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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2121)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

Financial Highlights (in RMB'000, unless otherwise stated)	**For the six months ended 30 June 2017**	**2016**	**Growth %**
Revenue	**982,722**	1,210,957	(18.8%)
Gross profit	**165,827**	238,170	(30.4%)
Profit attributable to equity holders of the Company	**36,716**	79,332	(53.7%)
Earnings per share			
— Basic (RMB)	**0.05**	0.10	(53.7%)
— Diluted (RMB)	**0.04**	0.10	(56.7%)
EBITDA	**188,705**	255,074	(26.0%)
	As at 30 June 2017	31 December 2016	
Total equity	**2,265,423**	2,228,707	1.6%
Net asset per share (RMB)	**2.82**	2.78	1.6%

The board (the "Board") of directors (the "Directors") of China First Chemical Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2017 together with the comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**982,722**	1,210,957
Cost of sales	*6*	**(816,895)**	(972,787)
Gross profit		**165,827**	238,170
Selling and marketing expenses	*6*	**(33,271)**	(37,172)
Administrative expenses	*6*	**(42,787)**	(45,176)
Other income		**1,120**	816
Other (losses)/gains — net		**(118)**	1,440
Operating profit		**90,771**	158,078
Finance income		**2,830**	6,284
Finance expenses	*5*	**(35,937)**	(48,160)
Finance expenses — net		**(33,107)**	(41,876)
Share of loss of investments accounted for using the equity method		**(2,405)**	(2,285)
Profit before income tax		**55,259**	113,917
Income tax expense	*7*	**(18,543)**	(34,585)
Total comprehensive income for the period		**36,716**	79,332
Attributable to equity holders of the Company		**36,716**	79,332
Earnings per share attributable to the equity holders of the Company (RMB)			
— Basic	*8*	**0.05**	0.10
— Diluted	*8*	**0.04**	0.10
Dividends	*9*	**–**	12,915

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2017

	Note	**As at 30 June 2017** *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Land use rights		**79,245**	80,260
Property, plant and equipment		**1,793,669**	1,827,765
Intangible assets		**291,357**	298,142
Investment accounted for using the equity method		**103,246**	105,651
Deferred income tax assets		**4,396**	4,396
Restricted cash		**–**	19,200
Other non-current assets		**203,860**	262,318
		2,475,773	2,597,732
Current assets			
Inventories		**200,540**	208,670
Trade and other receivables	*10*	**611,404**	478,862
Financial assets at fair value through profit or loss		**48,038**	47,061
Cash and cash equivalents		**582,502**	540,230
Restricted cash		**156,707**	168,162
		1,599,191	1,442,985
Total assets		**4,074,964**	4,040,717
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**65,346**	65,346
Other reserves		**775,692**	775,692
Retained earnings		**1,424,385**	1,387,669
Total equity		**2,265,423**	2,228,707

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)
As at 30 June 2017

	Note	**As at 30 June 2017** ***RMB'000*** **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings		**293,585**	370,303
Deferred income		**8,763**	9,500
Deferred income tax liabilities		**23,605**	25,209
Financial liabilities at fair value through profit or loss		**103,310**	107,246
		429,263	512,258
Current liabilities			
Trade and other payables	*11*	**533,483**	433,811
Current income tax liabilities		**10,929**	8,617
Borrowings		**835,866**	857,324
		1,380,278	1,299,752
Total liabilities		**1,809,541**	1,812,010
Total equity and liabilities		**4,074,964**	4,040,717

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017

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 is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The interim condensed consolidated financial information is presented in thousands of Renminbi ("RMB'000"), unless otherwise stated.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting". The interim condensed consolidated financial information should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") (the "2016 Annual Financial Statements").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those as set out in the 2016 Annual Financial Statements of the Company except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2017.

Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

The Group has not early adopted those new or amended standards that have been issued and may be applicable to the Group but not yet effective for the year ending 31 December 2017 in the interim condensed consolidated financial information and will apply those new or amended standards in accordance with their respective effective dates. The Group has already commenced an assessment of the related impact to the Group and based on the assessment up to this stage, management does not expect the adoption of the aforesaid new or amended standards will have a material impact to the Group.

4. 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 chemicals 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.

Majority of the Group's products are sold to customers in the PRC. The Group has a large number of customers, which are widely dispersed within the PRC and overseas, no single customer accounted for more than 10% of the Group's total revenue for the six months ended 30 June 2017 and 2016.

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 consolidation financial information.

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 six months ended 30 June 2017 and 2016 is as follows:

	Six months ended 30 June 2017 (Unaudited)			
	Bleaching and disinfectant chemicals *RMB'000*	**Foaming agent products** *RMB'000*	**Other specialty chemicals** *RMB'000*	**Total** *RMB'000*
Segment revenue	**598,376**	**280,391**	**103,955**	**982,722**
Inter-segment revenue	**–**	**–**	**–**	**–**
Revenue from external customers	**598,376**	**280,391**	**103,955**	**982,722**
Gross profit	**101,367**	**43,431**	**21,029**	**165,827**
Unallocated				
Depreciation and amortisation				**97,509**
Finance income				**2,830**
Finance expenses				**(35,937)**
Income tax expense				**(18,543)**

	As at 30 June 2017 *RMB'000* **(Unaudited)**
Total assets	**4,074,964**
Total liabilities	**1,809,541**

	Six months ended 30 June 2016 (Unaudited)			
	Bleaching and disinfectant chemicals	Foaming agent products	Other specialty chemicals	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	726,098	371,171	113,688	1,210,957
Inter-segment revenue	–	–	–	–
Revenue from external customers	726,098	371,171	113,688	1,210,957
Gross profit	138,176	69,138	30,856	238,170
Unallocated				
Depreciation and amortisation				92,997
Finance income				6,284
Finance expenses				(48,160)
Income tax expense				(34,585)

	As at 31 December 2016
	RMB'000
	(Audited)
Total assets	4,040,717
Total liabilities	1,812,010

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Mainland China	**904,186**	1,159,678
Overseas	**78,536**	51,279
	982,722	1,210,957

5. FINANCE EXPENSES

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expenses:		
— Borrowings	**37,772**	32,106
— Discount interest for bill receivables	**4,528**	3,739
— Letters of credit	**1,429**	1,306
	43,729	37,151
Less: Interest capitalised in property, plant and equipment	**(237)**	(418)
	43,492	36,733
Other finance charges	**1,684**	1,857
Net foreign exchange (gains)/losses on financing activities	**(9,239)**	9,570
	35,937	48,160

6. EXPENSES BY NATURE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Changes in inventories of finished goods and work in progress	**8,401**	7,931
Raw materials used	**462,541**	602,409
	470,942	610,340
Electricity and other utility fees	**215,881**	227,055
Depreciation of property, plant and equipment	**89,709**	85,197
Employee benefit expenses	**46,459**	46,970
Transportation and related charges	**28,979**	31,873
Taxes and surcharges	**7,757**	8,549
Amortisation of land use rights	**1,015**	1,015
Amortisation of intangible assets	**6,785**	6,785
Office and entertainment expenses	**5,051**	5,163
Operating leases expenses	**868**	840
Property insurance fee	**1,508**	1,787
Travelling expenses	**848**	997
Repairs and maintenance	**5,960**	6,038
(Reversal of)/provision for impairment of trade receivables	**(111)**	1,153
Other expenses	**11,302**	21,373
Total cost of sales, selling and marketing expenses and administrative expenses	**892,953**	1,055,135

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
— PRC enterprise income tax (a)	**20,147**	36,189
— Hong Kong profits tax (b)	**–**	–
	20,147	36,189
Deferred income tax credit	**(1,604)**	(1,604)
	18,543	34,585

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

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

(c) As at 30 June 2017, deferred income tax liabilities of approximately RMB151,568,000 (as at 31 December 2016: RMB147,792,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the Mainland China. Unremitted earnings of these subsidiaries amounted to approximately RMB1,515,676,000 (as at 31 December 2016: RMB1,477,918,000).

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the period of six months ended 30 June 2017 attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period of six months ended 30 June 2017.

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company (RMB'000)	**36,716**	79,332
Weighted average number of ordinary shares in issue (thousand)	**802,191**	802,191
Basic earnings per share (RMB Yuan)	**0.05**	0.10

(b) Diluted

Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's convertible bonds 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.

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to equity holders of the Company (RMB'000)	**36,716**	79,332
Adjustment for fair value gain of the convertible bonds	**(76)**	–
Profit used to determine diluted earnings (RMB'000)	**36,640**	79,332
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	**802,191**	802,191
Adjustments for:		
Assumed conversion of the convertible bonds	**55,289**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**857,480**	802,191
Diluted earnings per share (RMB Yuan)	**0.04**	0.10

9. DIVIDENDS

The Board of Directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2016. A dividend of approximately HKD15,402,000, equivalent to approximately RMB12,915,000, related to the year ended 31 December 2015 was declared on 13 June 2016 and subsequently paid in July 2016.

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2017 (2016: Nil).

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Trade receivables		
Due from third parties	**375,248**	291,643
Less: Provision for impairment of receivables	**(2,442)**	(2,553)
	372,806	289,090
Bill receivables	**776**	1,169
Prepayments for purchases of raw materials from:		
— a related party	**–**	5,124
— third parties	**5,991**	7,064
	5,991	12,188
Value-added tax input credits	**3,877**	4,312
Other receivables due from third parties	**227,954**	172,103
	611,404	478,862

The Group has a large number of customers, which are widely dispersed within the PRC and Southeast Asia. The credit terms are between 30 days and 90 days for both domestic and overseas customers. There is no concentration of credit risk with respect to trade receivables. As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade receivables based on recognition date were as follows:

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Within 3 months	**371,773**	287,663
Between 3 and 6 months	**175**	1,046
Between 6 and 12 months	**831**	381
Between 1 and 2 years	**27**	930
Above 2 years	**2,442**	1,623
	375,248	291,643

11. TRADE AND OTHER PAYABLES

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Trade payables *(Note)*		
Due to third parties	**171,044**	113,528
Due to a related party	**12,905**	–
	183,949	113,528
Bill payables due to third parties	**149,056**	170,945
Other payables and accruals		
Due to third parties	**154,567**	141,836
Due to related parties	**4,196**	–
	158,763	141,836
Advances from customers		
Due to third parties	**19,715**	7,502
Due to a related party	**22,000**	–
	41,715	7,502
	533,483	433,811

Note:

As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade payables based on recognition date were as follows:

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Within 3 months	**171,007**	100,052
Between 3 and 6 months	**3,201**	4,852
Between 6 and 12 months	**5,850**	4,662
Between 1 and 2 years	**3,358**	3,878
Above 2 years	**533**	84
	183,949	113,528

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2017, the overall domestic economic situation rebounded steadily in the second half of last year and the economic operation remained in a reasonable range. Under the influence of changes in the domestic and international economic situation, the Group has adjusted its strategies and actively responded to market changes according to the situation.

During the period under review, revenue of the Group was approximately RMB982.7 million, representing a decrease of approximately 18.8% from the revenue of approximately RMB1,211.0 million for the corresponding period in 2016. Gross profit decreased by 30.4% to approximately RMB165.8 million from the same period in 2016. During the six months ended 30 June 2017, net profit attributable to the equity holders of the Company and the basic earnings per share were approximately RMB36.7 million and approximately RMB0.05, respectively, both representing a decrease of approximately 53.7% as compared with the corresponding period in 2016.

BUSINESS REVIEW

During the first half of 2017, sales revenue from the Group's eco-friendly bleaching and disinfectant chemicals amounted to approximately RMB598.4 million, representing a decrease of 17.6% as compared with sales revenue of approximately RMB726.1 million for the first half of 2016. The percentage of revenue attributable to eco-friendly bleaching and disinfectant chemicals increased from approximately 60.0% for the first half of 2016 to approximately 60.9% for the first half of 2017. Revenue from sales of other chemicals was approximately RMB384.3 million for the first half of 2017, representing a decrease of approximately 20.7% as compared with that of approximately RMB484.9 million for the first half of 2016. The percentage of revenue attributable to other chemicals dropped from 40.0% for the first half of 2016 to 39.1% for the first half of 2017.

During the first half of 2017, the decrease of the sales revenue of the Group was mainly attributable to the decrease in sales volumes in our main products, namely bleaching and disinfectant chemicals and other special chemical products, by 18% and 26% respectively as compared with that during the first half of 2016 due to market reasons.

Our gross profit decreased by approximately RMB72.4 million or 30.4% to RMB165.8 million for the period under review from RMB238.2 million for the corresponding period in 2016. The overall gross margin decreased from 19.7% for the six months ended 30 June 2016 to 16.9% for the six months ended 30 June 2017, which was primarily due to (i) the decrease in sales volume of sodium chlorate, hydrogen peroxide, and foaming agent due to the weak market condition; and (ii) the increase of unit cost which stems from the increased price of raw materials and purchased products and the decrease in quantity outputs.

As a result of the foregoing factors, profit attributable to the equity holders of the Company decreased by approximately 53.7% to RMB36.7 million for the six months ended 30 June 2017 from RMB79.3 million for the six months ended 30 June 2016.

The Group persisted in technological innovation for the period under review and achieved positive effects in technology research and development areas. "Calcium Carbide Furnace Emission, Electrolysis and Purification of Emission by Sodium Salt and Development of Comprehensive Utilization Technology" (《電石爐尾氣、鈉鹽電解尾氣淨化及綜合利用技術開發》) of Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Group, was awarded the second prize of Sichuan Province Scientific and Technological Progress by the People's Government of Sichuan; "Study and Application of Barium-free Technology in the Process of Producing Sodium Chlorate from Industrial Salt" (《工業鹽氯酸鈉工藝中的無鋇技術研究及應用》)was awarded the first prize of Scientific and Technological Progress by the People's Government of Ngawa Prefecture; both "Study of the Electrolysis and Purification of Emission by Sodium Chlorate and the Comprehensive Utilization of Waste Heat Technology " (《氯酸鈉電解尾氣淨化餘熱綜合利用技術研究》) and "Study and Application of the Technology and Equipment of the Reuse of Chlorine in the Electrolysis of Emission by Sodium Chlorate" (《氯酸鈉電解尾氣中氯氣回用技術及裝置研究與應用》) were awarded the third prize of Scientific and Technological Progress by the People's Government of Ngawa Prefecture. In addition, the Group was also awarded the 2017 Top Ten Credible Suppliers of Hydrogen Peroxide Industry.

FUTURE PROSPECT

In 2017, the Group has been in eco-friendly chemical industry for 59 years and after 59 years of ups and downs, the Group has been experienced in development and cultivated a senior management team with professional quality. In the past few years, the Group responded to all kinds of challenges with various strategies.

Having experienced the market volatility in the first half of 2017, the Group will further monitor the whole process of the production activities at all production bases in the second half of 2017, ensure eco-friendly and safe production, and put more efforts in research and development to promote the development and upgrading of production technology and improve production efficiency. In addition, the Group will adopt the strategy of focusing on the main business to increase gross margin and net profit levels and to continue bringing satisfactory returns to the majority of shareholders.

FINANCIAL REVIEW

Revenue

Revenue for the period under review was approximately RMB982.7 million, representing a decrease of approximately RMB228.3 million or 18.8% from approximately RMB1,211.0 million for the corresponding period in 2016. The decrease was mainly attributable to the decrease in the sales of bleaching and disinfectant chemicals and other chemical products during the period.

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

	For the six months ended 30 June			
	2017		2016	
	Amount	**% of Revenue**	Amount	% of Revenue
Revenue (RMB'000)				
Bleaching and disinfectant chemicals	**598,376**	**60.9%**	726,098	60.0%
Other chemical products	**384,346**	**39.1%**	484,859	40.0%
Total	**982,722**	**100.0%**	1,210,957	100.0%

Bleaching and disinfectant chemicals

This segment mainly consists of sodium chlorate and hydrogen peroxide. Sodium chlorate and hydrogen peroxide are the principal chemicals used in the elemental chlorine free ("ECF") and total chlorine free ("TCF") pulp bleaching process by our downstream customers, respectively.

During the period under review, the total revenue for the bleaching and disinfectant chemicals was approximately RMB598.4 million, representing a decrease of approximately 17.6% or RMB127.7 million from the corresponding period in 2016. The decrease in revenue was mainly attributable to the decrease in sales volume of sodium chlorate and hydrogen peroxide due to the weak market condition during the period.

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.

During the period under review, the total revenue for the other chemical products was approximately RMB384.3 million, representing a decrease of approximately 20.7% or RMB100.5 million from the corresponding period in 2016. The decrease was mainly attributable to the decrease in sales volume of foaming agent due to the weak market condition during the period.

Cost of sales

Our cost of sales primarily consists of cost of materials (including the raw materials used and changes in inventories of finished goods and work in progress), electricity and other utility fees, depreciation of property, plant and equipment, employee benefit expenses, transportation and related charges, repairs and maintenance, taxes and levies on main operations, office and entertainment expenses, traveling expenses and other expenses. Cost of raw materials and changes in inventories, including foaming agent sourced from third parties, is the largest component of our cost of sales, representing approximately 57.7% and 62.7% of our total cost of sales for the six months ended 30 June 2017 and 2016, respectively.

During the period under review, our cost of sales decreased by approximately RMB155.9 million or 16.0% to RMB816.9 million from RMB972.8 million in the corresponding period in 2016, which was primarily due to the decrease in sales volume of sodium chlorate, hydrogen peroxide, and foaming agent during the period. The percentage for cost of sales to revenue was 83.1% and 80.3% for the six months ended 30 June 2017 and 2016, respectively.

Gross profit and gross margin

Our gross profit decreased by approximately RMB72.4 million or 30.4% to RMB165.8 million for the period under review from RMB238.2 million for the corresponding period last year. The overall gross margin decreased from approximately 19.7% for the six months ended 30 June 2016 to approximately 16.9% for the six months ended 30 June 2017, which was primarily due to (i) the decrease in sales volume of sodium chlorate, hydrogen peroxide, and foaming agent due to the weak market condition; and (ii) the increase of unit cost which stems from the increased price of raw materials and purchased products and the decrease in quantity outputs.

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

	For the six months ended 30 June		
Gross margin (%)	**2017**	2016	Change
Bleaching and disinfectant chemicals	**16.9%**	19.0%	(11.1%)
Other chemical products	**16.8%**	20.6%	(18.4%)
Overall	**16.9%**	19.7%	(14.2%)

Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals decreased to 16.9% for the six months ended 30 June 2017 as compared to 19.0% for the corresponding period in 2016, which was primarily attributable to the increase of unit cost which stems from the increased price of raw materials and purchased products and the decreased quantity outputs.

Other chemical products

The gross margin of other chemical products decreased from 20.6% for the six months ended 30 June 2016 to 16.8% for the six months ended 30 June 2017, which was primarily attributable to the increase of unit cost which stems from the increased price of raw materials and purchased products and the decreased quantity outputs.

Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation and related charges for the transport of our products and other selling and marketing expenses including travelling expenses. The selling and marketing expenses of the Group decreased by approximately 10.5% to RMB33.3 million for the six months ended 30 June 2017 from RMB37.2 million for the six months ended 30 June 2016, which was in line with the decrease in sales volume.

Administrative expenses

Administrative expenses primarily consist of depreciation of property, plant and equipment, employee benefit expenses and office and entertainment expenses. The administrative expenses of the Group decreased by approximately 5.3% to RMB42.8 million for the six months ended 30 June 2017 from RMB45.2 million for the six months ended 30 June 2016, which was primarily attributable to the effectiveness of various cost control measures/programmes.

Other (losses)/gains, net

Other (losses)/gains, net, mainly consists of the gain from the disposal of financial assets at fair value through profit or loss, and the loss on disposal of property, plant and equipment. The other losses, net, of the Group decreased to approximately RMB0.1 million for the six months ended 30 June 2017 from the other gains, net of RMB1.4 million for the six months ended 30 June 2016, which was primarily attributable to the increase in foreign exchange losses on operating activities and loss on disposal of property, plant and equipment.

Finance income

Finance income represents interest earned on our bank deposits. The finance income of the Group decreased by approximately 55.6% to RMB2.8 million for the six months ended 30 June 2017 from RMB6.3 million for the six months ended 30 June 2016, which was primarily attributable to decrease in the amount of deposits.

Finance expenses

Finance expenses primarily consist of interest expenses on bank borrowings, interests on discounted bill receivables, letters of credit and other finance charges, less interest capitalised in property, plant and equipment and net foreign exchange gains on financing activities. The finance expenses of the Group decreased by approximately 25.5% to RMB35.9 million for the six months ended 30 June 2017 from RMB48.2 million for the six months ended 30 June 2016, which was primarily attributable to the increase in foreign exchange gains on financing activities (as compared to the net foreign exchange losses on financing activities in 2016) and also the increase in interests on borrowings during the period.

Income tax expense

The Group is subject to PRC enterprise income tax rate of 25% for all our PRC subsidiaries. The income tax expense of the Group decreased by approximately 46.5% to RMB18.5 million for the six months ended 30 June 2017 from RMB34.6 million for the six months ended 30 June 2016. The effective tax rate increased to approximately 33.6% for the six months ended 30 June 2017 from 30.4% for the six months ended 30 June 2016 as a result of adjustments for income and expenses items which were not assessable or deductible for income tax purpose and also the increase in tax losses not being recognised as deferred income tax assets.

Profit for the period

As a result of the foregoing factors, the profit attributable to the equity holders of the Company decreased by approximately 53.7% to RMB36.7 million for the six months ended 30 June 2017 from RMB79.3 million for the six months ended 30 June 2016.

LIQUIDITY AND CAPITAL RESOURCES

Financial position and bank borrowings

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

The balance of the Group's cash and cash equivalents amounted to approximately RMB582.5 million as at 30 June 2017 (31 December 2016: RMB540.2 million), most of which were denominated in Renminbi. As at 30 June 2017, the interest bearing bank borrowings, and financial liabilities at fair value through profit or loss of the Group amounted to approximately RMB1,232.8 million (31 December 2016: RMB1,334.9 million).

As at 30 June 2017, the Group's current ratio (calculated as current assets divided by current liabilities) was approximately 1.16 (31 December 2016: 1.11). The Group was in a gearing ratio (calculated as net debt divided by total capital) of 19.34% (31 December 2016: 23.14%) as at 30 June 2016. The Group has sufficient and readily available finance resource for both general working capital purpose and foreseeable capital expenditure.

Working capital

Inventories were approximately RMB200.5 million in total as at 30 June 2017, as compared with approximately RMB229.5 million as at 30 June 2016. The decrease was primarily due to effective control over inventories during the period. Average inventory turnover days were 45 days for the six months ended 30 June 2017 (six months ended 30 June 2016: 43 days).

As at 30 June 2017, trade and bill receivables amounted to approximately RMB373.6 million in total, as compared with approximately RMB434.3 million as at 30 June 2016. The decrease is primarily due to our effective control over trade receivables during the period. The average trade receivables turnover days were 61 days for the six months ended 30 June 2017 (six months ended 30 June 2016: 63 days).

As at 30 June 2017, trade and bill payables amounted to approximately RMB333.0 million in total, as compared with approximately RMB419.3 million as at 30 June 2016. The decrease was primarily due to the decrease of purchased goods during the period. The average trade and bills payables turnover days were 68 days for the six months ended 30 June 2017 (six months ended 30 June 2016: 70 days).

Capital commitments

As at 30 June 2017, the capital commitments of the Group were approximately RMB19,499,000 (31 December 2016: RMB15,024,000), which were mainly related to the construction of additional production lines and the purchases of equipment for the upgrade of existing production facilities.

Contingent liabilities

As at 30 June 2017, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

Employees and remuneration policy

As at 30 June 2017, the Group employed a total of 1,943 full time employees. For the six months ended 30 June 2017, the employee benefit expenses was approximately RMB46.5 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The Executive Directors, who are also employees of the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

OTHER INFORMATION

Corporate Governance

The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code of corporate governance.

Model Code for Securities Transactions by Directors

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code during the six months ended 30 June 2017.

Audit Committee's Review of Financial Information

The audit committee has reviewed the analysis on the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2017 and this interim results announcement, the accounting principles and practices adopted by the Group, and the Group's internal control functions.

Purchase, Sale and Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

Publication of Interim Results and Interim Report

The interim results and the interim report for the six months ended 30 June 2017 containing all relevant information as prescribed by the Listing Rules shall be published on the Stock Exchange's website (www.hkexnews.com.hk) and the Company's website (www.cfc2121.com) in due course.

By order of the Board of
China First Chemical Holdings Limited
Liem Djiang Hwa
Chairman

31 August 2017

As at the date of this announcement, the Board comprises the Chairman and the non-executive director namely Mr. Liem Djiang Hwa, the executive directors namely Mr. Chen Hong, Ms. Miao Fei and Mr. Lam Wai Wah and the independent non-executive directors namely Dr. Wang Xin, Dr. Lin Zhang and Dr. He Peipei.