of all parties concerned, and prepared risk management policies and processes and clarified the risk assessment procedures, which, specifically include risk identification, risk analysis, risk control and risk report.

Step 1: Risk identification — identify current risks exposed to the Group and business and existing management and control measures therefor.

Step 2: Risk analysis — analyse the possibility, extent of influence and existing management and control measures, identify risk exposure, and propose further countermeasures.

Step 3: Risk control — implement and periodically detect the identified risks to ensure effective operation of risk countermeasures.

Step 4: Risk report — summarise the results of risk management analysis, prepare action plans and report to the management, Audit Committee and the Board.

The Company would appoint independent consultancy firm to conduct a thorough review of risk management and internal control systems of the Company and its subsidiaries on regular intervals basis when necessary. With the assistance of the Audit Committee, the Board has reviewed and been aware of the effectiveness and sufficiency of risk management and internal control systems of the Group.

Internal control

The Group has developed an internal control mode, following the principle of COSO, consisting of five elements, i.e. control environment, risk assessment, control, information and communication, and monitoring. In this control mode, the Group's management is responsible for design and implementation of internal control measures and maintenance of the effectiveness thereof, and the Board and Audit Committee will supervise the appropriateness of internal control measures as designed by the management and the effective implementation of internal control measures.

In order to comply with the requirements of the CG Code on risk management and internal control of the Group, the Group has set up an Internal Audit Department, with an aim to continuously improve the effectiveness of risk management and internal control of the Group. The manager of Internal Audit Department should prepare a risk oriented annual audit plan, and, on the basis of risk assessment results, determine the work focus of internal audit that is in line with the organization objective. The annual plan should be subject to approval by the Audit Committee.

The establishment of internal control system is for the purpose of management of possible risks instead of elimination of risks. Meanwhile, the internal control should adapt to the Group's scale of operation, scope of business, competition and risks, and be subject to adjustments according to changes in circumstances in a prompt manner. It will be a long-lasting and continuous work to improve internal control system, execute standard system and intensify supervision and examination of internal control.

CORPORATE GOVERNANCE REPORT

Inside information

The Group has formulated relevant policies and processes for inside information management. It is stipulated that the Group's inside information should be collected and determined as to whether it constitutes inside information by the secretary of the Board, and then be submitted to the management for review and assessment of the extent of its influence before submission to the Board for discussion and determination of disclosure. With a view to effectively implement the policy treatment procedures for the Group's inside information, the Group has provided inside information training for Directors, supervisor, management and other personnel with possible access to inside information.

Review of the effectiveness of risk management and internal control systems

The Board has, through the Audit Committee, reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions, and their training programmes and budget, and was satisfied with the results of the review.

In 2016, the Audit Committee, on behalf of the Board, conducted a review on the effects of the Group's risk management and internal control systems. As suggested by the Audit Committee, the Board was satisfied that the Group has complied with the provisions regarding risk management and internal controls as required under the CG Code. For the year ended 31 December 2016, the Board is of the view that the risk management and internal control systems are effective and sufficient, and no material matters which may affect the Shareholders were identified in relevant periods.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance (ESG) Report is compiled in accordance with "the Environmental, Social and Governance Reporting Guide" contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), in an effort to make the business-related personnel and the stakeholders know details about our ESG policies, actions and performance.

This Report covers the time range from 1 January 2016 to 31 December 2016 (the "Reporting Period"). The Company has arranged the management and employees of various departments of the Company to review the Company's operation situation according to their functions, discriminate relevant environmental, social and governance issues, and evaluate the importance/correlation of relevant issues to our business.

A. ENVIRONMENTAL

A1. Emissions

The Company is committed to abiding by the environment laws, regulations and rules in the business operation regions (including but not limited to Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on Environmental Impact Assessment, Law of the People's Republic of China on Prevention and Control of Water Pollution, Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution and Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste.

The Company is a supplier of raw materials for water treatment, food disinfection and textile bleaching of paper pulp, specialised in development of environmental protection and green chemical industry. By bringing into full play the Company's advantages in product quality, technology, comprehensive utilisation of resources, as well as market and geological superiority, the Company continued to expand the production capacity of chlorate and hydrogen peroxide products, cooperated with famous domestic scientific research institutes in researching the development and application of downstream products, and unceasingly enhanced the market share and developed the market of new products.

As the Company's main business involves the production and sales of bleaching and disinfectant chemicals and ADC foaming agent, our production activities will generate certain emissions of exhaust gas, waste water and solid waste, of which pollutants in exhaust gas mainly include sulfur dioxide (SO_2), chlorine (CL_2), and a small amount of dust and fume; pollutants in waste water mainly include suspended solids (SS), chemical oxygen demand (COD), ammonia nitrogen and chromium; solid waste mainly includes waste residue, chromium waste, raw materials package, etc. In contrast, gasoline consumed by the Company's vehicle and greenhouse gas emissions arising from the employees going on business trip by airplane seemed not so important. Moreover, the production of non-hazardous waste such as household garbage maintained a lower level.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company attached great importance to environmental protection, energy conservation and emission reduction, continued promoting environmental protection reformation of the production system, advanced the implementation of clean production, formulated and improved environmental protection management rules, regulations and procedures, and boosted systematic management of environmental protection work. The Company has passed the ISO4001 Environmental Management System Certification, and has installed gas treatment facilities, with the aim of reducing pollutant emissions from exhaust gas by installing absorption tower and using lime filter, electrostatic precipitation or active carbon filter. The Company controlled exhaust gas from production in strict accordance with the secondary standard set out in Table 2 of GB16297-1996 Integrated Emission Standard of Air Pollutants, and controlled boiler exhaust gas in strict accordance with GB13271-2001 Emission Standard of Air Pollutants for Boilers. Meanwhile, the following measures were taken to reduce exhaust emissions:

- Pay attention to control of combustion sufficiency, and prevent from heavy smoke;
- Maintain the Company's vehicle properly on a regular basis and test on schedule, and make sure tail gas emission to be qualified before use;
- Buy and use lead-free diesel; and
- Maintain the dust collection device regularly.

The Company has installed waste water treatment facility to dispose of production waste water, and monitor the PH value and COD level of waste water discharge after treated. The Company controls waste water in strict accordance with the primary standard specified in Table 4 of GB 8978-1996 Integrated Wastewater Discharge Standard, and takes the following measures to reduce discharge of waste water and pollutants:

- All staff of the branch plants and office space shall save water, take water-saving measures, and reduce the consumption of flushing waste water;
- Recycling and reusing will be considered for waste water with low pollutant content; and
- Control the consumption of production/domestic detergent, and avoid the use o phosphorus-bearing detergent.

The Company divides wastes into three categories: non-recyclable solid wastes, recyclable solid wastes, and hazardous wastes, do well in classification and registration in time, and dispose of corresponding wastes in stipulated manners. For example, recyclable solid wastes like coal ash and coal slag can be collected, treated, and sold to cement plant and fertilizer factory as briquette; hazardous wastes such as chrome-contained wastes need to be saved in a special place, protected from exposure to sun and rain, and be disposed of by entrusting a recycler with relevant treatment qualifications.

During the Reporting Period, the Company did not have any significant violation of relevant environmental laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2. Resources Utilisation

The Company has been attaching great importance to energy conservation, abiding by provisions set out in Law of the People's Republic of China on Energy Conservation, encouraging reuse and recycling of resources during the business operation process, for the purpose of protecting the environment and enhancing operation efficiency. Energy used by the Company generally includes electricity, petroleum, diesel, coal gas or petroleum gas, water resources, and paper.

The Company emphasises on production scheduling and rationality, effectively organises, plans, controls and coordinates all kinds of activities and resources in the production process, and enhances the utilisation efficiency of resources. The Company gives priority to control of process and technology conditions and materials consumption related to key environmental factors, stabilises the process, reduces materials consumption, decreases the output of wastes and rejects, and controls resources consumption. The Company makes rational plan for use of the production water, electricity and gas, takes key management and control over major energy consumption, does well in equipment repair and maintenance, sets consumption quota into the environmental targets, and conducts supervision and control. The Company also establishes necessary water and electricity metering device separately for key departments; and gives key management to storage and conveying for fear of damage.

The Company has set out some guidelines for resource conservation in the Employee Handbook, requiring every employee to enhance cost consciousness, saving the use of office consumables, and paying attention to water and electricity conservation. In addition, the Company further optimises resources allocation, improves the resource utilisation efficiency, solicits reasonable advices about lean production and energy conservation within the range of the Company, and adopts effective advices and implements relevant rectification plans, such as:

- Adopt the advice that "the relative position layout of boiler and production line is not reasonable enough, leading to the increasing steam heat and consumption, so the five pipe networks, which are temporarily not used, are suggested cutting off from the main pipeline during overhaul, and connecting to the required production line with the shortest pipeline, so as to increase the steam pressure", and carry out pipeline transformation, saving the steam by 1,080 ton/year. If calculated according to the coal consumption of 0.141 ton per each ton of steam, totally 152 ton coal can be saved each year.

- Adopt the advice of "changing the running time of potassium perchlorate ice makers from 20 hour/day/set (2 ice makers available) into intensive production by running 9 hour/day", and adjust the running time of potassium perchlorate ice makers, which can save electricity by 139,900 kWh/year.

- Adopt the advice of "changing lighting lamps throughout the plant into energy-saving lamps", and replace step by step, which can save electricity by 20%-30%, with approximately 30,000 kWh electricity saved each year.

- Adopt the advice of "changing the export standard of sodium chlorate, sodium perchlorate and potassium perchlorate from woven bag packaging into transportation standard for domestic sales, and changing the inner bag from double-layer plastic bag to single-layer", which can save packaging materials by approximately 32,000 woven bags per year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A3. Environmental and Natural Resources

The Company attaches great importance to concern about production process, practice, materials or products, including recycling, treatment, process change, control mechanism, effective utilisation of resources, materials substitution, etc., aiming at avoiding, reducing or controlling pollution, reducing hazardous impact on the environment, and improving the Company's overall efficiency.

The Company is currently adopting some methods to reduce the impact on environment and natural resources, discharging exhaust gas, waste water and solid waste after treated appropriately, and lower the impact on ecological diversity due to pollution discharge from the Company; use natural light as day-lighting mode in the toilets, reduce power consumption, keep room temperature in the office at a cozy level, etc.

For a long time, the Company has been persisting in independent research & development and environmental-friendly production, in particular, the R&D and promotion of eco-friendly production process. In 2015, the key technology research project for sodium chlorate exhaust gas purification, which was independently researched and developed by a wholly-owned subsidiary of the Company — Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd. (hereinafter referred to as "Minjiang Snow"), was awarded the Second Prize of Science and Technology Progress in Aba Prefecture, while the technology of hydrogen exhaust deoxidizing device obtained the national utility model patent.

B. SOCIAL

Employment and Labor Practices

B1. Employment

The Company is committed to promoting impartial employment policy conforming to ethical standards. The Company has formulated and clearly communicated the relevant HR regulations to all employees, in connection with remuneration and dismissal, recruitment and promotion, working hours and holidays, equal opportunities and other employee benefits. In addition, the Company complies with the provisions of the relevant laws and regulations, including the Labor Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China and the Trade Union Law of the People's Republic of China, etc.

The remuneration policy of the employees is determined by reference to the remuneration information of the local market, the overall remuneration standard of the industry, the level of inflation, the efficiency of corporate business and the qualifications, position, length of service and performance of the employees. The remuneration of employees includes basic salaries, allowances, bonuses and other employee benefits.

The working hours are based on flexible working hour system, supplemented by standard working hour system. Employees can enjoy the statutory holidays, paid annual leave and marriage leave, funeral leave, maternity leave and care leave, during which the salaries will be paid as usual. The Company strictly abides by the relevant provisions of the Labor Law to ensure employees' rights to rest and leave.

During the Reporting Period, the Company did not have any significant violation of labor practice.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B2. Health and Safety

The Company attaches great importance to the health and safety of employees and reduces the occupational hazards because corporate business and operations involve the use, production and disposal of hazardous chemicals, including chlorine, sulfur dioxide, chromium and other substances which are highly regulated and may endanger the environment and human health. The Company complies with the relevant laws, such as Regulations on the Safe Management of Hazardous Chemicals, Implementation Measures for the Safety Production License of Hazardous Chemicals Manufacturers, Implementation Measures for the Safety License of Hazardous Chemicals Construction Projects.

In order to further implement the safety policy of "safety first, prevention supreme, comprehensive management", the Company strengthens the safety production responsibility system of all levels of organizations and personnel, formulates the Safety Production Management Manual to standardize the safety management of the departments, clearly sets out the work processes and various safety measures and guidelines, indicates employees' responsibilities for health and safety of the workplace and develops the monitoring and management mechanisms for the risks associated with operations. The Company also provides equipment conforming to the safety requirements, prioritises new technologies, new processes and new materials that are conducive to the prevention and treatment of occupational diseases and the protection of employees' health, and gradually replaces the technologies, processes and materials causing serious occupational hazards. In addition, the Company regularly arranges health checks for employees and deploys employees' jobs according to occupational contraindication requirements. For the jobs related to production, use and storage of corrosive and poisonous products, the Company provides adequate protective equipment and first-aid medicine as well as the flushing facilities.

During the Reporting Period, the Company did not have significant violations of health and safety laws or regulations.

B3. Development and Training

The Company believes that employees' continual updating of their professional knowledge and skills is important for corporate business development. The Company has developed policies and systems on employee development and training to provide internal and external training opportunities for employees at different levels.

The Company focuses on the development of employees and is committed to helping employees achieve their career goals while achieving corporate business goals. The Company establishes the training management department, sets up full-time and part-time training management personnel, and sets up part-time training management personnel for departments and projects. In addition to careful guidance and job training for employees to meet the job requirements, the Company also organizes special business training from time to time, continues to increase the employees' work knowledge and skills so as to meet the corporate sustainable development needs. Meanwhile, the Company attaches importance to employees' safety knowledge education, including admission training, pre-safety education and training, transfer training, education for special jobs & special positions, daily education and training, technical training on "four-new" (new technologies, new processes, new equipment, new materials).

The Company will continue to improve the employees' career development platform and assessment system, implement tailor-made leadership and professional knowledge training programs, and provide better promotion opportunities to meet the employees' needs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B4. Labor Standards

The Company has always attached great importance to and strictly abides by all applicable national laws and local regulations, relevant labor laws and regulations (including the prohibition of the use of child labor and forced labor), and has developed a set of rigorous and systematic approval and screening measures to prevent illegal employment of child labor, and ensure that employment is subject to relevant laws and regulations.

The Company has made reasonable arrangements for the working hours of the employees in accordance with the statutory standard working hours, and provides the leave benefits such as paid leave and sick leave according to the Labor Law.

During the Reporting Period, the Company did not have any significant violation of labor laws or regulations.

Operation Practices

B5. Supply Chain Management

The supplier is an important partner of the Company. The Company has formulated relevant policies and systems for supply chain management, including the relevant procedures and screening conditions for supplier selection, regularly reviews and re-evaluates such procedures and establishes a standardized and efficient mechanism with fair competition.

The Company's bulk supplies and significant fixed asset are purchased through a fair and open competitive environment to ensure that the suppliers of products and services are able to meet the needs of the Company. In order to better enhance the sustainable development, the Company considers product or service quality and commercial factors in the bid invitation process for the suppliers, but prioritizes the product/service suppliers that supply green products and actively fulfill social responsibility.

The company treats every original product/service supplier on an equal footing in order to establish long-term cooperation relationships. In addition, the Company regularly reviews the selected product/service suppliers according to price, quality and after-sales service in order to obtain continuous high-quality products and services.

B6. Product Liability

The Company has established a perfect product quality management system (ISO9001 certified) to comply with applicable national laws, regulations and technical standards in the production process and service provision of the bleaching and disinfectant chemicals and ADC foaming agents and also meet customer needs and expectations. The Company conducts internal audits at planned intervals (at least once every 12 months) to determine whether the status of the corporate quality management system meets the requirements of the ISO 9001: 2008 standard and corporate production and service planning arrangements and whether the operation of quality management system has been effectively implemented and maintained.

The Company takes control measures to identify and control nonconforming products and urges the responsible departments or personnel to rectify them within a time limit, so as to prevent their unintended use and delivery. For the return of products sold, the Company must learn the return reasons from customer, and then store the returned products in the warehouse after inspection and counting of the quality inspection department. The corporate marketing department should analyze the reasons for return, and regularly prepare a return report to strengthen self-assessment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to maintain the Company's leading position in key production technologies of bleaching and disinfectant chemicals such as electrolysis and crystallization, and to strengthen the Company's production quality, the Company takes appropriate measures to protect intellectual property rights. All employees have the obligation and responsibility to keep corporate secrets confidential:

- The Company's administrative department is responsible for registering the trademarks and patents created by the Company itself.
- All employees have the obligation and responsibility to keep corporate secrets confidential. If a resigned employee, within five years thereafter or within the confidentiality period of the Company's technical information, discloses, announces, releases, publishes, imparts, or transfers the confidential technical information, he/she should bear the corresponding legal responsibility in accordance with the relevant provisions of the confidentiality agreement, whether or not the Company suffers from economic loss therefrom.
- It is forbidden to use any software that is not legally purchased.

The Company promises to comply with relevant laws and regulations regarding customer information and privacy. Any unauthorized reproduction, distribution or disclosure of confidential information is prohibited.

B7. Anti-Corruption

The Company is committed to abiding by laws and regulations relating to anti-corruption and money laundering, including but not limited to the Criminal Law of the People's Republic of China and the Anti-Money Laundering Law of the People's Republic of China. The Company currently implements a number of anti-corruption and anti-money laundering systems and employee codes of conduct.

The Company attaches importance to honesty and integrity, and prohibits any corruptive or illegal behaviors, such as bribery, money laundering, extortion and fraud. The Company believes that strengthening the moral behavior is necessary for sustainable business and the trust from employees, customers, suppliers and other business partners.

The Company attaches great importance to anti-fraud, and also creates a fair and honest corporate culture atmosphere.

If any employee is fraudulent, offers or accepts bribes, or seeks personal gain by use of the duty convenience, causing adverse effects or harming the corporate interests, the Company can unconditionally terminate his/her labor contract and investigate legal responsibility therefrom.

The Company's current reporting process includes a president mailbox that can be used by employees to report any misconducts and dishonest activities directly to corporate executives, such as suspected corruption, fraud, and other forms of crime. In addition, the Employee Handbook clearly states that the Company has the right to terminate the labor contract with any employee accepting bribes such as money, gifts or commissions, and reserves the right to further take legal action.

During the Reporting Period, the Company did not bring any suit of corruption against distributors or employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Community

B8. Community Investment

The Company has been positively participating in community charity activities in business operation regions and cities where the projects are located, and encouraging employees to join all kinds of internal and external community activities, such as:

- The Company actively joined emergency aid in local communities. When Fujian was attached by Super-Typhoon "Megi" on 28 September 2016, most roads in some areas (including our plant) in Tangian Town, Yongtai County was covered with mud due to the impact of debris flow arising from flash floods. In view of this, besides organizing personnel to clear up our plant, the Company also set up a fire brigade, consisting of a dozen of members and self-equipped with pumps, fire fighting guns, hoses and related equipment, and rushed to other disaster-stricken scenes to help local township government with post-disaster reconstruction and restoration of production orders.

- The Company also cared about the community. Upon receipt of the fire alarm from Yang Linsen, a villager of surrounding village, Rongchang Company actively organized the Company's fire brigade for fire fighting, and gave spiritual and material assistance to the villager suffering from loss of property and family life in the fire.

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 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Principal activities of its subsidiaries are set out in Note 10(A) to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 46.

EIGHT YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest eight financial years is set out on page 112 to 113 of this annual report.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: HK$1.92 cents (RMB1.61 cents) per share).

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 Wednesday, 7 June 2017 to Monday, 12 June 2017, both days inclusive, during which period no transfer of the Company's shares ("Shares") will be registered. In order to be eligible to attend and vote at the annual general meeting, all Shares transfer, 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 Tuesday, 6 June 2017 (Hong Kong time), being the last share registration date.

RESERVES

Details of movements in the reserves are set out in the consolidated statement of changes in equity on page 47 and Note 19 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 RMB1,387.7 million (2015: RMB1,282.1 million).

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided on management discussion and analysis and the Chairman's statements of this annual report. Description of possible risks and uncertainties that the Group may be facing and an analysis of the Group's performance during the year using financial key performance indicators is provided on page 4 to 10 of this annual report.

REPORT OF THE DIRECTORS

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 AND CONVERTIBLE BONDS

Details of the borrowings and convertible bonds of the Group are set out in Note 20 and 22 respectively to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in Note 18 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 2016.

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. Wang Xin
Dr. Lin Zhang
Dr. He Peipei (appointed on 13 January 2017)
Dr. Kou Huizhong (resigned on 15 October 2016)

In accordance with the Article 16.18 of the Company's Articles of Association, Mr. Liem Djiang Hwa and Mr. Chen Hong, shall retire at the annual general meeting. In addition, pursuant to Article 16.2 of the Company's Articles of Association. Dr. He Peipei, who has been appointed by the Board on 13 January 2017, shall hold office only until the annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the annual general meeting.

REPORT OF THE DIRECTORS

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, has renewed another three years commencing from 10 December 2014 and is subject to termination by either party giving not less than one month's written notice.

The Chairman and Non-executive Director namely, Mr. Liem Djiang Hwa, has entered into a service contract with the Company for a term of three years since the Listing Date, has renewed another three years commencing from 10 December 2014 and is subject to termination by either party giving not less than one month's written notice.

The Independent Non-executive Directors, namely Dr. Wang Xin, Dr. Lin Zhang and Dr. He Peipei, have been appointed for a term of three years, and are subject to termination by either party giving not less than three months' written notice. Dr. Wang Xin was appointed on 28 August 2015, Dr. Lin Zhang was appointed on 2 September 2015, and Dr. He Peipei was appointed on 13 January 2017.

No director proposed for re-election at the annual general meeting 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.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2016, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for the benefit of the Directors. The Company has taken out and maintained appropriate insurance cover in respect of potential losses or liabilities which the Directors or officers may sustain or incur in or about the execution of their duties of their office.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2016, the interests and short positions of the directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register required to be maintained by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(I) Long positions in the shares and underlying shares of the Company

Name of directors	Nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital	Note
Liem Djiang Hwa	Interests in controlled corporation	419,949,888	52.35%	*(1)*
Lam Wai Wah	Interests in controlled corporation	419,949,888	52.35%	*(2)*

(II) Long positions in the shares of associated corporations

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

Save as those disclosed above, as at 31 December 2016, 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.

REPORT OF THE DIRECTORS

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the following persons had an interest or short position in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interest in 5% or more of the issued share capital of the Company:

Long positions in the shares of the Company

Name of shareholders	Nature of interest	Number of shares	Percentage of issued share capital
Mr. Liem Djiang Hwa	Interests in controlled corporation	419,949,888	52.35%(1)
Mr. Lam Wai Wah	Interests in controlled corporation	419,949,888	52.35%(2)
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	22.51%(3)
China Renaissance Capital Investment II, L.P.	Interests in controlled corporation	180,050,112	22.51%(4)
China Harvest Fund II, L.P.	Interests in controlled corporation	180,050,112	22.51%(5)
Trophy Group Limited	Beneficial owner	180,050,112	22.51%
Central Huijin Investment Ltd.	Interests in controlled corporation	55,283,840	6.89%(6)
China Construction Bank Corporation	Interests in controlled corporation	55,283,840	6.89%(6)

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.

(6) Central Huijin Investment Ltd. is the substantial shareholder of China Construction Bank Corporation.

Save as those disclosed above, as at 31 December 2016, 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.

REPORT OF THE DIRECTORS

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:

	2016	2015
As a percentage of the Group's total sales		
The largest customer	**9.7%**	9.3%
Five largest customers in aggregate	**39.1%**	31.5%
As a percentage of Group's total purchases		
The largest supplier	**28.91%**	23.6%
Five largest suppliers in aggregate	**51.23%**	53.8%

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 2016.

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.

REPORT OF THE DIRECTORS

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 2016, no share option has been granted by the Company.

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 25(a) 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 2016 is set out in Note 35 to the consolidated financial statements in this annual report.

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 2016.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2016 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.

REPORT OF THE DIRECTORS

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 consolidated 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, 24 March 2017

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)

OPINION

What we have audited

The consolidated financial statements of China First Chemical Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 111, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment; and
- Impairment assessment on the investment in an associate.

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment Refer to Note 4 (Critical accounting estimates and judgements) and Note 8 to the consolidated financial statements. We focused on this area due to the size of the goodwill balance (RMB188,673,000 as at 31 December 2016) and because the management's assessments of the 'value-in-use' of the related cash generating unit (Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd. ("Minjiang Snow"), a subsidiary as acquired by the Group in February 2015) (the "Minjiang Snow CGU") involves judgement and estimates about the future business results of the Minjiang Snow CGU and the discount rate applies to the future cash flow forecast. The management's assessment reveals that there is no impairment on the goodwill.	We evaluated the composition of management's future cash flow forecasts, and the process by which they were drawn up. We found that management had followed their clearly documented process for drawing up future cash flow forecasts, which was subject to timely oversight and which was consistent with the budgets as approved by the Board of Minjiang Snow. We evaluated the reasonableness of the management's key assumptions in the forecast for: • Sales growth rate; • Gross profit margin; • Long-term growth rate; and • Discount rate. For sales growth rate and gross profit margin, we compared the actual result with the management's assumptions as adopted in the forecast (including the sales price, sales volume and cost of sales) to consider whether the forecast assumptions are reasonable as well as the management's explanations on any deviations from the forecast are properly supported. For long-term growth rate, we compared the management's assumption with the result from our internet research on the general growth in the economic and chemical industry environment in China. For discount rate, we compared the management's assumption with the weighted average cost of capital for the Group and comparable organisations in the industry, and have also considered the recent borrowing interest rates as pronounced by the People's Bank of China. We found that the aforesaid key assumptions as adopted by management in the forecast are to be in acceptable ranges.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
	We checked the mathematical accuracy of the future cash flow forecast and the 'value-in-use' calculations. We checked the mathematical accuracy of the management's sensitivity calculations for analysing the impact on the 'value-in-use' of the Minjiang Snow CGU from using different sales growth rates, gross profit margin and discount rates (as these key assumptions are considered as most sensitive) which management has assessed as the possible ranges of deviations. We discussed the context of the level of headroom indicated in the sensitivity analysis with management and evaluated the adequacy of the disclosures made regarding the assumptions.
Impairment assessment on the investment in an associate Refer to Note 4 (Critical accounting estimates and judgements) and Note 10(b) to the consolidated financial statements. We focused on this area due to the associate, Jiangxi Zhengge Investment Stock Co., Ltd. ("Jiangxi Zhengge") (an associate as acquired by the Group in December 2014), was continuously loss-making which constitutes as an impairment indicator, the size of the investment balance in Jiangxi Zhengge (RMB73,174,000 (including the goodwill on acquisition of approximately RMB8,593,000) at 31 December 2016) and also because the management's assessment of the 'value-in-use' of the related cash generating unit (the "Jiangxi Zhengge CGU") involves judgement and estimates about the future business results of the Jiangxi Zhengge CGU and the discount rates applies to the future cash flow forecast. The management's assessment reveals that there is no impairment on the investment.	The procedures which we have performed to address this key audit matter are same as those procedures as we have conducted for addressing the key audit matter 'Goodwill impairment assessment' as set out above. We found that management had followed their clearly documented process for drawing up future cash flow forecasts, which was subject to timely oversight and consistent with the budgets as approved by the Board of Jiangxi Zhengge. We found that the key assumptions (i.e. the sales growth rate, gross profit margin, long-term growth rate and discount rate) as adopted by management in the future cash flow forecast for the Jiangxi Zhengge CGU are to be in acceptable ranges.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee of the Company is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with the Audit Committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Cheuk Kay.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2017

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**80,260**	82,426
Property, plant and equipment	7	**1,827,765**	1,850,067
Intangible assets	8	**298,142**	311,714
Investments accounted for using the equity method	10(B)	**105,651**	110,891
Deferred income tax assets	11	**4,396**	3,069
Restricted cash	17	**19,200**	106,650
Other non-current assets	12	**262,318**	27,400
		2,597,732	2,492,217
Current assets			
Inventories	13	**208,670**	236,818
Trade and other receivables	14	**478,862**	487,500
Financial assets at fair value through profit or loss	15	**47,061**	43,771
Cash and cash equivalents	16	**540,230**	470,931
Restricted cash	17	**168,162**	191,311
		1,442,985	1,430,331
Total assets		**4,040,717**	3,922,548
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	18	**65,346**	65,346
Other reserves	19	**775,692**	771,497
Retained earnings	19	**1,387,669**	1,282,093
Total equity		**2,228,707**	2,118,936

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	**370,303**	383,361
Deferred income	21	**9,500**	11,002
Deferred income tax liabilities	11	**25,209**	28,456
Financial liabilities at fair value through profit or loss	22	**107,246**	–
		512,258	422,819
Current liabilities			
Trade and other payables	23	**433,811**	525,757
Current income tax liabilities		**8,617**	20,848
Borrowings	20	**857,324**	834,188
		1,299,752	1,380,793
Total liabilities		**1,812,010**	1,803,612
Total equity and liabilities		**4,040,717**	3,922,548

The notes on pages 49 to 111 are an integral part of these consolidated financial statements.

The financial statements on page 44 to 111 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf.

CHEN HONG
Director

MIAO FEI
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**2,249,163**	2,135,545
Cost of sales	24	**(1,803,695)**	(1,740,531)
Gross profit		**445,468**	395,014
Selling and marketing expenses	24	**(70,793)**	(65,245)
Administrative expenses	24	**(92,892)**	(85,973)
Other income	26	**5,927**	3,435
Other losses — net	27	**(3,867)**	(2,255)
Operating profit		**283,843**	244,976
Finance income	28	**10,323**	14,585
Finance expenses	29	**(110,739)**	(97,749)
Finance expenses -net		**(100,416)**	(83,164)
Gain on disposal of previous investments accounted for using equity method	10(A)(c)	**–**	12,857
Share of losses of investments accounted for using the equity method	10(B)	**(5,240)**	(1,813)
Profit before income tax		**178,187**	172,856
Income tax expense	30	**(55,501)**	(43,813)
Profit for the year		**122,686**	129,043
Other comprehensive income		**–**	–
Total comprehensive income for the year		**122,686**	129,043
Attributable to equity holders of the Company		**122,686**	129,043
Earnings per share attributable to the equity holders of the Company (RMB Yuan)			
— Basic	31(a)	**0.153**	0.161
— Diluted	31(b)	**0.153**	0.161

The notes on pages 49 to 111 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company					
	Note	Share capital RMB'000 (Note 18)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2015		65,346	292,472	311,521	169,912	1,167,607	2,006,858
Comprehensive income							
Profit for the year		–	–	–	–	129,043	129,043
Transactions with owners in their capacity as owners							
Profit appropriation to statutory reserves	19	–	–	–	14,557	(14,557)	–
Dividend distribution	32	–	(16,965)	–	–	–	(16,965)
Balance at 31 December 2015		65,346	275,507	311,521	184,469	1,282,093	2,118,936
Balance at 1 January 2016		**65,346**	**275,507**	**311,521**	**184,469**	**1,282,093**	**2,118,936**
Comprehensive income							
Profit for the year		**–**	**–**	**–**	**–**	**122,686**	**122,686**
Transactions with owners in their capacity as owners							
Profit appropriation to statutory reserves	19	**–**	**–**	**–**	**17,110**	**(17,110)**	**–**
Dividend distribution	32	**–**	**(12,915)**	**–**	**–**	**–**	**(12,915)**
Balance at 31 December 2016		**65,346**	**262,592**	**311,521**	**201,579**	**1,387,669**	**2,228,707**

The notes on pages 49 to 111 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2016	2015
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	33	562,026	132,835
Interest paid		(76,320)	(65,926)
Interest received		8,603	6,900
Income tax paid		(72,306)	(34,688)
Net cash generated from operating activities		422,003	39,121
Cash flows from investing activities			
Purchases of financial assets at fair value through profit or loss		(47,341)	(73,771)
Proceeds from maturity of investments in financial assets at fair value through profit or loss		44,681	30,134
Gain on settlement of financial assets at fair value through profit or loss		1,464	–
Purchases of property, plant and equipment		(161,786)	(379,350)
Payment of a long-term deposit	12(i)	(385,000)	–
Proceeds from disposal of property, plant and equipment	33	101	325
Purchases of intangible assets		–	(384)
Acquisition of a subsidiary, net of cash acquired		–	(123,283)
Purchases of land use rights		(3,610)	(4,243)
Net decrease in restricted cash		110,599	5,657
Loans to third parties		(243,000)	(85,000)
Repayments from third parties		243,000	85,000
Repayment of loans from a related party		38,693	22,400
Net cash used in investing activities		(402,199)	(522,515)
Cash flows from financing activities			
Drawdown of borrowings		913,125	982,521
Repayments of borrowings		(1,033,940)	(737,104)
Proceeds from issuance of convertible bonds		102,717	–
Proceeds from issuance of note instruments		99,533	–
Repayment of amounts due to third parties		(19,997)	–
Dividends	32	(12,915)	(16,965)
Net cash from financing activities		48,523	228,452
Net increase/(decrease) in cash and cash equivalents		68,327	(254,942)
Cash and cash equivalents at beginning of year		470,931	725,234
Exchange gain on cash and cash equivalents		972	639
Cash and cash equivalents at end of year	16	540,230	470,931

The notes on pages 49 to 111 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China First Chemical Holdings Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell bleaching and disinfectant chemical products, foaming agent products 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 parent company of the Company is China First Chemical Ltd., a company which was incorporated in the Cayman Islands. The ultimate parent company of the Company is Yihua Crown Limited.

The Company has been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2011.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

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 all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and requirement of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards and annual improvements adopted by the Group

The following new and amended standards or annual improvements have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

IFRS 14 "Regulatory Deferred Accounts"
Amendments to IFRS 11 "Accounting for Acquisitions of Interest in Joint Operations"
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"
Amendments to IAS 27 "Equity Method in Separate Financial Statements"
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investments Entities: Applying the Consolidation Exception"
Amendments to IAS 1 "Disclosure Initiative"
Annual Improvements 2012–2014 cycle

The adoption of the above mentioned new and amended standards and annual improvements did not result in any significant changes in the Group's significant accounting policies and presentation of the consolidated financial statements.

(b) New and amended standards issued but not yet adopted by the Group

A number of new standards and amendments to existing standards which may be applicable to the Group are effective for annual periods beginning after 1 January 2016 are summarised as below.

	Effective for accounting periods beginning on or after
Amendments to IAS 12 "Income Taxes"	1 January 2017
Amendments to IAS 7 "Statement of Cash Flows"	1 January 2017
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	Not yet determined

None of this new and amended standards are expected to have a significant effect on the consolidated financial statements, except that the Group is still in the process of assessing the impact of the following:

(i) IFRS 15 'Revenue from contracts with customers'

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim period within annual reporting period beginning on or after 1 January 2018, and will allow early adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(b) New and amended standards issued but not yet adopted by the Group (Continued)

(i) IFRS 15 'Revenue from contracts with customers' *(Continued)*

Management is currently assessing the effects of applying the new standard on the Group's financial statements and the following areas, if applicable, may be affected:

- revenue from service — the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and

- rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

At this stage, the Group does not intend to adopt the standard before its effective date.

(ii) IFRS 16 'Leases'

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

At this stage, the Group does not intend to adopt the standard before its effective date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 profit or loss.

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 in profit or loss. 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 profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 investments in associates include 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 profit or loss, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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/loss 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 profit or loss.

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 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 Company's functional currency and the Group's presentation currency.

(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 profit or loss.

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 consolidated statement of comprehensive income within 'Other gains/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.

(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 income statement 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 in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 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 (if any). 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 charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20–50 years
Machinery	10–15 years
Motor vehicles	4–8 years
Furniture and office equipment	3–5 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 (Note 2.10).

Gains and losses on disposals are determined by comparing net sales proceeds with the carrying amount and are recognised within 'Other gains/losses — net' in the consolidated statement of comprehensive income.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending for 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 the respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

2.8 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 (if any). 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 within 'Administrative expenses' in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents 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 identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Licences

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses (if any). Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of 10 years.

(c) Computer software and technology

Acquired computer software and technology are capitalised on the basis of the costs incurred to acquire the specific software and technology. Amortisation is calculated using the straight-line method to allocate the cost of computer software and technology over their estimated useful lives of 10 years and 12 years, respectively.

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation/amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. As at 31 December 2016 and 2015, the Group only has financial assets in the categories of "financial assets at fair value through profit or loss" and "loan and receivables".

(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 within 12 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 the amounts that are settled or expected to be settled more 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", "cash and cash equivalents", "restricted cash" and those long-term deposits included in "other non-current assets" in the balance sheet.

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in 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. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'Other gains/losses — net' in the period in which they arise. Investment income from financial assets at fair value through profit or loss is recognised in profit or loss when the Group's right to receive payments is established.

2.11.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

2.11.4 Impairment of financial 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 assets original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 profit or loss.

2.12 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.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold 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 (if any).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.15 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.

2.16 Trade payables

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

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

2.17 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 profit or loss over the period of the borrowings using the effective interest method.

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.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Borrowing costs *(Continued)*

Borrowing costs include interest expense, finance charges in respect of exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of borrowing costs eligible for capitalisation is determined for each annual period. Borrowing costs that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.19 Convertible bonds

Convertible bonds issued by the Company can be converted into the share capital of the Company at the option of the investor. These convertible bonds are denominated in a currency other than the functional currency of the Company and the conversion option will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Group's shares.

The Group designated the convertible bonds as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Subsequent to initial recognition, the convertible bonds are carried at fair value with changes in fair value recognised in profit or loss.

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

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, 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 Group and associates 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Current and deferred income tax *(Continued)*

(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 also 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.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, 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 when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates 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 income tax assets against current income 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.

2.21 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Employee benefits *(Continued)*

(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. Contribution to these housing funds are expensed as incurred.

(c) Bonus plan

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.22 Provisions

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

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

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.

2.23 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 Group; 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 customers; the customers have 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 payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 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 profit or loss over the period necessary to match them with the cost that they are intended to compensate.

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

2.25 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 profit or loss, on a straight-line basis over the period of the lease.

2.26 Dividend distribution

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

2.27 Exceptional items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

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 has not used any derivative financial instruments 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. However, foreign exchange rate risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency other than the functional currency of the group entities.

For the year ended 31 December 2016, approximately 5% (2015: 8%) of the Group's sales are denominated in currencies other than the functional currency of the group entities.

Other than certain trade receivables, cash and cash equivalents, borrowings and financial liabilities at fair value through profit or loss which are denominated in currencies other than RMB (Notes 14, 16, 20 and 22), the Group's assets and liabilities are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk *(Continued)*

At 31 December 2016, if RMB had weakened/strengthened by 5% against the USD and HKD respectively with all other variables held constant, profit before income tax for the year ended 31 December 2016 would have been RMB26,173,000 lower/higher (2015: RMB24,932,000 lower/higher), mainly as a result of foreign exchange losses/gains on the re-translation of USD-denominated and HKD-denominated cash and cash equivalents, trade receivables, borrowings and financial liabilities at fair value through profit of loss.

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 2016, approximately 91% (2015: 93%) of the Group's restricted cash and cash and equivalents are held in state-owned financial institutions or reputable banks which are publicly listed, which management believes are of high credit quality. Management does not expect any losses from non-performance by these counterparties.

The carrying amount of receivables (including the long-term deposits as included in "Other non-current assets") 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 trade receivables is disclosed in Note 14. The Group has policies in place to ensure that credit sales are only made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of its customers by taking into account various factors including their financial position and past experience. The utilisation of credit terms is regularly monitored and management does not expect any losses from non-performance by these counterparties. Counterparty risk related to trade receivables is limited due to the large number of customers in the Group's customer portfolio and their diversification throughout various business sectors, as well as geographic locations. As at 31 December 2016, the exposure to the top 15 customers did not exceed 62% (2015: 69%) of the gross trade and other receivables, with the exposure to the largest customer representing less than 10% (2015: 10%).

Other receivables primarily comprise of interest receivables from state-owned banks or financial institutions, long-term deposits and utilities/other deposits paid. In respect of the interest receivables, long-term deposit and utilities/other deposits paid, management considers that the counterparties are all with good credit quality and hence will not expose the Group to any significant credit risk.

As of 31 December 2016, the Group has certain concentration of credit risk as the Group has paid a guarantee deposit of RMB385,000,000 (2015: Nil) (representing approximately 53% (2015: Not applicable) of the Group's long-term deposits, trade and other receivables) which is to be recoverable by reference to the stage of completion of a construction project (Note 12(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

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

The maturity analysis which shows the remaining contractual maturities of borrowings is disclosed in Note 20(c). 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 2016, the Group has trade receivables of approximately RMB289,090,000 (2015: RMB418,108,000) (Note 14) and cash and cash equivalents of approximately RMB540,230,000 (2015: RMB470,931,000) (Note 16) 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 the balance sheet date 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	Above 5 years RMB'000
At 31 December 2016				
Borrowings and interest payable	**902,618**	**298,068**	**122,930**	**–**
Financial liabilities at fair value through profit or loss	**7,804**	**116,922**	**–**	**–**
Trade and other payables	**394,032**	**–**	**–**	**–**
	1,304,454	**414,990**	**122,930**	**–**
At 31 December 2015				
Borrowings and interest payable	857,224	221,127	207,527	–
Trade and other payables	478,000	–	–	–
	1,335,224	221,127	207,527	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, convertible bonds (designated as financial liabilities at fair value through profit or loss), restricted cash and bank deposits.

Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas borrowings carried at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2016, borrowings of approximately RMB450,009,000 (2015: RMB507,673,000) bear variable rates. Whereas borrowings of approximately RMB777,618,000 (2015: RMB709,876,000) bear fixed rates. Except for the note instruments as issues by the Company (Note 20 (a)), the Group's borrowings carried at fixed rates are all repayable within one year and hence the Group is not subject to any significant fair value interest rate risk on these fixed rate borrowings. The note instruments as issued by the Company will not expose the Group to any significant fair value interest rate risk considering that the note instruments bear interest at the fixed rate which is comparable to the applicable market interest rate and also their relatively short remaining maturity period.

The interest rates and maturities of the Group's bank deposits, restricted cash, borrowings and convertible bonds are disclosed in Notes 16, 17, 20 and 22 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 (other than the Group's bank balances and restricted cash).

At 31 December 2016, 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, pre-tax profit for the year would have been approximately RMB1,516,000 lower/higher (2015: RMB2,052,000 lower/higher).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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.

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 (including the convertible bonds designated as financial liabilities at fair value through profit or loss) as shown in the consolidated balance sheet, less cash and cash equivalents and restricted cash as securities of borrowings. Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt. The Group aims to maintain the gearing ratio at a level of not more than 65%. The Group's strategy remains consistent throughout the year.

The gearing ratios at 31 December 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Borrowings (Note 20)	**1,227,627**	1,217,549
Convertible bonds (Note 22)	**107,246**	–
Less:		
Cash and cash equivalents (Note 16)	**(540,230)**	(470,931)
Restricted cash as securities of the borrowings (Note 17)	**(123,554)**	(232,351)
Net debt	**671,089**	514,267
Total equity	**2,228,707**	2,118,936
Total capital	**2,899,796**	2,633,203
Gearing ratio	**23.14%**	19.53%

3.3 Fair value estimation

The tables below analyse the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's financial assets and liabilities that are required to be measured at fair value as at 31 December 2016.

	Level 3 RMB'000	**Total** RMB'000
Assets		
Financial assets at fair value through profit or loss	47,061	47,061
Total assets	47,061	47,061
Liabilities		
Financial liabilities at fair value through profit or loss	107,246	107,246
Total liabilities	107,246	107,246

Fair value measurements using significant unobservable inputs (level 3)

	Financial assets at fair value through profit or loss RMB'000
Opening balance at 1 January 2016	43,771
Addition	47,341
Settlements	(44,681)
Total unrealised fair value gains recognised in profit or loss (Note 27)	630
Closing balance at 31 December 2016	47,061
Total gain on settlement of financial assets at fair value through profit or loss	1,464

The fair value of the financial assets at fair value through profit or loss is estimated by discounting the future cash flows at the current market interest rate available for similar financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

Fair value measurements using significant unobservable inputs (level 3) *(Continued)*

	Financial liabilities at fair value through profit or loss RMB'000
Opening balance at 1 January 2016	–
Addition	102,717
Fair value loss on financial liabilities at fair value through profit or loss (Note 27)	4,529
Closing balance at 31 December 2016	107,246

The fair value of the convertible bonds is determined by an independent qualified valuer based on the Binomial Model.

The convertible bonds bear fixed interest rate and hence expose the Group to fair value interest rate risk. As at 31 December 2016, if interest rates on US dollar denominated convertible bonds had been 100 basis points higher/lower with all other variable held constant, the profit would be increased/decreased by approximately RMB1,000,000 (2015: Nil), representing the estimated fair value changes of the convertible bonds.

3.4 Group's valuation processes

For the financial assets, including Level 3 fair values, the Group's finance department performs the valuations. The finance department reports directly to the chief financial officer (CFO). Discussions of valuation processes and results are held between the CFO and finance department semi-annually, in line with the Group's semi-annual reporting dates.

The valuation technique is discounted cash flows. Future cash flows are estimated and discounted using the expected yield rate with reference to the benchmark yield rate of the financial investment products of banks.

For the financial liabilities at fair value through profit or loss, including Level 3 fair values, the Group engages third party qualified valuers to perform the valuations. Management works closely with the qualified external valuers to determine the appropriate valuation techniques and inputs to the model and reports the valuation findings to the CFO semi-annually to explain the cause of fluctuations in the fair value of convertible bonds.

The valuation technique as applied is the Binomial Model. Detailed information about the valuation techniques and inputs used in the determination of the fair value of the convertible bonds designated at financial liabilities at fair value through profit or loss have been disclosed in Note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9(a). The recoverable amount of the related cash generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8). Where the expectation is different from the original estimate, such difference will impact carrying value of goodwill and impairment loss in the period in which such estimate is changed.

(b) Impairment of non-financial assets

The Group's associate, Jiangxi Zhengge Investment Stock Co., Ltd. ("Jiangxi Zhengge"), is continuously loss-making which constitutes as an impairment indicator and management has conducted an impairment assessment on the Group's investment in Jiangxi Zhengge in accordance with the accounting policies stated in Note 2.3. The recoverable amounts of the cash generating unit in connection with the operations of Jiangxi Zhengge has been determined based on value-in-use calculations. These calculations require the use of estimates (Note 10(B)(i)). Where the expectation is different from the original estimate, such difference will impact carrying value of the investment in the associate and impairment loss in the period in which such estimate is changed.

(c) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimates, such differences will impact the recognition of deferred income tax assets and taxation provisions in the period in which such estimates is changed. As of 31 December 2016, the Group did not recognise deferred income tax assets in respect of the tax losses of certain subsidiaries of approximately RMB111,287,000 (2015: RMB156,621,000) (Note 11), considering the uncertainties on whether these tax losses could be utilised in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 are located are presented to the chief operating decision maker (the "CODM") (representing the Board of Directors of the Company) who reviews the internal reports in order to assess performance and allocate resources. The CODM considers the Group's business primarily from product perspective and reviews the key financial information (such as revenue and gross profit) of the Bleaching and disinfectant chemical products, Foaming agent products and Other specialty chemical products separately on a regular basis. Accordingly, three reportable segments (namely the Bleaching and disinfectant chemicals segment, Foaming agent products segment and Other specialty chemicals segment) have been identified for the purpose of segment reporting.

The Group's productions are all conducted in the PRC and the majority of the Group's products are sold to customers in the PRC as well. 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 revenue for the years ended 31 December 2016 and 2015.

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 CODM assesses the performance of the operating segments based on a measure of gross profit. There is no information in relation to segment assets and segment liabilities provided to the CODM.

The segment information provided to the CODM for the reportable segments for the years ended 31 December 2016 and 2015 is as follows:

	Year ended 31 December 2016			
	Bleaching and disinfectant chemicals RMB'000	Foaming agent products RMB'000	Other specialty chemicals RMB'000	Total RMB'000
Segment revenue	1,350,337	666,893	231,933	2,249,163
Inter-segment revenue	–	–	–	–
Revenue from external customers	1,350,337	666,893	231,933	2,249,163
Gross profit	257,821	123,622	64,025	445,468
Unallocated				
Depreciation and amortisation				188,446
Finance income				10,323
Finance expenses				(110,739)
Income tax expense				(55,501)
Total assets				4,040,717
Total liabilities				1,812,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(Continued)*

	Year ended 31 December 2015			
	Bleaching and disinfectant chemicals RMB'000	Foaming agent products RMB'000	Other specialty chemicals RMB'000	Total RMB'000
Segment revenue	1,271,415	600,711	263,419	2,135,545
Inter-segment revenue	–	–	–	–
Revenue from external customers	1,271,415	600,711	263,419	2,135,545
Gross profit	223,492	89,320	82,202	395,014
Unallocated				
Depreciation and amortisation				158,874
Finance income				14,585
Finance expenses				(97,749)
Income tax expense				(43,813)
Total assets				3,922,548
Total liabilities				1,803,612

Revenue analysed by geographical area based on the countries in which the customers are located are as below:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Revenue		
Mainland China	**2,139,052**	1,960,876
Overseas	**110,111**	174,669
	2,249,163	2,135,545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000
Opening net book value at 1 January	82,426	72,039
Acquisition of a subsidiary	–	8,170
Addition	–	4,243
Amortisation (Note 24)	(2,166)	(2,026)
Closing net book value at 31 December	**80,260**	82,426
Representing:		
Cost	100,619	100,619
Accumulated amortisation	(20,359)	(18,193)
Net book value	80,260	82,426

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

As at 31 December 2016, land use rights with net book value of RMB30,256,000 (2015: RMB27,964,000) were secured for bank borrowings (Note 20).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
At 1 January 2015						
Cost	582,676	1,232,148	11,118	10,947	23,911	1,860,800
Accumulated depreciation	(170,475)	(465,293)	(6,110)	(6,976)	–	(648,854)
Net book amount	412,201	766,855	5,008	3,971	23,911	1,211,946
Year ended 31 December 2015						
Opening net book amount	412,201	766,855	5,008	3,971	23,911	1,211,946
Additions	55,180	7,784	516	487	434,819	498,786
Transfer upon completion	62,814	395,394	–	–	(458,208)	–
Acquisition of a subsidiary	93,989	187,409	134	4,911	–	286,443
Disposals	(52)	(2,615)	(17)	(30)	–	(2,714)
Depreciation (Note 24)	(22,755)	(117,430)	(1,095)	(3,114)	–	(144,394)
Closing net book amount	601,377	1,237,397	4,546	6,225	522	1,850,067
At 31 December 2015						
Cost	794,439	1,806,781	11,272	16,056	522	2,629,070
Accumulated depreciation	(193,062)	(569,384)	(6,726)	(9,831)	–	(779,003)
Net book amount	601,377	1,237,397	4,546	6,225	522	1,850,067
Year ended 31 December 2016						
Opening net book amount	**601,377**	**1,237,397**	**4,546**	**6,225**	**522**	**1,850,067**
Additions	**799**	**32,873**	**450**	**219**	**118,689**	**153,030**
Transfer upon completion	**16,294**	**65,620**	**–**	**–**	**(81,914)**	**–**
Disposals	**–**	**(2,519)**	**(37)**	**(68)**	**–**	**(2,624)**
Depreciation (Note 24)	**(28,425)**	**(140,047)**	**(1,097)**	**(3,139)**	**–**	**(172,708)**
Closing net book amount	**590,045**	**1,193,324**	**3,862**	**3,237**	**37,297**	**1,827,765**
At 31 December 2016						
Cost	**811,532**	**1,896,793**	**11,466**	**15,986**	**37,297**	**2,773,074**
Accumulated depreciation	**(221,487)**	**(703,469)**	**(7,604)**	**(12,749)**	**–**	**(945,309)**
Net book amount	**590,045**	**1,193,324**	**3,862**	**3,237**	**37,297**	**1,827,765**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	
	2016	2015
	RMB'000	RMB'000
Cost of sales	**164,530**	136,151
Selling and marketing expenses	**187**	184
Administrative expenses	**7,991**	8,059
	172,708	144,394

(b) Rentals expenses amounting to RMB1,694,000 (2015: RMB1,476,000) relating to the lease of property is included in the consolidated statement of comprehensive income (Note 24).

(c) During the year, the Group has capitalised borrowing costs of RMB521,000 (2015: RMB4,437,000) on qualifying assets (Note 29). Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.50% (2015: 5.28%).

(d) As at 31 December 2016, certain buildings and machinery with an aggregate carrying value of RMB368,477,000 (2015: RMB599,879,000) were secured for bank borrowings (Note 20).

(e) Machinery includes the following amounts where the Group is considered as a lessor under a contractual arrangement as entered into between the Group and a customer in 2016 (the "Contractual Arrangement") which contains an operating lease:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cost — operating leases	**35,000**	35,000
Accumulated depreciation	**(3,395)**	–
Net book amount	**31,605**	35,000

The abovementioned Contractual Arrangement is for a term of 8 years, expiring on 14 January 2023 (the "Contractual Period"). During the Contractual Period, the operations of the machinery as mentioned above together with certain equipment as provided by the customer will be managed by the Group on behalf of the customer to produce bleaching and disinfectant chemicals products which will be sold exclusively to the customer at market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 INTANGIBLE ASSETS

	Goodwill RMB'000	Licences RMB'000	Computer Software RMB'000	Technology RMB'000	Total RMB'000
At 1 January 2015					
Cost	–	–	–	4,717	4,717
Accumulated amortisation	–	–	–	(1,006)	(1,006)
Net book amount	–	–	–	3,711	3,711
Year ended 31 December 2015					
Opening net book amount	–	–	–	3,711	3,711
Additions	–	–	384	–	384
Acquisition of a subsidiary	188,673	131,400	–	–	320,073
Amortisation charge (Note 24)	–	(12,045)	(16)	(393)	(12,454)
Closing net book amount	188,673	119,355	368	3,318	311,714
At 31 December 2015					
Cost	188,673	131,400	384	4,717	325,174
Accumulated amortisation	–	(12,045)	(16)	(1,399)	(13,460)
Net book amount	188,673	119,355	368	3,318	311,714
Year ended 31 December 2016					
Opening net book amount	**188,673**	**119,355**	**368**	**3,318**	**311,714**
Amortisation charge (Note 24)	**–**	**(13,140)**	**(39)**	**(393)**	**(13,572)**
Closing net book amount	**188,673**	**106,215**	**329**	**2,925**	**298,142**
At 31 December 2016					
Cost	**188,673**	**131,400**	**384**	**4,717**	**325,174**
Accumulated amortisation	**–**	**(25,185)**	**(55)**	**(1,792)**	**(27,032)**
Net book amount	**188,673**	**106,215**	**329**	**2,925**	**298,142**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 INTANGIBLE ASSETS *(Continued)*

Impairment tests for goodwill

The goodwill is arose from the acquisition of Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd. ("Minjiang Snow") which has been operated as a separate cash generating unit ("CGU").

The recoverable amount of the CGU of Minjiang Snow is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period (the "Projection Period") which are also in line with the budgets as approved by the Board of Minjiang Snow. Cash flows beyond the Projection Period are extrapolated using the estimated growth rates stated below.

The key assumptions as adopted by management in the value-in-use calculations for determining the recoverable amount of the goodwill are as follows.

Sales (% annual growth rate)	10.00%–17.00%
Gross profit margin	18.33%–24.41%
Pre-tax discount rate	13.00%
Long term growth rate beyond the Projection Period	3.00%

These assumptions have been used for the analysis of the CGU of Minjiang Snow.

Sales is the average annual growth rate over the five-year forecast period. It is based on management's expectation of market development, current industry trends and long term inflation forecasts for the Mainland China.

Gross profit margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix, with adjustments made to reflect the expected future price rises in key raw materials, which management does not expect to be able to pass on to customers through price increases.

The long term growth rates used are consistent with the forecasts based on the management judgement. The discount rates used are pre-tax and reflect specific risks relating to the CGU of Minjiang Snow.

The following changes in assumptions would cause the recoverable amount to fall below the carrying value:

- A reduction in the sales growth rate from the 10.00%–17.00% assumption applied to a revised assumption of 8.65%–15.65% or less.

- A reduction in the gross profit margin from the 18.33%–24.41% assumption applied to a revised assumption of 14.24%–20.32% or less.

- An increase in the discount rate from the 13.00% assumption applied to a revised assumption of 16.40% or more.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB'000	Assets at fair value through profit or loss RMB'000	Total RMB'000
At 31 December 2016			
Assets as per balance sheet			
Trade and other receivables (excluding prepayments and value-added tax input credits)	462,362	–	462,362
Financial assets at fair value through profit or loss	–	47,061	47,061
Cash and cash equivalents	540,230	–	540,230
Restricted cash	187,362	–	187,362
Other non-current assets	246,230	–	246,230
Total	1,436,184	47,061	1,483,245

	Financial liabilities at amortised cost RMB'000	Liabilities at fair value through profit or loss RMB'000	Total RMB'000
Liabilities as per balance sheet			
Borrowings	1,227,627	–	1,227,627
Trade and other payables excluding non-financial liabilities	394,032	–	394,032
Financial liabilities at fair value through profit or loss	–	107,246	107,246
Total	1,621,659	107,246	1,728,905

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

	Loans and receivables RMB'000	Assets at fair value through profit or loss RMB'000	Total RMB'000
At 31 December 2015			
Assets as per balance sheet			
Trade and other receivables (excluding prepayments and value-added tax input credits)	471,366	–	471,366
Financial assets at fair value through profit or loss	–	43,771	43,771
Cash and cash equivalents	470,931	–	470,931
Restricted cash	297,961	–	297,961
Other non-current assets	14,435	–	14,435
Total	1,254,693	43,771	1,298,464

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per balance sheet		
Borrowings	1,217,549	1,217,549
Trade and other payables excluding non–financial liabilities	475,393	475,393
Total	1,692,942	1,692,942

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10(A) SUBSIDIARIES

As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries:

Name of company	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
Yihua Sub-Holding Alpha (BVI) Limited (Note a)	BVI/Limited liability company	Investment holding in Cayman	USD 1	100%
Yihua Sub-Holding Beta (BVI) Limited (Note a)	BVI/Limited liability company	Investment holding in Cayman	USD 1	100%
Longpower Corporation Limited	HK/Limited liability company	Investment holding in Hong Kong	HKD 1	100%
Sun Champ Group Holdings Limited	HK/Limited liability company	Investment holding in Hong Kong	HKD 1	100%
Fujian Rongchang Chemical Co., Ltd.	PRC/Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB 313,851,800	100%
Fujian Rongping Chemical Co., Ltd.	PRC/Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB 254,500,000	100%
Fuzhou Yihua Chemical Stock Co., Ltd.	PRC/Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB 240,000,000	100%
Fujian Jinrong Technical Co., Ltd.	PRC/Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB 100,000,000	100%
Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd. (Note b)	PRC/Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB 42,857,140	100%
Maoxian Xin Salt Chemical Co., Ltd.	PRC/Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB 30,000,000	100%
Chengdu Minjiang Salt Chemical Co., Ltd.	PRC/Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB 5,000,000	100%
Fujian Chuangyuan Environmental Technology Co., Ltd.	PRC/Limited liability company	Provision of environmental protection related service in Mainland China	RMB10,000,000	100%
Yongtai Juyuan Hydropower Station Co., Ltd. (Note c)	PRC/Limited liability company	Generating electricity by water power in Mainland China	Nil	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10(A) SUBSIDIARIES *(Continued)*

Notes:

(a) These two subsidiaries are directly held by the Company.

(b) The Group has acquired 30% equity interest in Minijiang Snow in April 2013 and up to 31 January 2015, Minjiang Snow was accounted for as an associate of the Group by using the equity method. The carrying amount of the Group's investment in Minjiang Snow had already been reduced to zero due to the share of the post-acquisition losses of Minjiang Snow in prior years.

On 1 February 2015, the Group acquired a further 70% of the equity interest in Minjiang Snow and thereby obtained the control over Minjiang Snow and it became a subsidiary of the Group since then. Resulting from this step-up acquisition of equity interest in Minjiang Snow, the Group has recognised a gain of approximately RMB12,857,000 in 2015 as a result of measuring at fair value the Group's 30% equity interest in Minjiang Snow held before the business combination.

(c) This new subsidiary is established by the Fuzhou Yihua Chemical Stock Co., Ltd. ("Fuzhou Yihua") in September, 2016. As of 31 December 2016, the subsidiary is dormant and Fuzhou Yihua has not yet contribute any capital to the subsidiary.

10(B) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	2016 RMB'000	2015 RMB'000
Associates	105,651	110,891
Joint venture	–	–
At 31 December	105,651	110,891

The amounts recognised in the statement of comprehensive income are as follows:

	2016 RMB'000	2015 RMB'000
Associates	(5,240)	(1,813)
Joint venture	–	–
For the year ended 31 December	(5,240)	(1,813)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10(B) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Investment in associates

Set out below are the associates of the Group as at 31 December 2016:

Name of entity	Place of business and country of incorporation	% of ownership interest	Measurement method
Jiangxi Zhengge Investment Stock Co., Ltd. ("Jiangxi Zhengge") (Note i)	PRC	45	Equity
Fujian Nanping Rongxin Trading Co., Ltd. ("Rongxin Trading") (Note ii)	PRC	40	Equity

Notes:

(i) The Group's acquisition of the 45% equity interest in Jiangxi Zhengge was completed in December 2014 and the goodwill arisen from the acquisition as included in the carrying amount of the Group's investment in Jiangxi Zhengge amounted to approximately RMB8,593,000.

Jiangxi Zhengge manufactures water-treatment chemicals, and its main products include sodium chlorate and hydrogen peroxide. The business of this associate is mainly conducted in Jiangxi, Guangdong and Hunan provinces.

Considering Jiangxi Zhengge is continuously loss-making, management has performed an impairment assessment on the Group's investment in Jiangxi Zhengge. Jiangxi Zhengge is operated as a separate cash generating unit (the "Jiangxi Zhengge CGU") and its recoverable amount is determined based on value-in-use calculations. The key assumptions as adopted by management in the value-in-use calculations for determining the recoverable amount of the Jiangxi Zhengge CGU are as follows.

Sales (% annual growth rate)	3.00%–13.00%
Gross margin	14.63%–19.07%
Pre-tax discount rate	13.00%
Long term growth rate beyond the Projection Period	3.00%

These assumptions have been used for the analysis of the Jiangxi Zhengge CGU.

Sales is the average annual growth rate over the five-year forecast period. It is based on management's expectation of market development, current industry trends and long term inflation forecasts for the Mainland China.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix, with adjustments made to reflect the expected future price rises in key raw materials, which management does not expect to be able to pass on to customers through price increases.

The long term growth rates used are consistent with the forecasts based on the management judgement. The discount rates used are pre-tax and reflect specific risks relating to the Jiangxi Zhengge CGU.

(ii) Rongxin Trading is a chemical products trading company and keeps a long-term business relationship with the Group. The main products it trades include caustic soda, hydrogen peroxide, biurea, urea, industrial salt and AC foaming agent, which are main raw materials and output products of the Group.

(iii) Jiangxi Zhengge and Rongxin Trading are private companies and there are no quoted market prices available for their shares.

(iv) There are no contingent liabilities relating to the Group's interests in the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10(B) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Investment in associates *(Continued)*

Summarised financial information for associates

Set out below are the summarised financial information for Jiangxi Zhengge and Rongxin Trading which are accounted for using equity method.

Summarised balance sheet — As at 31 December 2016 and 2015

	Jiangxi Zhengge		Rongxin Trading		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current						
Cash and cash equivalents	**1,719**	13,452	**18,367**	15,385	**20,086**	28,837
Other current assets (excluding cash)	**104,882**	133,095	**73,784**	73,562	**178,666**	206,657
Total current assets	**106,601**	146,547	**92,151**	88,947	**198,752**	235,494
Financial liabilities (excluding trade payables)	**(50,800)**	(205,800)	**–**	–	**(50,800)**	(205,800)
Other current liabilities (including trade payables)	**(104,088)**	(170,924)	**(15,595)**	(15,367)	**(119,683)**	(186,291)
Total current liabilities	**(154,888)**	(376,724)	**(15,595)**	(15,367)	**(170,483)**	(392,091)
Non-current assets	**433,904**	461,516	**4,637**	3,878	**438,541**	465,394
Total non-current assets	**433,904**	461,516	**4,637**	3,878	**438,541**	465,394
Other liabilities	**(179,558)**	(3,439)	**–**	–	**(179,558)**	(3,439)
Total non-current liabilities	**(179,558)**	(3,439)	**–**	–	**(179,558)**	(3,439)
Net assets	**206,059**	227,900	**81,193**	77,458	**287,252**	305,358
Equity attributable to:						
— Equity holders	**143,513**	158,477	**81,193**	77,458	**224,706**	235,935
— Non-controlling interests	**62,546**	69,423	**–**	–	**62,546**	69,423
	206,059	227,900	**81,193**	77,458	**287,252**	305,358

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10(B) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Investment in associates *(Continued)*

Summarised financial information for associates *(Continued)*

Summarised statement of comprehensive income — For the years ended 31 December 2016 and 2015

	Jiangxi Zhengge		Rongxin Trading		Total	
	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	225,087	271,275	115,530	99,859	340,617	371,134
Cost of sales	(212,965)	(244,313)	(107,810)	(94,057)	(320,775)	(338,370)
(Loss)/profit before income tax	(21,841)	(13,829)	4,980	3,233	(16,861)	(10,596)
Income tax expense	–	–	(1,245)	(808)	(1,245)	(808)
(Loss)/profit and total comprehensive (loss)/income for the year	(21,841)	(13,829)	3,735	2,425	(18,106)	(11,404)
Attributable to:						
— Equity holders	(14,964)	(6,185)	3,735	2,425	(11,229)	(3,760)
— Non-controlling interests	(6,877)	(7,644)	–	–	(6,877)	(7,644)
	(21,841)	(13,829)	3,735	2,425	(18,106)	(11,404)

The information above reflects the amounts presented in financial statements of the associates (and not the Group's share of those amounts).

The associates have adopted accounting policies which are consistent with the Group's significant accounting policies.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in associates:

Summarised financial information

	Jiangxi Zhengge		Rongxin Trading		Total	
	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening net assets	227,900	241,729	77,458	75,033	305,358	316,762
(Loss)/profit for the year	(21,841)	(13,829)	3,735	2,425	(18,106)	(11,404)
Closing net assets	206,059	227,900	81,193	77,458	287,252	305,358
Less: Non-controlling interests	(62,546)	(69,423)	–	–	(62,546)	(69,423)
	143,513	158,477	81,193	77,458	224,706	235,935
Interests in associates (45%; 40%)	64,581	71,315	32,477	30,983	97,058	102,298
Goodwill	8,593	8,593	–	–	8,593	8,593
Carrying value	73,174	79,908	32,477	30,983	105,651	110,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10(B) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Investment in joint venture

Set out below are the joint venture of the Group as at 31 December 2016:

Name of entity	Place of business and country of incorporation	% of ownership interest	Measurement method
Fujian Jinsan Industrial Co., Ltd. ("Fujian Jinsan") (Note)	PRC	33	Equity

Note:

On 27 April 2016, Fujian Rong Chang Chemical Co., Ltd. ("Fujian Rong Chang"), a wholly owned subsidiary of the Company, Fujian Haojingda Industrial Co., Ltd. and Fujian Shunchang Fubaotengda Industrial Co., Ltd. jointly established Fujian Jinsan. Fujian Rong Chang holds 33% of the equity interests in Fujian Jinsan and Fujian Jinsan is jointly controlled by Fujian Rong Chang and the other joint venturers and hence Fujian Jinsan is a a joint venture of the Group. Fujian Jinsan will be principally engaged in mineral processing, storage, logistics and warehousing services. As of 31 December 2016, Fujian Rong Chang and the other joint venturers have not yet made any capital contribution to Fujian Jinsan and Fujian Jinsan is still inactive.

11 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
— Deferred income tax assets to be recovered after more than 12 months	**3,805**	–
— Deferred income tax assets to be recovered within 12 months	**591**	3,069
	4,396	3,069
Deferred income tax liabilities:		
— Deferred income tax liabilities to be settled after more than 12 months	**(21,962)**	(25,247)
— Deferred income tax liabilities to be settled within 12 months	**(3,247)**	(3,209)
	(25,209)	(28,456)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Employee benefit obligation RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	444	–	470	914
(Charged)/credited to profit or loss	(444)	3,069	(470)	2,155
At 31 December 2015	–	3,069	–	3,069
At 1 January 2016	**–**	**3,069**	**–**	**3,069**
Credited to profit or loss	**–**	**1,327**	**–**	**1,327**
At 31 December 2016	**–**	**4,396**	**–**	**4,396**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities	Bargain purchase RMB'000	Business combination RMB'000	Total RMB'000
At 1 January 2015	(743)	–	(743)
Acquisition of a subsidiary	–	(31,410)	(31,410)
Credited to profit or loss	743	2,954	3,697
At 31 December 2015	–	(28,456)	(28,456)
At 1 January 2016	**–**	**(28,456)**	**(28,456)**
Credited to profit or loss	**–**	**3,247**	**3,247**
At 31 December 2016	**–**	**(25,209)**	**(25,209)**

Deferred income tax assets are recognised for tax losses as carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB27,057,000 (2015: RMB39,231,000) in respect of the tax losses of certain subsidiaries amounting to approximately RMB111,287,000 (2015: RMB156,621,000) that can be carried forward against their future taxable income and these unrecognised deductible tax losses are expiring as follows:

Year	2016 RMB'000	2015 RMB'000
2016	**–**	66,268
2017	**4,809**	4,809
2018	**75,729**	75,729
2019	**334**	334
2020	**8,542**	8,542
2021	**12,637**	–
No definite expiry date	**9,236**	939
	111,287	156,621

Deferred income tax liabilities of approximately RMB147,792,000 (2015: RMB134,621,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in Mainland China. Such amounts are expected to be permanently reinvested in these subsidiaries. At 31 December 2016, the unremitted earnings of these subsidiaries amounted to approximately RMB1,477,918,000 (2015: RMB1,346,214,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Long-term deposits (Notes i and ii)	**246,230**	14,435
Long-term prepaid expenses (Note i)	**4,770**	5,565
Prepayment for land use right	**10,610**	7,000
Others	**708**	400
	262,318	27,400

Notes:

(i) Fujian Rongping Chemical Co., Ltd. (a wholly owned subsidiary of the Group) ("Rongping") has entered into a Strategic Cooperative Framework Agreement with the People's Government of Pingnan County and the Fujian Branch of the State Power Investment Corporation on 12 July 2016 pursuant to which, the Group will construct certain high technology and efficiency chemical manufacturing facilities in the Pingnan Fine Chemical Industrial Park in the Pingnan city of the Fujin province (the "Project"), with an expected construction period of 3 years and estimated construction costs over RMB900 million.

On 23 December 2016, the Group has paid a guarantee deposit of RMB385,000,000 to a designated bank account to Pingnan County State-Owned Assets Investment Operation Co., Ltd. (the "SOAIO"), an investment holding company as controlled by the Finance Bureau of Pingnan County in connection with the Project (the "Guarantee Deposit"). The Guarantee Deposit bears interests at floating market interest rate and is to be refunded by SOAIO by reference to the stage of completion of the Project. Deposit amount of approximately RMB154,000,000 is estimated to be refunded within one year from the balance sheet date and being classified a current other receivable (Note 14(b)) and the remaining amount is accounted for as a long-term deposit under the other non-current assets.

(ii) Pursuant to the contractual arrangement as mentioned in Note 7(e), the Group has paid a deposit of RMB20,000,000 to the counter-party as the security for the uses of the related equipment as provided by the counter-party (the "Deposit"). The Deposit is non-interest bearing and will be refunded to the Group upon the expiry of the contractual period on 14 January 2023. The Deposit (net of the fair value adjustment upon its initial recognition) has been accounted for as a long-term deposit. Considering the payment of the Deposit is part of the precondition as set out in the aforesaid contractual arrangement, the fair value adjustment upon the initial recognition of the Deposit of approximately RMB4,770,000 has been accounted for as long-term prepaid expenses and will be amortised and recognised in profit or loss on a straight-line basis over the contractual period.

13 INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Raw materials	**18,937**	18,751
Work in progress	**164,038**	175,764
Finished goods	**25,695**	42,303
	208,670	236,818

The cost of inventories recognised as expense and included in 'cost of sales' for the year ended 31 December 2016 amounted to approximately RMB1,109,666,000 (2015: RMB1,094,953,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables (a)		
Due from third parties	**291,643**	418,108
Less: Provision for impairment of receivables	**(2,553)**	–
	289,090	418,108
Bills receivables	**1,169**	438
Prepayments for:		
— purchases of raw materials from a related party (Note 35(d))	**5,124**	–
— purchases of raw materials from third parties	**7,064**	7,379
Value-added tax input credits	**12,188**	7,379
Other receivables (b)	**4,312**	8,755
Due from third parties	**172,103**	14,127
Due from a related party (Note 35(d))	**–**	38,693
	172,103	52,820
	478,862	487,500

(a) The Group has a large number of customers, which are widely dispersed within the PRC and Southeast Asia. The outstanding balances are within credit terms of between 30 days and 90 days for both domestic and overseas customers. There is no concentration of credit risk with respect to trade receivables. As at 31 December 2016 and 2015, the ageing analysis of the trade receivables based on recognition date were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 3 months	**287,663**	414,619
Between 3 and 6 months	**1,046**	307
Between 6 and 12 months	**381**	1,012
Between 1 and 2 years	**930**	1,635
Above 2 years	**1,623**	535
	291,643	418,108

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND OTHER RECEIVABLES *(Continued)*

As of 31 December 2016, trade receivables of approximately RMB1,427,000 (2015: RMB3,489,000) 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 that the overdue amounts can be recovered. The ageing analysis of these past due but not impaired receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Between 3 and 6 months	**1,046**	307
Between 6 and 12 months	**381**	1,012
Between 1 and 2 years	**–**	1,635
Above 2 years	**–**	535
	1,427	3,489

As of 31 December 2016, trade receivables of approximately RMB2,553,000 (2015: Nil) were impaired. The individually impaired receivables mainly related to several customers, which were in unexpectedly difficult economic situation. It was assessed that the receivables were not expected to be recovered. The ageing of these receivables were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Between 1 and 2 years	**930**	–
Above 2 years	**1,623**	–
	2,553	–

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

Movements on the Group's allowance for impairment of trade receivables are as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**–**	1,598
Provision for receivables impairment	**2,553**	–
Receivables written off during the year as uncollectible	**–**	(1,598)
At 31 December	**2,553**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Other receivables

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deposits (Note)	**156,766**	4,371
Interest receivables	**9,405**	7,685
Loans to a related party (Note 35(d))	**–**	38,693
Others	**5,932**	2,071
	172,103	52,820

Note:

The deposits as of 31 December 2016 primarily comprise of the estimated portion of the Guarantee Deposit to be recoverable within one year from the balance sheet date of RMB154,000,000 as mentioned in Note 12(i).

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**472,476**	479,629
USD	**6,386**	7,871
	478,862	487,500

(d) The carrying amounts of trade and other receivables approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Financial products as designed by a financial institution	**47,061**	43,771

During the year ended 31 December 2016, realised gain on settlement of financial assets at fair value through profit or loss and the fair value gain on financial assets at fair value through profit or loss amounted to approximately RMB1,464,000 (2015: RMB134,000) and RMB630,000 (2015: Nil) respectively and they have been recognised as "Other losses — net" in the consolidated statement of comprehensive income (Note 27).

Investments in financial assets at fair value through profit or loss are presented with "investing activities" in the consolidated statement of cash flows.

The fair value of the financial assets at fair value through profit or loss is determined by using the valuation technique of discounting the future cash flows at the expected yield rate with reference to the benchmark yield rate of the financial investment products of banks.

16 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash in hand	**80**	80
Bank deposits	**540,150**	470,851
	540,230	470,931

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**536,998**	469,760
USD	**3,228**	1,154
HKD	**4**	17
	540,230	470,931

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 RESTRICTED CASH

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current		
— restricted for borrowings (a)	**104,354**	125,701
— restricted for issue of bills payable (b)	**63,808**	65,610
	168,162	191,311
Non-current		
— restricted for borrowings (a)	**19,200**	106,650
Total restricted cash	**187,362**	297,961

(a) As at 31 December 2016, deposits held at bank of approximately RMB123,554,000 (2015: RMB232,351,000) have been restricted for securing borrowings of approximately RMB577,574,000 (2015: RMB505,473,000) (Note 20). These deposits earn interest income at fixed interest rates ranging from 1.65% to 4.38% (2015: 2.30% to 4.40%) per annum.

(b) As at 31 December 2016, deposits held at bank of approximately RMB63,808,000 (2015: RMB65,610,000) have been restricted for securing the issue of bills payable to the Group's suppliers of approximately RMB 170,945,000 (2015: RMB191,910,000) (Note 23).

(c) All of the Group's restricted cash is denominated in RMB.

18 SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
		HKD'000	RMB'000
Ordinary shares, issued and fully paid of HKD0.1 per share:			
As at 31 December 2016 and 2015	802,191,000	80,219	65,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 OTHER RESERVES AND RETAINED EARNINGS

	Note	Other reserves				
		Share premium	Capital reserve	Statutory surplus reserve (Note)	Total	Retained earnings
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015		292,472	311,521	169,912	773,905	1,167,607
Profit for the year		–	–	–	–	129,043
Profit appropriations to statutory reserves		–	–	14,557	14,557	(14,557)
Dividends distribution	32	(16,965)	–	–	(16,965)	–
Balance at 31 December 2015		275,507	311,521	184,469	771,497	1,282,093
Balance at 1 January 2016		**275,507**	**311,521**	**184,469**	**771,497**	**1,282,093**
Profit for the year		**–**	**–**	**–**	**–**	**122,686**
Profit appropriations to statutory reserves		**–**	**–**	**17,110**	**17,110**	**(17,110)**
Dividends distribution	32	**(12,915)**	**–**	**–**	**(12,915)**	**–**
Balance at 31 December 2016		**262,592**	**311,521**	**201,579**	**775,692**	**1,387,669**

Note:

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, provided that such reserve is maintained at a minimum of 25% of the companies' registered capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current		
Bank borrowings	**229,001**	364,453
Borrowing from other financial institution	**40,022**	18,908
Note instruments (Note a)	**101,280**	–
	370,303	383,361
Current		
Current portion of long-term bank borrowings	**200,905**	237,521
Short-term bank borrowings	**600,891**	577,154
Borrowing from other financial institution	**55,528**	19,513
	857,324	834,188
Total borrowings	**1,227,627**	1,217,549

Notes:

(a) On 25 July 2016, the Company has entered into an investment agreement with Chance Talent Management Limited (the "Initial Investor") (as subscriber), the Chairman of the Company's Board of Directors, Mr. Liem Djiang Hwa (as the individual guarantor) and the Company's parent, China First Chemical Ltd. (as the corporate guarantor) pursuant to which, the Company conditionally agreed to issue notes and convertible bonds, each with aggregated principal amount of US$15,000,000, to the Initial Investor (Note 22).

On 26 July 2016, the Company has issued note instruments to Chance Talent Management Limited with an aggregated principal amounts of US$15,000,000. The note instruments issued bear interests at fixed rate of 7.5% per annum and are maturing on 26 July 2018 unless the Company applies for an extension pursuant to the provisions of the relevant note instruments, in which case the maturity date of the notes shall be extended to 26 July 2019. Upon the redemption of the any of the note instruments, the Company has to pay the holders of the relevant note instruments a premium the amount of which would yield to the relevant holders of the note instruments an annualised internal rate of return of 10%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 BORROWINGS *(Continued)*

(b) The Group's secured and guaranteed borrowings are analysis as below:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current		
Borrowings secured by:		
— Property, plant and equipment, land use rights and inventories	**90,488**	112,837
— Restricted cash	**88,813**	155,596
	179,301	268,433
Guaranteed borrowings (Note)	**150,980**	10,309
	330,281	278,742
Current		
Borrowings secured by:		
— Property, plant and equipment, land use rights and inventory	**162,163**	360,179
— Restricted cash	**488,761**	349,877
	650,924	710,056
Guaranteed borrowings (Note)	**150,872**	72,183
	801,796	782,239
Total	**1,132,077**	1,060,981

Note:

As at 31 December 2016, guaranteed borrowings of approximately of RMB200,572,000 (2015: RMB82,492,000) are drawn down by subsidiaries and were guaranteed by other subsidiaries of the Group.

As at 31 December 2016, guaranteed borrowings also include the note instruments as guaranteed by the Chairman of the Company's Board of Directors and the Company's parent of USD15,000,000 (equivalent to approximately RMB101,280,000) (2015: Nil) (Note 20(a)).

(c) The Group's borrowing were repayable as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 1 year	**857,324**	834,188
Between 1 and 2 years	**264,977**	213,733
Between 2 and 5 years	**105,326**	169,628
	1,227,627	1,217,549

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 BORROWINGS *(Continued)*

(d) The weighted average effective interest rates (per annum) of the borrowing are set out as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Borrowings	**5.63%**	4.49%

The carrying amount for the current borrowings approximate their fair values because of their short-term maturities. The carrying amount for non-current bank borrowings approximate their fair values because the borrowings bear floating market interest rates. The carrying amounts of note instruments and borrowing from other financial institution also approximate their fair values considering that these instruments and borrowing bear interest at fixed rate which are comparable to the applicable market interest rates and also their relatively short remaining maturity periods.

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**801,786**	709,877
HKD	**40,253**	37,681
USD	**385,588**	469,991
	1,227,627	1,217,549

21 DEFERRED INCOME

Deferred income represented the unamortised amounts of the government grants as received in prior years for subsidising the Group's construction of certain property, plant and equipment.

	2016	2015
	RMB'000	RMB'000
At 1 January	**11,002**	12,504
Credited to profit or loss during the year	**(1,502)**	(1,502)
At 31 December	**9,500**	11,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Convertible bonds

	2016 RMB'000
As at 1 January 2016	–
Issuance of convertible bonds during the year	102,717
Fair value losses on the financial liabilities at fair value through profit or loss	4,529
As at 31 December 2016	107,246

The Company has issued convertible bonds with aggregated principal amounts of USD15,000,000 on 17 August 2016 (the "Issue Date") in accordance with the investment agreement as mentioned in Note 20(a). The convertible bonds bear interest at the fixed rate of 7.5% per annum and the Initial Investor has the right to convert the whole or part of the principal amounts of the convertible bonds into the Company's shares at pre-determined conversion prices at any time prior to the original maturity date on 17 August 2018, or 17 August 2019 if the Company applies for an extension pursuant to the provisions of the relevant convertible bond instruments. If the convertible bonds are to be redeemed by the Company (rather than converting into the Company's shares by the investor upon the maturity date), the Company has to pay the holders of the relevant convertible bonds a premium the amount of which would yield to the relevant holders of the convertible bonds an annualised internal rate of return of 10%. During the year ended 31 December 2016, no convertible bonds were converted into the Company's ordinary shares.

The Company designated the whole convertible bonds as financial liabilities at fair value through profit or loss and initially recognised the convertible bonds at fair value. In subsequent periods, such convertible bonds are measured at fair value with changes in fair values recognised in profit or loss. Transaction costs relating to the issuance of the convertible bonds are charged to profit or loss immediately.

The fair values of the convertible bonds were determined by an independent qualified valuer based on the Binomial Model, with the following key assumptions:

	For fair value as at 31 December 2016	For fair value as at 17 August 2016 (date of initial recognition)
Risk free interest rate	1.62%	0.92%
Expected volatility	46.69%	42.17%
Expected dividend yield	1.71%	1.31%
Time to maturity	1.63 years	2 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade payables (a)		
Due to third parties	**113,528**	131,049
Due to a related party (Note 35(d))	**–**	22,218
	113,528	153,267
Bills payable (b)		
Due to third parties	**170,945**	191,910
Other payables and accruals (c)		
Due to third parties	**149,338**	180,580
	433,811	525,757

(a) Details of ageing analysis of trade payables based on recognition date were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 3 months	**100,052**	148,260
Between 3 and 6 months	**4,852**	2,662
Between 6 and 12 months	**4,662**	1,459
Between 1 and 2 years	**3,878**	806
Above 2 years	**84**	80
	113,528	153,267

(b) As at 31 December 2016, the entire balances of bills payable were secured by restricted cash of approximately RMB63,808,000 (2015: RMB65,610,000) (Note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 TRADE AND OTHER PAYABLES *(Continued)*

(c) Other payables and accruals are analysed as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Advance from customers	**7,502**	25,378
Payable for purchases of property, plant and equipment	**48,124**	57,801
Freight charges	**16,804**	18,542
Water and electricity	**10,280**	5,414
Salary and welfare payable	**19,033**	18,191
Taxes	**13,244**	4,188
Interest payable	**8,128**	3,840
Amount due to a third party	**11,698**	31,695
Others	**14,525**	15,531
	149,338	180,580

(d) All of the Group's trade and other payables are denominated in RMB.

(e) The carrying amounts of trade and other payables approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**28,334**	(66,172)
Raw materials used	**1,081,332**	1,161,125
Depreciation of property, plant and equipment (Note 7)	**172,708**	144,394
Electricity and other utility fees	**445,763**	428,246
Employee benefit expenses (Note 25)	**89,984**	88,471
Transportation and related charges	**61,841**	62,491
Tax and surcharges	**16,394**	11,824
Amortisation of land use rights (Note 6)	**2,166**	2,026
Amortisation of intangible assets (Note 8)	**13,572**	12,454
Office and entertainment expenses	**9,482**	8,271
Operating lease expenses (Note 7(b))	**1,694**	1,476
Property insurance fee	**2,575**	2,957
Travelling expenses	**2,065**	1,818
Repairs and maintenance	**12,067**	9,275
Auditor's remuneration	**4,000**	4,000
— Audit services	**4,000**	4,000
— Non-audit services	**–**	–
Provision for impairment of trade receivables	**2,553**	–
Other expenses	**20,850**	19,093
Total cost of sales, selling and marketing expenses and administrative expenses	**1,967,380**	1,891,749

25 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**65,833**	64,726
Contributions to pension plan (a)	**11,850**	11,651
Welfare and other expenses	**12,301**	12,094
	89,984	88,471

(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 each financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2015: four) directors whose emoluments are reflected in the analysis shown in Note 37. The emoluments payable to the remaining one (2015: one) individual during the year are as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries, housing allowances, other allowances	414	429
Contribution to pension scheme	18	18
Bonuses	–	9
	432	456

The emoluments fell within the following bands:

	Number of individual	
	2016	2015
Emolument bands (in HK dollar)		
Nil–HKD1,000,000 (equivalent to approximately Nil–RMB 895,000)	1	1

26 OTHER INCOME

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Government grant income	5,297	2,903
Others	630	532
	5,927	3,435

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 OTHER LOSSES — NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Fair value losses on financial liabilities at fair value through profit or loss	**4,529**	–
Loss on disposals of property, plant and equipment	**2,523**	2,389
Gain on settlement of financial assets at fair value through profit or loss	**(1,464)**	(134)
Fair value gains on financial assets at fair value through profit or loss	**(630)**	–
Net foreign exchange gains	**(1,091)**	–
	3,867	2,255

28 FINANCE INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest income from bank deposits	**10,323**	14,585

29 FINANCE EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest expenses:		
— Borrowings	**75,028**	61,991
— Discount interest for bill receivables	**3,024**	3,594
— Bill payables	**2,556**	2,678
	80,608	68,263
Less: Interest capitalised in property, plant and equipment	**(521)**	(4,437)
	80,087	63,826
Other finance charges	**516**	562
Net foreign exchange losses on financing activities	**30,136**	33,361
	110,739	97,749

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax		
— PRC enterprise income tax (a)	**60,075**	49,093
— Hong Kong profits tax (b)	**–**	572
	60,075	49,665
Deferred income tax credit (Note 11)	**(4,574)**	(5,852)
	55,501	43,813

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit/losses of the consolidated entities as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**178,187**	172,856
Tax calculated at domestic tax rates applicable to profits in the respective countries	**44,562**	42,446
Income not subject to tax	**–**	(3,214)
Expenses not deductible for tax purposes	**6,912**	5,068
Tax effect of associates' results reported net of tax	**1,310**	453
Tax losses for which no deferred income tax asset was recognised	**2,717**	55
Utilisation of previously unrecognised tax losses	**–**	(995)
	55,501	43,813

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

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong (if any) for the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 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	
	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	**122,686**	129,043
Weighted average number of ordinary shares in issue (thousand)	**802,191**	802,191
Basic earnings per share (RMB Yuan)	**0.153**	0.161

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's convertible bonds (Note 22) are on the category of dilutive potential ordinary shares. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the fair value loss of convertible bonds which are not subject to tax. The convertible bonds had anti-dilutive effect on earnings per share for the year ended 31 December 2016 and therefore, the diluted earnings per share is the same as basic earnings per share.

32 DIVIDENDS

The dividends paid in 2016 of approximately HKD15,402,000 (HKD0.0192 per share), equivalent to approximately RMB12,915,000 related to the final dividend for the year ended 31 December 2015 (2015: HKD21,498,000 (HKD0.0268 per share), equivalent to approximately RMB16,965,000 related to the final dividend for the year ended 31 December 2014).

No dividend in respect of the year ended 31 December 2016 is to be proposed at the annual general meeting on 12 June 2017.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Payment of dividend declared for the prior year of HKD0.0192 (2015: HKD0.0268) per ordinary share	**12,915**	16,965
Proposed final dividend for the year of HKDNil (2015: HKD0.0192) per ordinary share	**–**	12,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**178,187**	172,856
Adjustments for:		
— Depreciation	**172,708**	144,394
— Amortisation of land use rights	**2,166**	2,026
— Amortisation of intangible assets	**13,572**	12,454
— Deferred income amortisation	**(1,502)**	(1,502)
— Finance income	**(10,323)**	(14,585)
— Finance expenses	**110,739**	97,749
— Loss on disposals of property, plant and equipment	**2,523**	2,389
— Gain on disposal of previous investments accounted for using equity method	**–**	(12,857)
— Share of losses of investments accounted for using the equity method	**5,240**	1,813
— Gain on settlement of financial assets at fair value through profit or loss	**(1,464)**	(134)
— Fair value losses on financial liabilities at fair value through profit or loss	**4,529**	–
— Exchange gain	**(1,602)**	–
— Provision for impairment of trade receivables	**2,553**	–
Changes in working capital (excluding the effect of acquisition of a subsidiary)		
— Inventories	**28,148**	16,180
— Trade and other receivables	**123,112**	(272,036)
— Trade and other payables	**(66,560)**	(15,912)
Cash generated from operations	**562,026**	132,835

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2016	2015
	RMB'000	RMB'000
Net book amount (Note 7)	**2,624**	2,714
Loss on disposal of property, plant and equipment (Note 27)	**(2,523)**	(2,389)
Proceeds from disposal of property, plant and equipment	**101**	325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for the year end but not yet incurred is as follow:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Property, plant and equipment	**15,024**	9,720

(b) Operating lease commitments — the Group as a lessee

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	
	2016	2015
	RMB'000	RMB'000
No later than 1 year	**1,703**	1,651
1–5 years	**2,866**	4,309
	4,569	5,960

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.

In addition to those disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties:

(a) Purchases of goods from a related party

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Associate	**108,467**	54,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTIES TRANSACTIONS *(Continued)*

(b) Key management compensation

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries, wages and bonuses	**8,481**	8,752
Contributions to pension plan	**415**	428
	8,896	9,180

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

(c) Loans to associate

	2016	2015
	RMB'000	RMB'000
At 1 January	**38,693**	61,093
Loans advanced during year	**–**	–
Loans repayment received	**(38,693)**	(22,400)
At 31 December	**–**	38,693

The loans to the associate are unsecured and non-interest bearing. During the year ended 31 December 2016, the loans have been repaid by the associate.

(d) Year-end balances with related parties

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Prepayment to a related party (Note 14)		
Associate	**5,124**	–
Trade payable to a related party (Note 23)		
Associate	**–**	22,218
Loans to a related party (Note 14)		
Associate	**–**	38,693

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**1,449,426**	1,449,426
Other receivables	**571,496**	362,372
	2,020,922	1,811,798
Current assets		
Cash and cash equivalents	**13**	159
Total assets	**2,020,935**	1,811,957
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	**65,346**	65,346
Other reserves	**1,761,408**	1,774,323
Accumulated losses	**(14,345)**	(27,712)
Total equity	**1,812,409**	1,811,957
Non-current liabilities		
Borrowings	**101,280**	–
Financial liabilities at fair value through profit or loss	**107,246**	–
	208,526	–
Total liabilities	**208,526**	–
Total equity and liabilities	**2,020,935**	1,811,957

The balance sheet of the Company was approved by the Board of Directors on 24 March 2017 and was signed on its behalf

CHEN HONG
Director

MIAO FEI
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Reserve movement of the Company

	Note	Other reserves			
		Share premium RMB'000	Capital reserve RMB'000	Total RMB'000	Accumulated losses RMB'000
Balance at 1 January 2015		292,472	1,498,816	1,791,288	(41,406)
Profit for the year		–	–	–	13,694
Dividends distribution	32	(16,965)	–	(16,965)	–
Balance at 31 December 2015		275,507	1,498,816	1,774,323	(27,712)
Balance at 1 January 2016		**275,507**	**1,498,816**	**1,774,323**	**(27,712)**
Profit for the year		**–**	**–**	**–**	**13,367**
Dividends distribution	32	**(12,915)**	**–**	**(12,915)**	**–**
Balance at 31 December 2016		**262,592**	**1,498,816**	**1,761,408**	**(14,345)**

37 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016

Name	Fee RMB'000	Salary RMB'000	Housing allowance RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive director					
Mr. Liem Djiang Hwa	**–**	**600**	**–**	**–**	**600**
Mr. Chen Hong	**–**	**800**	**7**	**17**	**824**
Ms. Miao Fei	**–**	**600**	**7**	**17**	**624**
Mr. Lam Wai Wah	**–**	**600**	**–**	**–**	**600**
Non-executive director					
Mr. Kou Huizhong (Note)	**116**	**–**	**–**	**–**	**116**
Mr. Wang Xin	**141**	**–**	**–**	**–**	**141**
Mr. Lin Zhang	**141**	**–**	**–**	**–**	**141**
Chief executives					
Mr. Tan Boon Chek	**–**	**360**	**–**	**–**	**360**
Mr. Zhang Heng	**–**	**360**	**–**	**–**	**360**
Total	**398**	**3,320**	**14**	**34**	**3,766**

Note: Resigned on 15 October 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

For the year ended 31 December 2015

Name	Fee RMB'000	Salary RMB'000	Housing allowance RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive director					
Mr. Liem Djiang Hwa	–	600	–	–	600
Mr. Chen Hong	–	800	7	16	823
Ms. Miao Fei	–	600	7	16	623
Mr. Lam Wai Wah	–	600	–	–	600
Mr. Chen Xiao (Note i)	–	66	–	–	66
Non-executive director					
Mr. Kou Huizhong	134	–	–	–	134
Mr. Li Junfa (Note i)	66	–	–	–	66
Mr. Wang Xin (Note ii)	45	–	–	–	45
Mr. Lin Zhang (Note iii)	45	–	–	–	45
Chief executives					
Mr. Tan Boon Chek	–	360	–	–	360
Mr. Zhang Heng	–	360	–	–	360
Total	290	3,386	14	32	3,722

Notes:

(i) Resigned on 18 June 2015.

(ii) Appointed on 28 August 2015.

(iii) Appointed on 2 September 2015.

(b) Directors' retirement benefits

Except for the retirement benefits paid or receivable by certain Executive Director as disclosed on Note 37(a), no retirement benefits were paid to or receivable by any other directors during the year ended 31 December 2016 in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2015: Nil).

(c) Directors' termination benefits

The Board made a resolution to terminate the appointment of Mr. Kou Huizhong as the independent directors of the Company on 15 October 2016. In agreement with Mr. Kou Huizhong, the Company is not obliged to make any payment to Mr. Kou Huizhong as compensation.

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2016, no consideration was provided to or receivable by third parties for making available directors' services (2015: Nil).

EIGHT-YEAR FINANCIAL SUMMARY

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Operating results								
Revenue	**2,249,163**	2,135,545	1,237,757	1,510,022	1,619,634	1,524,833	1,211,826	1,006,502
Gross profit	**445,468**	395,014	370,528	466,586	464,684	492,741	320,817	275,656
Operating profit	**283,843**	244,976	267,770	359,851	360,272	390,930	247,356	214,123
Finance costs	**100,416**	83,164	39,172	24,492	23,222	24,144	19,581	29,225
Profit before tax	**178,187**	172,856	231,302	335,359	337,050	366,786	229,396	185,335
EBIT	**288,926**	270,605	274,408	363,363	365,429	393,609	248,977	214,560
EBITDA	**477,372**	429,479	373,620	457,806	434,590	454,461	295,005	257,940
Profit and total comprehensive income for the year attributable to equity holders of the Company	**122,686**	129,043	170,754	250,257	249,712	268,169	169,051	134,413
Profit margin								
Gross profit margin	**19.8%**	18.5%	29.9%	30.9%	28.7%	32.3%	26.5%	27.4%
Operating profit margin	**12.6%**	11.3%	21.6%	23.8%	22.2%	25.6%	20.4%	21.3%
Net profit margin	**5.5%**	6.0%	13.8%	16.6%	15.4%	17.6%	14.0%	13.4%
EBITDA margin	**21.2%**	20.1%	30.2%	30.3%	26.8%	29.8%	24.3%	25.6%
Earnings per share *Basic and diluted (RMB)*	**0.15**	0.16	0.21	0.31	0.31	0.49	0.38	0.30
Assets and liabilities								
Total assets	**4,040,717**	3,922,548	3,068,171	2,537,446	2,447,920	2,259,800	1,595,950	1,283,894
Equity attributable to the equity holders of the Company	**2,228,707**	2,118,936	2,006,858	1,860,090	1,632,122	1,415,958	660,819	475,951
Total liabilities	**1,812,010**	1,803,612	1,061,313	677,356	815,798	833,440	927,084	801,522
Net asset value/total equity	**2,228,707**	2,118,936	2,006,858	1,860,090	1,632,122	1,426,360	668,866	482,372
Interest-bearing borrowings and convertible bonds	**1,334,873**	1,217,549	854,827	391,075	418,107	478,646	387,850	468,212
Cash and cash equivalents	**540,230**	470,931	725,234	784,153	778,553	926,148	397,231	195,834
Quick ratio (X)	**0.9**	0.9	1.8	1.9	1.6	1.9	0.9	0.8
Current ratio (X)	**1.1**	1.0	2.1	2.2	1.8	2.1	1.1	0.9
Inventory turnover (days)	**44**	42	67	56	42	36	34	26
Trade receivables turnover (days)	**56**	49	57	58	66	70	75	64
Trade and notes payables turnover (days)	**63**	42	64	83	84	80	88	67
Net asset value per share (RMB)	**2.78**	2.64	2.50	2.32	2.03	2.62	1.49	1.07
Gearing ratio	**23%**	20%	N/A	N/A	N/A	N/A	24%	37%
Total interest-bearing borrowings and convertible bonds to total equity	**60%**	57%	43%	21%	26%	34%	58%	97%

EIGHT-YEAR FINANCIAL SUMMARY

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 years ended 31 December 2013, 2014, 2015 and 2016 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. Wang Xin
Dr. Lin Zhang
Dr. He Peipei

REGISTERED OFFICE

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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. Wang Xin *(Chairman)*
Dr. He Peipei
Dr. Lin Zhang

REMUNERATION COMMITTEE

Dr. He Peipei *(Chairman)*
Dr. Lin Zhang
Ms. Miao Fei

NOMINATION COMMITTEE

Dr. He Peipei *(Chairman)*
Dr. Lin Zhang
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

AUDITOR

PricewaterhouseCoopers
22/F, Prince's Building,
Central, Hong Kong

PRINCIPAL BANKERS

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

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

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