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

2017
ANNUAL REPORT

Contents

CHAIRMAN'S STATEMENT

On behalf of the board of directors of China First Chemical Holdings Limited (the "Company"), I am pleased to announce the annual results of the Company and its subsidiaries for the year ended 31 December 2017.

In 2017, the revenue of our eco-friendly bleaching and disinfectant chemicals such as sodium chlorate and hydrogen peroxide and other chemicals amounted to approximately RMB2,228.8 million, representing a decrease of about 0.9% from the revenue of approximate RMB2,249.2 million for the corresponding period last year. Benefitted from the effective cost control measures, the profit attributable to the equity holders of the Company increased by about 4.8% to approximately RMB128.6 million for year 2017 from approximate RMB122.7 million for the corresponding period last year. In consideration of our development opportunity in 2018, the Board has proposed not to distribute the final dividend for the year ended 31 December 2017.

MARKET REVIEW

The successful commencement of the 19th National Congress of the Communist Party of China ("19th National Congress") in 2017 has marked the beginning of a new era since the establishment of Socialism in China, pointing out development directions for various industries in the coming five years. With the speeding development of water environment treatment in our country, it was difficult to eradicate pollution from the sources by means of point source treatment in the past. This also means that the more complicated the water environment treatment projects have become, the stricter requirements will be imposed on the provision and operation of comprehensive corporate solutions. Balancing the development along the industry chain and improving the ability of enterprises on healthy development, it has also laid the foundation for topics related to development in line with the new era for environment protection, making integrated treatment the mainstream mode applied for water treatment.

Looking back on the year, the average selling price of eco-friendly bleaching and disinfectant chemicals such as sodium chlorate and hydrogen peroxide, the leading products of the Company, rose slightly owing to the improvement of market condition. With the core water treatment technologies and resources advantages in bleaching and disinfectant chemicals such as sodium chlorate and hydrogen peroxide, the Company provides integrated water treatment solutions to different customers, which include water supply and drainage at municipal level, water treatment for industries, as well as waste water treatment from medical sectors and rural areas.

BUSINESS REVIEW

In 2017, the sales revenue of eco-friendly bleaching and disinfectant chemicals amounted to RMB1,334.2 million, representing a decrease of approximate 1.2% as compared with sales revenue of RMB1,350.3 million in 2016. The percentage of revenue attributable to eco-friendly bleaching and disinfectant chemicals decreased from 60.0% in 2016 to 59.9% in 2017. Sales revenue of other chemicals was RMB894.6 million in 2017, representing a decrease of approximate 0.5% as compared with sales revenue of RMB898.8 million in 2016. The percentage of revenue attributable to other chemicals increased from 40.0% in 2016 to 40.1% in 2017.

In 2017, the Company established strategic partnerships with scientific research institutes such as Fujian Haixi Research Institute of the Chinese Academy of Sciences (中國科學院福建海西研究院), Beijing University of Chemical Technology, Fuzhou University and Fujian Normal University, taking the road of Industry-Academia-Research development and involving in a wide range of businesses in areas such as waste water treatment, solid waste treatment and eco-friendly pharmaceuticals with an aim to turn the Company into a service provider of integrated water treatment.

CHAIRMAN'S STATEMENT

In 2017, the Company will gather innovative resources and those in the industry by taking advantage of market mechanism, coordinate in the infrastructure improvement regarding hydrogen production, storage and transportation as well as hydrogenation, and commence in-depth cooperation in the application, safety and protection as well as technology standards with respect to hydrogen energy. Leveraging the Company's experience in safe production of hydrogen for over 30 years, we actively grip the momentum for hydrogen energy development by fully utilising our self-developed key technologies such as hydrogen purification to broaden the application of hydrogen energy and drive a two-way development.

FINANCIAL REVIEW

Through sustainable operation and development, the interest-bearing debt to equity ratio of the Company was decreased from approximately 60% shown on the Company's latest published consolidated financial statements as at 31 December 2016 to approximately 51% as at 31 December 2017.

Revenue of the Company for the year under review was approximately RMB2,228.8 million, representing a decrease of approximately RMB20.4 million or 0.9% as compared to the revenue of approximate RMB2,249.2 million for the corresponding period in last year. The decrease was mainly attributable to the decrease in sales volume of our leading products affected by the market condition during the year.

The gross profit for the year was approximately RMB381.9 million, representing a decrease of approximately RMB63.6 million or 14.3% from RMB445.5 million for the corresponding period last year. The gross profit margin in general decreased from 19.8% for 2016 to 17.1% for 2017, which was primarily attributable to: (i) the decrease in sales volume of sodium chlorate, hydrogen peroxide, and foaming agent due to the 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.

OUTLOOK

Looking into Year 2018, although the world will be full of uncertainties given the macroeconomy, the Company is fully confident of the steady and healthy development to be observed in medium to long term on the economy in China . In particular, the magnificent development blueprint of "One Belt and One Road" (一帶一路), an initiative of the Chinese government, will definitely bring endless business opportunities to the Company.

In 2018, the Company will celebrate its 60th anniversary since its foundation. With an inherent belief on craftsmen's culture of tenaciously lifting a spirit for being the leader in the industry, the Company sticks to its road of being a solid enterprise on which we have been walking for 60 years, welcoming its second 60-year entrepreneurial journey.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

Revenue for the year under review was approximately RMB2,228.8 million, representing a decrease of approximately RMB20.4 million or 0.9% as compared to the revenue of approximately RMB2,249.2 million for the corresponding period in last year. The decrease was mainly attributable to the decrease in the sales of bleaching and disinfectant chemicals during the year.

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

	For the year ended 31 December			
	2017		2016	
	Revenue amount	% of Revenue	Revenue amount	% of Revenue
Revenue (RMB'000)				
Bleaching and disinfectant chemicals	**1,334,244**	**59.9%**	1,350,337	60.0%
Other chemical products	**894,559**	**40.1%**	898,826	40.0%
Total	**2,228,803**	**100.0%**	2,249,163	100.0%

	2017	2016
Sales (tons)		
Bleaching and disinfectant chemicals	**589,835**	637,430
Other chemical products	**122,380**	132,731
Total	**712,215**	770,161

	2017 Amount	2016 Amount
Average selling price (RMB/per ton)		
Bleaching and disinfectant chemicals	**2,262**	2,118
Other chemical products	**7,310**	6,772

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 %
2017:				2016:			
Bleaching and disinfectant chemicals	**545,900**	**418,957**	**77%**	Bleaching and disinfectant chemicals	545,900	417,293	76%
Other chemical products	**259,758**	**175,308**	**67%**	Other chemical products	256,092	176,364	69%
Total	**805,658**	**594,265**	**74%**	Total	801,992	593,657	74%

Bleaching and disinfectant chemicals

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

As at 31 December 2017 and 31 December 2016, 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 RMB1,334.2 million, representing a decrease of approximately 1.2% or RMB16.1 million from that in 2016. The decrease in revenue was mainly attributable to the decrease in sales volume of sodium chlorate and hydrogen peroxide due to the market condition during the year.

In 2017, the utilisation rate of the Group's bleaching and disinfectant products segment (i.e. actual output to pro-rated designed production capacity) reached 77% (2016: 76%), 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 2017 and 31 December 2016, the pro-rated designed production capacity of other chemical products was 259,758 tons and 256,092 tons, respectively. In 2017, the annual pro-rated designed production capacity of other chemical products increased by approximately 3,666 tons, which was mainly attributable to completion of the upgrade in production facilities for hydrochloric acid during the year.

During the year under review, the total revenue from the sales of other chemical products was approximately RMB894.6 million, representing a decrease of approximately 0.5% or RMB4.2 million from that in 2016. The decrease was mainly attributed to decrease in sales volume of foaming agent products as a result of market condition.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, the utilisation rate of the Group's other chemical products segment (i.e. actual output to pro-rated designed production capacity) reached 67% (2016: 69%), which was mainly due to new production facility for hydrochloric acid was completed during the 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 year ended 31 December 2017, 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 60.4% (2016: 61.5%) of our total cost of sales.

During the year under review, our cost of sales increased by approximately RMB43.2 million or 2.4% to RMB1,846.9 million from approximately RMB1,803.7 million for the corresponding period in last year, 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. The percentage for cost of sales to revenue for the year under review was 82.9% (2016: 80.2%) and the increase is due to the decreased production of sodium chlorate and foaming agent products which lead the unit cost of production relatively higher.

GROSS PROFIT AND GROSS MARGIN

Our gross profit decreased by approximately RMB63.6 million or 14.3% to approximately RMB381.9 million for the year under review from approximately RMB445.5 million for the corresponding period in last year. The overall gross margin decreased from 19.8% in 2016 to 17.1% in 2017, which was primarily due to: (i) the decrease in sales volume of sodium chlorate, hydrogen peroxide, and foaming agent due to the 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 group for the year under review:

	For the year ended 31 December		
Gross margin (%)	**2017**	2016	Change
Bleaching and disinfectant chemicals	**18.2%**	19.1%	(4.7%)
Other chemical products	**15.5%**	20.9%	(25.8%)
Overall	**17.1%**	19.8%	(13.6%)

Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals decreased from 19.1% for the year ended 31 December 2016 to 18.2% for the year ended 31 December 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.

Other chemical products

The gross margin of other chemical products decreased from 20.9% for the year ended 31 December 2016 to 15.5% for the year ended 31 December 2017, which was also 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.

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 decreased by approximately 13.1% to approximately RMB61.5 million for the year ended 31 December 2017 from approximately RMB70.8 million for the year ended 31 December 2016, which was primarily attributable to effective cost control.

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 0.9% to approximately RMB92.1 million for the year ended 31 December 2017 from approximately RMB92.9 million for the year ended 31 December 2016, which was primarily attributable to effective cost control.

OTHER INCOME

Other income primarily consists of government grant income and profit from sales of raw materials. The other income of the Group decreased by approximately 5.1% to approximately RMB5.6 million for the year ended 31 December 2017 from approximately RMB5.9 million for the year ended 31 December 2016, which was primarily attributable to the decrease 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, losses on disposal of property, plant and equipment, settlement or fair value gains on financial assets at fair value through profit or loss, provision for a legal claim and foreign exchange losses/gains. The other losses, net of the Group increased by approximately 118.0% to approximately RMB8.5 million for the year ended 31 December 2017 from approximately RMB3.9 million for the year ended 31 December 2016, was primarily attributable to the provision for a legal claim of approximately RMB6.5 million as recognised during the year and also the net foreign exchange losses for the year of approximately RMB1.2 million (2016: a net foreign exchange gain of approximately RMB1.1 million), which was partially offset by the decreases in losses on disposals of property, plant and equipment and decreases in fair value losses on financial liabilities at fair value through profit or loss by approximately RMB2.4 million and RMB2.0 million respectively.

FINANCE INCOME

Finance income primarily represents interest income from bank deposits and notional interest income from the initial recognition on non-interest bearing borrowings. The finance income of the Group increased by approximately 24.3% to approximately RMB12.8 million for the year ended 31 December 2017 from approximately RMB10.3 million for the year ended 31 December 2016, which was primarily attributable to the notional interest income from the initial recognition of non-interest bearing borrowings during the year of approximately RMB7.8 million, which was partially offset by the decrease in interest income from bank deposits by approximately RMB5.4 million.

FINANCE COSTS

Finance costs primarily consist of interest expenses on bank borrowings, discount interest for bill receivables, bill payables, other finance charges and foreign exchange gains on financing activities, less interest capitalised in property, plant and equipment. The finance costs of the Group decreased by approximately 42.7% to approximately RMB63.4 million for the year ended 31 December 2017 from approximately RMB110.7 million for the year ended 31 December 2016, which was primarily attributed to the increase in the net foreign exchange gains on the retranslation of USD-denominated borrowings or notes instrument as a result of depreciation of USD against RMB during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

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 18.9% to approximately RMB45.0 million for the year ended 31 December 2017 from approximately RMB55.5 million for the year ended 31 December 2016. The effective tax rate decreased to approximately 25.9% for the year ended 31 December 2017 from approximately 31.1% for the year ended 31 December 2016 is primarily attributable to relatively much higher amounts of expenses were not deductible for income tax purpose in the prior year and also relatively much higher amounts of deferred income tax assets associated with tax losses not being recognised in the prior year.

PROFIT FOR THE YEAR

As a result of the foregoing factors, the profit attributable to the equity holders of the Company increased by approximately 4.8% to approximately RMB128.6 million for the year nded 31 December 2017 from approximately RMB122.7 million for the year ended 31 December 2016.

LIQUIDITY AND CAPITAL RESOURCES

Financial position and bank borrowings

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

The balance of the Group's cash and cash equivalents amounted to approximately RMB705.7 million (2016: RMB540.2 million), most of which were denominated in Renminbi. As at 31 December 2017, the Group's borrowings and financial liabilities at fair value through profit or loss amounted to approximately RMB1,266.8 million (2016: RMB1,334.9 million).

The Group's current ratio (calculated as current assets divided by current liabilities) was approximately 1.19 (2016: 1.11). The gearing ratio (calculated as net debt divide by total equity) of the Group was 21.0% as at 31 December 2017 (2016: 23.1%). 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 2017 were approximately RMB181.6 million (2016: RMB208.7 million). The decrease was primarily due to better inventory control during the year. Average inventory turnover days was 38 days for the year 2017 (2016: 44 days).

As at 31 December 2017, trade receivables amounted to approximately RMB392.5 million (2016: RMB289.1 million). The increase is primarily due to increase in year end sales during the year. The average trade receivables turnover days was 55 days for the year 2017 (2016: 56 days).

As at 31 December 2017, trade and bills payables amounted to approximately RMB348.3 million (2016: RMB284.5 million). The increase was mainly due to the increases in purchases of goods during the year. The average trade and bills payables turnover days was 62 days for the year 2017 (2016: 63 days).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitments

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Property, plant and equipment	**65,832**	15,024

Contingent liabilities

As at 31 December 2017, the Group had not provided any form of guarantee for any company outside the Group and does not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group employed a total of 1,348 full time employees. For the year ended 31 December 2017, the employee benefit expense was approximately RMB88.3 million. The Group's employee benefits included housing fund 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 f the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

PROSPECT

The successful commencement of the 19th National Congress of the Communist Party of China has marked the beginning of a new era since the establishment of Socialism in China, pointing out development directions for various industries in the coming five years. The convention has put its emphasis on environmental protection to a record high level. Policy-driven, the environmental protection industry will be able to acquire unprecedented development.

The market size of China's water treatment industry in 2017 is expected to reach RMB280 billion. The level of urban sewage treatment in China will be substantially increased in future, which will greatly stimulate the market demand for domestic sewage treatment. By the end of 2020, full coverage of urban sewage treatment facilities will be achieved, while the urban sewage treatment rate will reach 95% with the utilization rate of recycled water in cities and provinces further raised.

The Ministry of Environmental Protection issued the "13th Five-Year Development Plan for the National Standards of Environmental Protection" (《國家環境保護標準「十三五」發展規劃》) in April 2017 proposing the complete implementation of the requirements under the "Ten Water Directives" (《水十條》), under which key areas on prevention and treatment of water pollution such as industrial sources, domestic sources and agricultural sources are stressed with relevant surrounding emission standards made in priority, among which industrial wastewater is mainly related to ten key industries in terms of refining the control indicators and requirements on water pollutants from industrial sources. In addition, more standards on water pollutant discharge regarding emerging industries such as coal chemical industry and shale gas exploitation industry will be formulated, and the Integrated Wastewater Discharge Standard (污水綜合排放標準) will be amended.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Development Trend from Single Water Body Treatment to Whole River Basin Management

During the 19th National Congress, it is pointed out that ecological problems have undoubtedly become the major conflicts against the early phase of socialism. In other words, the major conflict in our society has been transformed into the conflict between people's increasing needs for better living and the uneven and unreasonable development. Moreover, the goal of full completion of China's ecologically civilized facilities by the middle of this century has also been put forward, while four major missions have been planned concurrently, including facilitation on green development, treatment on outstanding environmental problems, enhancement on ecosystem protection and regulatory system reforms on ecological environment.

With the speeding development of water environment treatment in our country, it is difficult to eradicate pollution from the sources by means of point source treatment. This also means that the more complicated the water environment treatment projects have become, the stricter requirements will be imposed on the provision and operation of comprehensive corporate solutions. Balancing the development along the industry chain, improving the ability of enterprises for healthy development, it has also laid the foundation for the development in line with the new era of environmental protection, making integrated treatment the mainstream mode applied for water treatment.

Being an Integrated Water Treatment Service Provider for Providing Integrated Solutions

The Group has established strategic partnerships with scientific research institutes such as Fujian Haixi Research Institute of the Chinese Academy of Sciences (中國科學院福建海西研究院), Beijing University of Chemical Technology, Fuzhou University and Fujian Normal University, taking the road of Industry-Academia-Research development. We have a wide range of businesses in areas such as wastewater treatment, solid waste treatment and environmental protection pharmaceuticals with an aim to turn the Group into a provider of integrated water treatment service.

With core water treatment technologies and resource advantages in bleaching and disinfectant chemicals such as sodium chlorate and hydrogen peroxide, the Group provides comprehensive integrated water treatment solutions for different customers, which cover municipal water supply and drainage, industrial water treatment, medical wastewater treatment and rural sewage treatment, especially providing unique solutions in the aspect of recycling highly-saline wastewater in specific areas.

Continuous Investment on Research and Development and Non-stop Enhancement of Water Treatment Technology Barriers

The Group has determined on technological innovation for a long time, with continuous investment on research and development and non-stop enhancement of water treatment technology barriers. Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd, the Group's wholly-owned subsidiary and hereinafter referred to as "Minjiang Snow", obtained four Utility Model Patent Certificates in 2017 in areas of new electrolytic cells, production of sodium chlorate from industrial salt, cooling and crystallization of high-content sodium chlorate at low temperature and sodium chlorate plants for recovery of chlorine.

Minjiang Snow's scientific research projects, the "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 the "Study and Application of Barium-free Technology in the Process of Producing Sodium Chlorate from Industrial Salt" (《工業鹽製備氯酸鈉工藝中的無鋇技術研究及應用》)", were awarded the third and the first prize of Scientific and Technological Progress by the People's Government of Ngawa Prefecture, Sichuan in 2017.

Broadened Application of Hydrogen Energy Promoting Two-way Development

With the rapid economy development, more energy is consumed. As a secondary energy, hydrogen plays a crucial role in areas such as production of HCNG (Hydrogen Enriched Compressed Natural Gas), fuel cells and methoxymethane, with enormous potential for market development. Therefore, the Group is highly advantaged in terms of production processes and consolidated cost upon the integrated use of hydrogen, the by-product of sodium chlorate.

In December 2016, Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Group, has entered into a "Strategic Cooperation Framework Agreement in relation to HCNG Hybrid Vehicles Project" (《HCNG(天然氣摻氫)混合燃料汽車項目戰略合作框架協議》) with six parties including State Key Laboratory of Automotive Safety and Energy of Tsinghua University (清華大學汽車安全與節能國家重點實驗室), pursuant to which all parties have agreed to establish strategic cooperation relationship in respect of the HCNG hybrid vehicles project in order to facilitate the development of HCNG-fuelled vehicles business, and to start collaborating in the overall cooperation, channel integration and resource sharing of HCNG vehicle projects.

The Group will gather innovative and industrial resources by taking advantage of market mechanism, coordinate in promoting infrastructure improvement regarding hydrogen production, storage and transportation as well as hydrogenation, so that we can commence in-depth cooperation in the application, safety and protection as well as technology standards with respect to hydrogen energy. Leveraging the Group's experience in safe production of hydrogen for over 30 years, we actively grip the momentum for hydrogen energy development by fully utilizing our self-developed key technology of hydrogen purification to broaden the application of hydrogen energy and promote two-way development.

DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF DIRECTORS

Chairman and Non-executive Director

Mr. Liem Djiang Hwa (**林強華**), aged 63, 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 more than 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 53, 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 44, 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 61, 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 40, 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 46, 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 35, has been an Independent Non-executive Director since 13 January 2017. Dr. He is a holder of doctorate degree in law, an assistant professor 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. Tan Boon Chek (**陳文職**), aged 40, is the chief financial officer of our Group since 29 September 2017. He is mainly responsible for overseeing our Group's corporate investments and investor relations of our Group. 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 50, 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 58, is the director and executive vice general manager of Fuzhou Yihua. Mr. Zhou has more than 28 years of experience in the chemical industry. Prior to joining our Group, Mr. Zhou worked at the Ministry of Light Industry (Changlu Bureau). He joined our Group in 1985 and served as director of production and technology department of Fuzhou Yihua from 1997 to 1999, where he led the research and development activities of Fuzhou Yihua. From 1999 to 2006, Mr. Zhou was the leader of various chemical production projects. From 2006 to 2009, he was vice manager of Fuzhou Yihua, where he supervised activities spanning from production and daily operations to quality assurance and property management. Since 2010, Mr. Zhou has been the vice general manager of Fuzhou Yihua. Mr. Zhou obtained a bachelor's degree in engineering from East China University of Science Technology (華東理工大學) in July 1982. In December 2004, Mr. Zhou was awarded the title of "Senior Engineer" (高級工程師) by the Fujian Province Personnel Affairs Bureau, a provincial government authority responsible for employment and personnel matters, recognizing his achievements and knowledge in the industry.

Mr. He Zhong (**何中**), aged 50, 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 54, 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wei Gang (**魏剛**), aged 61, 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 54, 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 2017, the Company has complied with all the code provisions as set out in the CG Code.

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 2017.

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

The biographical information of the directors are set out in the section headed "Biographies of Directors" on pages 12 to 15 of the annual report for the year ended 31 December 2017. 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 2017, 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.

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.

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

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

CORPORATE GOVERNANCE REPORT

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 130.

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 2017 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors and arrangements for employees to raise concerns about possible improprieties.

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

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

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

CORPORATE GOVERNANCE REPORT

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 2017 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	4/4	–	–	–	1/1
Chen Hong	4/4	–	–	2/2	1/1
Miao Fei	4/4	–	1/1	2/2	1/1
Lam Wai Wah	4/4	1/1	–	–	1/1
Wang Xin	4/4	–	–	2/2	1/1
Lin Zhang	4/4	1/1	1/1	2/2	1/1
He Peipei	4/4	1/1	1/1	2/2	1/1

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

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.

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 2017.

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 43 to 47.

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 2017 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 2017 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. Tan Boon Chek, Chief Financial Officer of the Company. During 2017, the Company Secretary undertook over 20 hours of professional training to update her skills and knowledge.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

Putting Forward Enquiries to the Board

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

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

Contact Details

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an ongoing dialogue with shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, all Non-executive Directors, Independent Non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

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

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.

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.

CORPORATE GOVERNANCE REPORT

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.

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 2017, 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 2017, 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 ESG report is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with an aim to inform relevant parties and stakeholders of the Company's policies, measures and performance regarding ESG issues other than financial results and business operations.

This report covers information on the Company's ESG management approach and strategy for the period from 1 January 2017 to 31 December 2017 (the "Reporting Period") and highlight the Company's Key Performance Indicators in environmental scope (emissions, use of resources and environment and natural resources) and social scope (employment, health and safety, development and training, labour standard, supply chain management, product responsibility, anti-corruption and community investment).

The Company has required its management and staff of each department to review the operation of the Company according to their functions, identify relevant ESG issues and assess the materiality/correlation of such issues upon its business. Data disclosed in this report is mainly related to the headquarters of the Company as well as its subsidiaries, namely Fuzhou Yihua Chemical Stock Co., Ltd. and Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd.

A. ENVIRONMENT

A1. Emissions

During the Reporting Period, the emissions of the Company mainly included small amounts of chlorine leakage due to production activities, waste gas and greenhouse gases emission produced directly and indirectly due to consumption of coal, electricity, lead-free gasoline and diesel and other kinds of waste such as mineral oils resulted from equipment maintenance. The Company is committed to complying with requirements stipulated in national environmental laws and regulations, including but not limited to the Environment Protection Law of the People's Republic of China , the Law of the People's Republic of China on Prevention and Control of Water Pollution, the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Waste.

The Company implemented clean production with bleaching powders produced by adopting a closed circuit for waste water (廢水閉路循環) and with a chlorination — dedusting recycling system (氯化 — 除塵循環處理系統) consisted of water scrubber (水洗塔) and tail gas absorption tower (尾氣吸收塔) designed, enabling most of the chlorine element to be diverted into the production process by means of the circuit without external chlorine emission or otherwise with only trivial leakage.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2017, waste gas and greenhouse gas emission as well as hazardous and non-hazardous waste production and disposal conducted by the Company on the environmental level are as follows:

A1.1 Emissions

Types of Pollutants	Fuzhou Yihua Discharge (ton)	Fuzhou Yihua Emission density Discharge (ton)/ Production (ton)	Minjiang Snow Discharge (ton)	Minjiang Snow Emission density Discharge (ton)/ Production (ton)
Nitrogen oxide (NOx)	6,513.83	0.09	37.91	N/A
Sulphur oxide (SOx)	678.00	0.01	0.37	N/A
Particulate matter (PM)(1)	8.98	0.0001	3.32	N/A

Note (1): Particulate matter in the above table all come from vehicles owned by the Company. The production activities of the Company have also produced certain amount of dust which means particulate matter (PM). However, it can be basically guaranteed that after dust removal processes by means of various devices, no dust will be discharged outside. Besides, residual dust leaked out unsystematically cannot be calculated and thus no statistics is provided in the above table.

Compared to the emissions from the production base of Minjiang Snow which are only due to the fuel consumption of its self-owned vehicles, the emissions from the production base of Fuzhou Yihua are relatively much owing to its usage of coal boiler and its self-owned vehicles. Fuzhou Yihua has put in place stringent management over coal procurement, giving priority to coals with low sulfur concentration on condition that their heating values are guaranteed to be maintained at a certain level, in order to reduce pollutant emission.

Besides the above emissions, the monitored contents of daily waste water (cooling water) and exhaust gas emission of the Company are shown in the below table:

Fuzhou Yihua	2017 Emission standard(1) Unit: mg/L	2017 Actual emission density or its average Unit: mg/L	2016 Emission standard(1) Unit: mg/L	2016 Actual emission density or its average Unit: mg/L
Waste water				
Chemical oxygen demand	100	40	100	48
Ammonia	15	0.195	15	0.19
Suspended solids	70	23.50	70	23.50
PH	6–9	7.6	6–9	7.30
Hexavalent chromium (六價鉻)	0.50	–	0.50	0.00425

Note (1): Emission standards are determined according to national standards provided under relevant PRC environmental laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Minjiang Snow	2017 Emission standard(1) Unit: mg/L	2017 Actual emission density or its average Unit: mg/L	2016 Emission standard(1) Unit: mg/L	2016 Actual emission density or its average Unit: mg/L
Waste water				
Chemical oxygen demand	100	≤34	100	≤30
Ammonia	15	≤5	15	≤5
Suspended solids	70	≤22	70	≤25
PH	6–9	8.4–8.7	6–9	8.3–8.9
Hexavalent chromium (六價鉻)	0.50	≤0.05	0.50	≤0.05

Note (1): Emission standards are determined according to national standards provided under relevant PRC environmental laws and regulations.

According to the findings under the daily monitoring of local environmental authorities and the regular monitoring of the Company, no violation of emission standards is found for the production bases of the two subsidiaries.

A1.2 Emission of greenhouse gases

Scope of greenhouse gases emissions	Emission sources	Fuzhou Yihua Discharge (ton)	Fuzhou Yihua Emission density Discharge (ton)/ Production (ton)	Minjiang Snow Discharge (ton)	Minjiang Snow Emission density Discharge (ton)/ Production (ton)
Scope 1					
Direct emissions	• Coal (Fuzhou Yihua) • Lead-free gasoline and diesel consumed by self-owned vehicles	9,383.06	131.23	67.11	0.0006
Scope 2					
Indirect emissions	• Power consumption	93,135.36	1,302.59	384,444.41	3.4
Scope 3					
Other Indirect emissions	• Business air travel	5.59	0.08	14.61	0.0001
Total		102,524.00	1,433.90	384,526.13	3.4

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Direct carbon discharge from the Company is relatively low, among which carbon emissions from the production base of Fuzhou Yihua are relatively more due to the usage of coal boiler. The Company encourages employers to have green business trip by means of centralizing the vehicle dispatch management through the administrative department. Upon application approval, the department will reasonably arrange the time slots and routes for vehicles.

Carbon emissions from the Company for the year are indirect emissions derived from the purchased electricity. During the production conducted by the Company, large amount of power needs to be consumed and thus a relatively high amount of indirect discharge of carbon is resulted. Most of the production bases of the Company are located in regions rich in water power, which is a kind of clean energies, allowing the overall carbon emissions generated from power consumption within the Company to stay at a relatively low level. Moreover, Fuzhou Yihua has established a self-owned water power plant which fully utilizes natural resources and reduces indirect carbon emissions.

Other indirect emissions from the Company are mainly carbon discharge arising from its employers' business air travel. The Company has adopted an e-office system to minimize the number of unnecessary business trips.

A1.3 Hazardous waste

	Fuzhou Yihua		Minjiang Snow	
Hazardous waste	Output (kg)	Density Output (kg)/ Production (ton)	Output (kg)	Density Output (kg)/ Production (ton)
Waste mineral oil	1,700.00	0.02	418.5	0.004

For hazardous waste, the Company has established a dedicated venue for its collection and storage and has entrusted a qualified third party to process the waste.

A1.4 Non-hazardous waste

The Company attaches great importance to environment protection and energy conservation, so it continues to promote environmental reformation of the production systems, to timely complete its classification, registration and management over non-recyclable solid wastes, recyclable solid wastes, hazardous wastes and so forth, and to dispose any wastes resulted according in stipulated manners. Recyclable solid wastes such as coal ash and coal slag derived from coal burning during the production conducted by Fuzhou Yihua are sold to cement plants and fertilizer factories as briquette after collection and treatment, to fully achieve the concept of recycling.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2. Use of Resources

The Company always attaches importance to energy conservation, complying with the regulations contained in the "Law of the People's Republic of China on Energy Conservation", and encourages the reusing and recycling of resources in the course of business operations to protect the environment and increase operational efficiency.

The Company's use of resources (energy, water, packaging materials, etc.) in 2017 is as follows:

A2.1 Total Energy Consumption and Density

Type of Energy Consumption	Fuzhou Yihua Consumption	Fuzhou Yihua Density Consumption/ Production	Minjiang Snow Consumption	Minjiang Snow Density Consumption/ Production
Electricity (MWH)	213,069.76	2.98	625,112.87	5.50
Including: electricity purchased	137,276.68	1.92	625,112.87	5.50
electricity self-generated	75,793.09	1.06	–	–
Coal (ton)	3,984.50	0.06	–	–
Gasoline (litre)	42,962.00	0.60	20,196.45	0.18
Diesel (litre)	–	–	4,479.02	0.04

In order to improve the efficiency in using electrical energy for power saving, the Company has been promoting the improvement of production processes, and has been strictly monitoring its product ratios, pressures and temperatures to ensure that electrical energy is used with maximum efficiency under safe production.

A2.2 Total Water Consumption and Density

	Fuzhou Yihua
Total Water Consumption (ton)	3,021,131.00
Density (Water Consumption (ton)/Production (ton))	42.25

Notes: As the water used in the production base of Minjiang Snow comes from natural rivers, no water meters is used for its calculation. Therefore, no water consumption data is included in the above table.

The Company uses a large amount of cooling water for producing cooling products. Although the cooling water is directly discharged outside, the Company monitors the water quality at both the inlet and the outlet for cooling water in real time and regularly takes samples for examination. Water components found on the both sides basically coincide, which means that external discharge of cooling water will not have any impact against the environment. Industrial waste liquid generated during the production process will be recycled and no waste liquid will be discharged. Domestic waste water will be treated by the Company's self-constructed sewage treatment plant. The Company encourages its staff to save water and reduce unnecessary waste.

A2.3 Packaging Material Consumption

Type	Fuzhou Yihua Consumption (ton)	Fuzhou Yihua Density (Consumption (ton)/Production (ton))	Minjiang Snow Consumption (ton)	Minjiang Snow Density (Consumption (ton)/Production (ton))
Plastic	261.54	0.0037	236.71	0.0021
Metal	8.42	0.0001	–	–

Products of the Company is packaged based on the principles of simplicity, high efficiency and convenience on customers' side with simple ton bags (噸袋), iron pipes and so forth. In addition, Minjiang Snow has standardized tonne bag packaging of suppliers, so that packaging bags used by suppliers for delivery can be reused.

A3. Environment and Natural Resources

The production technology and equipment of the Company are advanced and highly automated. Its production base has acquired QES standard system certification, including those related to environmental management system, quality management system as well as occupational health and safety management system. Besides, the Company continuously improve its quality with its operational teams ensuring product quality and maintaining clean and safe production under highly efficient and stringent management.

The Company's projects built and developed within the production base of Minjiang Snow, including a hydrogen recycling system used in the electrolysis process , a centralised recycling system for disorganized chlorine (無組織氯氣) and renovation projects for prevention against corrosion as well as water seepage , assist the Company to implement its policies regarding recycling economy and green chemicals. They have also become the largest projects regarding recycling economy in Aba Prefecture in Sichuan Province. In 2017, Minjiang Snow in total recycled 44,867,300 cubic metres of hydrogen, all of which was used for sale, thereby reducing direct outward emissions.

Currently, neither the Company has any behaviour nor there any factors that would have significant influence on the Nature and natural resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIETY

Employment and Labour Practices

B1. Employment

The Company believes that employees are the most important assets of an enterprise. Therefore, during the reporting period, the Company strictly abides by the relevant laws and regulations such as the "Labor Law" and the "Labor Contract Law" (勞動合同法) to effectively protect the legitimate rights and interests of its staff.

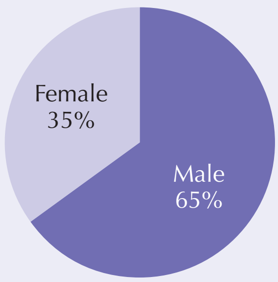
Information regarding employees of the Company and their turnover in 2017 is as follows:

B1.1 Total number of employees

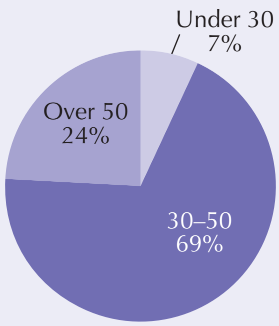
On 31 December 2017, there were 278 employees in Fuzhou Yihua and 235 employees in Minjiang Snow. All of them come from mainland China.

Among the 278 employees of Fuzhou Yihua, 8 were senior management, 25 were middle management and 245 were grass-roots employees. Their gender and age combinations are shown in the following graphs:

Gender Combination of the Employees

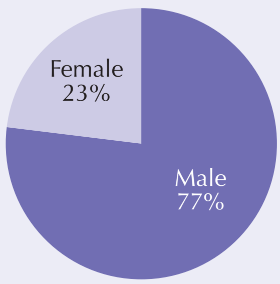


Age Combination of the Employees

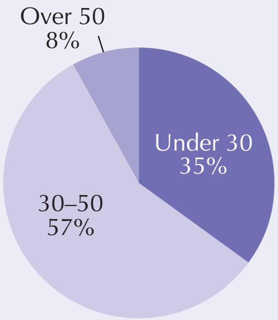


Among the 235 employees of Minjiang Snow, 7 were senior management, 8 were middle management and 220 were grass-roots employees. Their gender and age combinations are shown in the following graphs:

Gender Combination of the Employees



Age Combination of the Employees

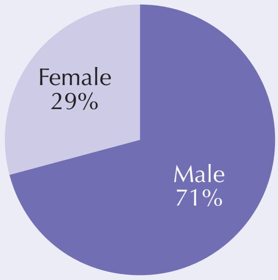


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

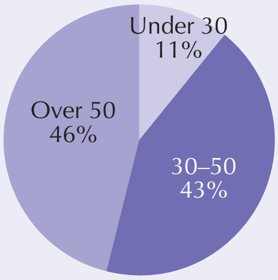
B1.2 Employee turnover rate

For Fuzhou Yihua, a total of 28 employees resigned in 2017, with a turnover rate of 10.07%. The combinations of resigned employees by gender and age are shown in the following graphs:

Employee Turnover by Gender

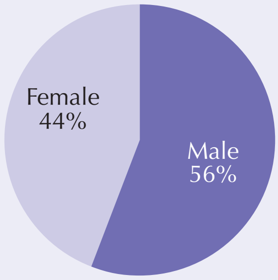


Employee Turnover by Age Group

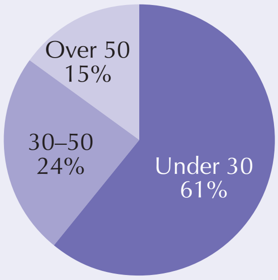


For Minjiang Snow, a total of 41 employees resigned in 2017, with a turnover rate of 17%. The combinations of resigned employees by gender and age are shown in the following graphs:

Employee Turnover by Gender



Employee Turnover by Age Group



The Company provides its employees with a comprehensive social security system and welfare system and also a fair opportunity for promotion, so that their sense of belonging can be enhanced.

There was no material non-compliance related to labour practices during the reporting period.

B2. Health and Safety

The Company attaches great importance to an idea of protecting employees' rights and interests, the safety of their work environment and their physical health, apart from vocational training and safety training, striving to protect its staff from industrial accidents or occupational hazards. The Company also promises to strictly observe relevant regulations on occupational health and safety , such as the "Law of the People's Republic of China on Production Safety" (中華人民共和國安全生產法), to provide its staff with safe and healthy work environment.

During the year, the Company continued to maintain the operation of the occupational health and safety system, effectively implement the three-level safety education system, and provide systematic safety trainings as well as establish individual training files for each employee. In addition, the Company organizes annual occupational and medical check-up for its staff to inspect if any occupational hazards exist.

During the reporting period, no work-related injuries or fatalities among employees occurred within the Company, nor there any material non-compliance related to the health and safety laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B3. Development and Training

The Company values its staff as valuable assets. For the purpose of updating operational staff with the professional knowledge, the industry development as well as the skills and techniques that they need to possess for their functions and enhancing the quality of final products and working efficiency, the Company provides relevant training to staff in different functions, the content of which is designed based on the Company's rules and system as well as the duties and operational skills of its staff, with special emphasis on its staff's education and training regarding safe production.

The training programs provided by the Company to its employees in 2017 covered various aspects including safe production, quality management, financial management and operational management, focusing on the safety and production skills training for factory staff and the creation of hard copy training records for each employee.

B4. Labor Standards

The Company has established the mechanism and recruitment requirements for avoiding illegal employment. All recruitment and employment strictly follow the Labor Law and Labor Contract Law of the People's Republic of China.

During the recruitment period, the Company is responsible for providing authentic information, including job responsibilities, working environment, working locations, occupational health and safety, production safety and labor compensation. The human resources department of the Company will verify the authenticity of the information (CV, ID cards and certificates) provided by candidates. Meanwhile, employees should bear full responsibility for the authenticity of the information provided and signed by them. Through the above procedures, the Company could avoid situations related to matters such as child labor and forced labor.

The Company has reasonably arranged the working hours for its employees based on the statutory working hour standards and provides them with leave benefits such as paid leave and sick leave in accordance with labor laws.

During the reporting period, the Company does not have any material non-compliance related to the labor standards as set out in relevant laws and regulations.

Operational Practices

B5. Supply Chain Management

The Company selects suppliers by means of long-term assessment, on-site inspection and review of qualification documents and based on the principle of balancing quality, cost, delivery and service and has established a list of qualified suppliers. Regarding suppliers of important materials, the Company has successfully established strategic partnership with qualified suppliers which have maintained long-term relationship with the Company to guarantee procurement quality . In addition, the Company reviews suppliers regularly based on their prices, quality and after-sales services every year to ensure sustainable acquirement of quality products and services.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the Company mainly had 86 qualified suppliers, of which, 56 qualified suppliers for Fuzhou Yihua and 30 for Minjiang Snow. Suppliers of the Company come from different provinces across China, but in light of factors such as the quality, transportation distance and prices of the major raw material which is salt and packaging materials, the Company generally adopts the principle of proximity when selecting qualified suppliers.

B6. Product Liability

The Company places great importance on product safety and reliability by strictly observing relevant national, international and industry standards, regulating production quality inspection and disposal procedures and maintaining the product quality management system within the Company to ensure the compliance with applicable national laws, regulations and technical standards during the production of bleaching and disinfecting chemicals and ADC foaming agents as well as when relevant service is being provided, while satisfying the needs and expectation of customers.

During the reporting period, no products of the Company were recalled after being sold or shipped because of safety and health reasons, nor there any complaints regarding product quality or other issues received. However, the Company has established the product complaint and handling system by setting up complaint hotlines designated for product sales service and product quality and establishing registered complaint records for product sales service and products in order to strengthen the after-sales quality management of products and understand customers' evaluation on the products, so that product quality can be improved continuously .

The Company is highly concerned about the production process upgrade and the development of new products, and thus actively maintains and protects its relevant intellectual property rights. One new patent regarding innovative production methods of sodium chlorate was obtained during the year.

B7. Anti-corruption

The Company rigorously complies with regulations regarding anti-corruption and anti-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 has enacted internal rules against corruption and fraudulent acts, and set up hotlines and emails, by which, misconducts or dishonest behavior such as suspected corruption, fraud or deception could be reported and then be investigated. If the said behaviour is found against national laws, the case will be handed over to and followed by judicial authorities in accordance with the laws.

During the reporting period, there was no concluded corruption lawsuit filed against the Group or its employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B8. Community Investment

Committed to the charity business in the community, the Company encourages its staff to join all kinds of internal and external charity activities in the community. During the reporting period, the major charity businesses of the Company are set out as follows:

1. Investing RMB53,000 in road improvement in Miancu Village, Nanxin Town, Mao County, Ngawa Tibetan and Qiang Autonomous Prefecture, Sichuan Province (四川省阿壩藏族羌族自治州茂縣南新鎮棉簇村); and

2. Investing RMB30,000 in irrigation system repair in Miancu Village, Nanxin Town, Mao County, Ngawa Tibetan and Qiang Autonomous Prefecture, Sichuan Province (四川省阿壩藏族羌族自治州茂縣南新鎮棉簇村).

In conclusion, the Company has started a series of activities in the aspects of environment protection and social caring, and we will put more efforts in this regard, with an aim to continuously fulfill our responsibility as a good corporate citizen in terms of environment protection and social aspects.

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 2017.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of comprehensive income on page 50.

NINE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest nine financial years is set out on pages 128 to 129 of this annual report.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

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, 20 June 2018 to Monday, 25 June 2018, 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, 19 June 2018 (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 51 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 RMB1,718.0 million (2016: RMB1,747.1 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 pages 4 to 11 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 Notes 20 and 22 respectively to the consolidated financial statements.

SHARE CAPITAL

Details of 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 2017.

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

In accordance with the Article 16.18 of the Company's Articles of Association, Ms. Miao Fei, Dr. Wang Xin and Dr. Lin Zhang shall retire at the annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the annual general meeting.

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.

REPORT OF THE DIRECTORS

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 their appointments would continue thereafter unless and until terminated 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 his appointment would continue thereafter unless and until terminated 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 year ended 31 December 2017.

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 2017, 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 2017, 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 2017, the directors and chief executive of the Company did not have any interests or short positions in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or were required, pursuant to section 352 of the SFO, to be entered in the register required to be maintained by the Company; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, 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	22.44%(3)(4)
China Renaissance Capital Investment II, L.P.	Interests in controlled corporation	180,050,112	22.44%(3)(5)
China Harvest Fund II, L.P.	Interests in controlled corporation	180,050,112	22.44%(3)(6)
Trophy Group Limited	Beneficial owner	180,050,112	22.44%
Central Huijin Investment Ltd.	Interests in controlled corporation	55,283,840	6.89%(7)
China Construction Bank Corporation	Interests in controlled corporation	55,283,840	6.89%(7)

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) The percentage is calculated based on the issued share capital of the Company as at 31 December 2017.

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

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

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

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

Save as those disclosed above, as at 31 December 2017, 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:

	2017	2016
As a percentage of the Group's total sales		
The largest customer	9.0%	9.7%
Five largest customers in aggregate	36.7%	39.1%
As a percentage of Group's total purchases		
The largest supplier	41.50%	28.91%
Five largest suppliers in aggregate	74.96%	51.23%

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 2017.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme"), which was adopted on 10 June 2011 and 12 June 2011, respectively (the "Adoption Date"), for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date.

Eligible participants of the Share Option Scheme include the following:

(i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

(ii) any Directors (Including non-executive directors and independent non-executive directors) of the Company and its subsidiaries; and

(iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries.

As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme is 80,000,000, representing approximately 10% of the issued share capital of the Company as at the date of this annual report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). In addition, where any grant of share options to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, would result in the Shares already granted and to be granted (including options exercised, cancelled and outstanding) to such person in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, in a 12-month period up to and including the date of grant, such grant of share options are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price for Shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:

(i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheers on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or

(iii) the nominal value of a Share.

Since the Adoption Date and up to 31 December 2017, 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 ended 31 December 2017.

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 2017 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 2017.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2017 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, 26 March 2018

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the Shareholders of China First Chemical Holdings Limited
(Incorporated in the 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 48 to 127, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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 2017) 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 historical actual results 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)(a) 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 (RMB70,685,000 (including the goodwill on acquisition of approximately RMB8,593,000) as at 31 December 2017) 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 DIRECTORS AND THE 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.

INDEPENDENT AUDITOR'S REPORT

- 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.

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, 26 March 2018

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**78,504**	80,260
Property, plant and equipment	7	**1,920,630**	1,827,765
Intangible assets	8	**284,570**	298,142
Investments accounted for using the equity method	10(B)	**104,400**	105,651
Deferred income tax assets	11	**5,782**	4,396
Restricted cash	17	**18,724**	19,200
Other non-current assets	12	**40,551**	262,318
Total non-current assets		**2,453,161**	2,597,732
Current assets			
Inventories	13	**181,643**	208,670
Trade and other receivables	14	**646,593**	478,862
Financial assets at fair value through profit or loss	15	**58,056**	47,061
Cash and cash equivalents	16	**705,710**	540,230
Restricted cash	17	**126,430**	168,162
Total current assets		**1,718,432**	1,442,985
Total assets		**4,171,593**	4,040,717
EQUITY			
Share capital	18	**65,346**	65,346
Other reserves	19	**790,270**	775,692
Retained earnings	19	**1,501,681**	1,387,669
Total equity		**2,357,297**	2,228,707

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	**323,941**	370,303
Deferred income	21	**22,181**	9,500
Deferred income tax liabilities	11	**21,962**	25,209
Financial liabilities at fair value through profit or loss	22	**–**	107,246
Total non-current liabilities		**368,084**	512,258
Current liabilities			
Trade and other payables	23	**474,693**	433,811
Current income tax liabilities		**22,177**	8,617
Borrowings	20	**840,682**	857,324
Provisions	31	**6,530**	–
Financial liabilities at fair value through profit or loss	22	**102,130**	–
Total current liabilities		**1,446,212**	1,299,752
Total liabilities		**1,814,296**	1,812,010
Total equity and liabilities		**4,171,593**	4,040,717

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 48 to 127 were approved by the Board of Directors on 26 March 2018 and were signed on its behalf.

CHEN HONG
Director

MIAO FEI
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	5	**2,228,803**	2,249,163
Cost of sales of goods	24	**(1,846,915)**	(1,803,695)
Gross profit		**381,888**	445,468
Selling and marketing costs	24	**(61,487)**	(70,793)
Administrative expenses	24	**(92,133)**	(92,892)
Other income	26	**5,563**	5,927
Other losses — net	27	**(8,505)**	(3,867)
Operating profit		**225,326**	283,843
Finance income	28	**12,833**	10,323
Finance costs	28	**(63,365)**	(110,739)
Finance costs — net		**(50,532)**	(100,416)
Share of net loss of associates accounted for using the equity method	10(B)	**(1,251)**	(5,240)
Profit before income tax		**173,543**	178,187
Income tax expense	29	**(44,953)**	(55,501)
Profit for the year		**128,590**	122,686
Other comprehensive income		**–**	–
Total comprehensive income for the year		**128,590**	122,686
Attributable to equity holders of the Company		**128,590**	122,686
Earnings per share attributable to the equity holders of the Company (RMB Yuan)			
— Basic	30(a)	**0.160**	0.153
— Diluted	30(b)	**0.153**	0.153

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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 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							
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
Balance at 1 January 2017		**65,346**	**262,592**	**311,521**	**201,579**	**1,387,669**	**2,228,707**
Comprehensive income							
Profit for the year		–	–	–	–	**128,590**	**128,590**
Transactions with owners in their capacity as owners							
Appropriation to statutory reserves	19	–	–	–	**14,578**	**(14,578)**	–
Balance at 31 December 2017		**65,346**	**262,592**	**311,521**	**216,157**	**1,501,681**	**2,357,297**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	33(a)	**440,819**	562,026
Interest paid		**(84,742)**	(76,320)
Interest received		**11,303**	8,603
Income tax paid		**(36,026)**	(72,306)
Net cash inflow from operating activities		**331,354**	422,003
Cash flows from investing activities			
Purchases of financial assets at fair value through profit or loss		**(57,221)**	(47,341)
Proceeds from maturity of investments in financial assets at fair value through profit or loss		**46,431**	44,681
Gain on settlement of financial assets at fair value through profit or loss		**1,649**	1,464
Payments for property, plant and equipment		**(262,667)**	(161,786)
Proceeds from government grants		**14,150**	–
Payment of a long-term deposit	12(i)	**–**	(385,000)
Partial refund of a long-term deposit	12(i)	**154,000**	–
Payments for land use rights		**(412)**	(3,610)
Net decrease in restricted cash		**42,208**	110,599
Loans to third parties		**(79,963)**	(243,000)
Repayments from third parties		**79,963**	243,000
Proceeds from disposals of property, plant and equipment		**188**	101
Repayment of loans from a related party		**–**	38,693
Net cash outflow from investing activities		**(61,674)**	(402,199)
Cash flows from financing activities			
Drawdown of borrowings		**835,865**	913,125
Repayments of borrowings		**(935,493)**	(1,033,940)
Payment of long-term deposits in relation to borrowing from other financial institution		**(14,500)**	–
Payment of fees in relation to borrowings		**(877)**	–
Borrowing from a related party		**11,802**	–
Repayments of borrowings to related parties		**(735)**	–
Proceeds from issuance of convertible bonds		**–**	102,717
Proceeds from issuance of notes instrument		**–**	99,533
Repayment of amounts due to third parties		**–**	(19,997)
Dividends paid	32	**–**	(12,915)
Net cash (outflow)/inflow from financing activities		**(103,938)**	48,523
Net increase in cash and cash equivalents		**165,742**	68,327
Cash and cash equivalents at beginning of the year		**540,230**	470,931
Effects of exchange rate changes on cash and cash equivalents		**(262)**	972
Cash and cash equivalents at end of the year	16	**705,710**	540,230

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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, a company incorporated in the Cayman Islands.

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 disclosure requirements 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 measured 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 policies and disclosures

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"
Amendments to IAS 7 "Disclosure Initiative"

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 33(b).

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of those new standards and interpretations which should be applicable to the Group as follows:

(i) IFRS 9 Financial Instruments

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets because the debt investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9.

There will be no impact on the Group's accounting for financial liabilities. Convertible bonds currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

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 policies and disclosures *(Continued)*

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

Impact *(Continued)*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) IFRS 15 Revenue from Contracts with Customers

Nature of change

The International Accounting Standards Board has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

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.

Impact

Management is currently assessing the effects of applying the new standard on the Group's financial statements and the application of IFRS 15 may result in the identification of separate performance obligations in respect of the provision of transportation services to the Group's customers which could affect the timing of the recognition of revenue.

Based on the assessment up to this stage, management does not expect the adoption of the new standard will have a material impact on the Group.

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 policies and disclosures *(Continued)*

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

(ii) IFRS 15 Revenue from Contracts with Customers *(Continued)*

Date of adoption by the Group

The new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

(iii) IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It 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.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB5,426,000 and within that amount, the Group has no short-term and low value leases which may be exempted from recognising on the balance sheet and to be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

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 policies and disclosures *(Continued)*

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

(iii) IFRS 16 Leases *(Continued)*

Mandatory application date

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Group's significant accounting policies and presentation of the consolidated financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) *Business combinations (Continued)*

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 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.

(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.

2.1.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates

Associates are entities 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 and movements in other comprehensive income 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.

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 net 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.

2.4 Joint arrangements

The Group has applied IFRS 11 "Joint Arrangements" 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, rather than legal structure of the joint arrangement. 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 of accounting.

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. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture, 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 venture.

Unrealised gains on transactions between the Group and its joint venture 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 venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 Board of Directors of the Company that makes strategic decisions.

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. 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 costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'Other gains/losses — net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities 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 statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised 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 any component accounted for as a separate asset is derecognised when replaced. 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	12 – 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 in profit or loss and presented in the consolidated statement of comprehensive income as 'Other gains/losses — net'.

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 in profit or loss 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. Goodwill is not amortised but tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is stated at cost less accumulated impaired losses (if any).

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 business combination in which the goodwill arose. The unit or group of units are identified at the lowest level at which the goodwill is monitored for internal management purposes, being the operating segment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Impairment of non-financial assets

Goodwill, 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, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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 period.

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, held-to-maturity investments and available-for-sale financial assets. 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 2017 and 2016, the Group only has financial assets in the categories of "financial assets at fair value through profit or loss" and "loans and receivables".

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

Financial assets at fair value through profit or loss are financial assets that are acquired principally for the purpose of selling in the short term (i.e. are held for trading). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

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 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. At initial recognition, financial assets are recognised at fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to acquisition of the financial asset. Transaction costs of financial assets at fair value through profit or loss are expensed in profit or loss. 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 recognised in profit or loss and 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.

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 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.

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 *(Continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in 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 the estimated costs of completion and estimated costs necessary to make the sale.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods 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).

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 financial institutions and other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

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 and other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 amount 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 prepayment 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. 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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses.

(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.

(b) Deferred income tax

Deferred income tax is provided in full, 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. 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 to utilise those temporary differences and losses.

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 *(Continued)*

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 management's best estimate of the expenditures required to settle the present obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. 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; it is probable that future economic benefits will flow to the Group; and 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

3 FINANCIAL RISK MANAGEMENT

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement
Market risk — foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in Renminbi (RMB)	Cash flow forecasting Sensitivity analysis
Market risk — interest rate	Long-term borrowings at variable rates	Sensitivity analysis
Credit risk	Cash and cash equivalents, restricted cash and trade and other receivables	Aging analysis Credit ratings
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts

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 or manage any of these financial risks.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors

(a) Market risk

(i) 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.

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.

During the year ended 31 December 2017, the net foreign exchange gain/(loss) as recognised in profit or loss are as below:

	2017 RMB'000	2016 RMB'000
Net foreign exchange (losses)/gains included in 'other losses — net'	**(1,173)**	1,091
Net foreign exchange gains/(losses) as included in 'finance costs'	**21,037**	(30,136)
	19,864	(29,045)

At 31 December 2017, 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 2017 would have been approximately RMB20,060,000 lower/higher (2016: RMB24,173,000 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 and when necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. During 2017 and 2016, the Group's borrowings at variable rate were mainly denominated in Hong Kong dollar and US Dollars.

The exposure of the Group's borrowing to interest rate changes at the end of the reporting period are as follows:

	2017 RMB'000	**% of total borrowings**	2016 RMB'000	% of total borrowings
Variable rate borrowings	**214,426**	**18.41%**	450,009	36.66%

An analysis by maturities is provided in Note 3.1(c). The percentage of total borrowings shows the proportion of borrowings that are currently at variable rates in relation to the total amount of borrowings.

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

At 31 December 2017, if the interest rates on variable rate 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 RMB2,865,000 higher/lower (2016: RMB943,000 higher/lower).

The convertible bonds issued by the Group bear fixed interest rate and hence expose the Group to fair value interest rate risk. As at 31 December 2017, 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 decreased/increased by approximately RMB1,010,000 (2016: RMB1,000,000), representing the estimated fair value changes of the convertible bonds.

The Group will constantly review the trends of market interest rate and its cash flow interest rate risk profile, and will consider to enter into interest rate swap contracts to manage/hedge the related risk, as and when necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and long-term deposits as included in other non-current assets, represent the Group's maximum exposure to credit risk in relation to these financial assets.

As at 31 December 2017, 92% (2016: 91%) 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.

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 2017, the exposure to the top 15 customers did not exceed 60% (2016: 62%) of the gross trade and other receivables, with the exposure to the largest customer representing less than 10% (2016: 10%).

Other receivables primarily comprise of interest receivables from state-owned banks or financial institutions, a long-term deposit receivable from a company as controlled by the Finance Bureau of Pingnan County (Notes 12(i) and 14(b)) 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 2017, the Group has certain concentration of credit risk as the Group has paid a guarantee deposit of RMB231,000,000 (2016: RMB385,000,000) (representing approximately 34% (2016: 53%) of the Group's long-term deposits, trade and other receivables) (Notes 12(i) and 14(b)).

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 which management considered is adequate for financing 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(g). 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 2017, the Group has trade receivables of approximately RMB392,487,000 (2016: RMB289,090,000) (Note 14) and cash and cash equivalents of approximately RMB705,710,000 (2016: RMB540,230,000) (Note 16) that are expected to readily generate cash inflows for managing liquidity risk.

(i) Maturities of financial liabilities

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
At 31 December 2017			
Borrowings and interest payable	**892,315**	**148,439**	**240,510**
Financial liabilities at fair value through profit or loss	**110,265**	**–**	**–**
Trade and other payables	**415,075**	**–**	**–**
	1,417,655	**148,439**	**240,510**
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

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 their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and

- 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 (net debt (as per Note 33) divided by total 'equity' as shown in the balance sheet):

During 2017, the Group's strategy, which was unchanged from 2016, was to maintain a gearing ratio at a level of not more than 65%. The gearing ratios at 31 December 2017 and 31 December 2016 were as follows:

	2017	2016
	RMB'000	RMB'000
Net debt	**494,610**	671,089
Total equity	**2,357,297**	2,228,707
Net debt to equity ratio	**20.98%**	30.11%

Loan covenants

The Group monitors the debt covenants for borrowings and it complied with all externally imposed capital requirements for the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements

	As at 31 December	
	2017	2016
	Level 3	Level 3
	RMB'000	RMB'000
Financial assets		
Financial assets at fair value through profit or loss	**58,056**	47,061
Total financial assets	**58,056**	47,061
Financial liabilities		
Financial liabilities at fair value through profit or loss	**102,130**	107,246
Total financial liabilities	**102,130**	107,246

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

(ii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the year ended 31 December 2017 and 31 December 2016:

Financial assets at fair value through profit or loss

	2017 RMB'000	2016 RMB'000
Opening balance at 1 January	47,061	43,771
Addition	57,221	47,341
Settlements	(46,431)	(44,681)
Total fair value gains recognised in profit or loss (Note 27)	205	630
Closing balance at 31 December	58,056	47,061
Total gain on settlement of financial assets at fair value through profit or loss	1,649	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.

Financial liabilities at fair value through profit or loss

	2017 RMB'000	2016 RMB'000
Opening balance at 1 January	107,246	–
Issuance of convertible bond during the year	–	102,717
Payment of interests	(7,616)	–
Fair value losses on financial liabilities at fair value through profit or loss (Note 27)	2,500	4,529
Closing balance at 31 December	102,130	107,246

The fair value of the convertible bonds is determined by an independent qualified valuer based on the Binomial Model (Note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(iii) Group's valuation processes

The Group's finance department performs the valuations of the financial assets as included in Level 3 fair values. 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.

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 at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.10. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Impairment of the investment in an associate

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)(a)(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 utilized. 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 2017, the Group did not recognise deferred income tax assets in respect of the tax losses of certain subsidiaries of approximately RMB110,071,000 (2016: RMB111,287,000) (Note 29), considering the uncertainties on whether these tax losses could be utilised in the foreseeable future.

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 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(Continued)*

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 2017 and 2016 is as follows:

	Year ended 31 December 2017			
	Bleaching and disinfectant chemicals RMB'000	Foaming agent products RMB'000	Other specialty chemicals RMB'000	Total RMB'000
Segment revenue	1,334,244	658,535	236,024	2,228,803
Inter-segment revenue	–	–	–	–
Revenue from external customers	1,334,244	658,535	236,024	2,228,803
Gross profit	243,319	85,112	53,457	381,888
Unallocated				
Depreciation and amortisation				198,427
Finance income				12,833
Finance expenses				(63,365)
Income tax expense				(44,953)
Total assets				4,171,593
Total liabilities				1,814,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(Continued)*

	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

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Revenue		
Mainland China	**2,105,768**	2,139,052
Overseas	**123,035**	110,111
	2,228,803	2,249,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 LAND USE RIGHTS

	2017 RMB'000	2016 RMB'000
Opening net book value at 1 January	80,260	82,426
Addition	412	–
Amortisation (Note 24)	(2,168)	(2,166)
Closing net book value at 31 December	78,504	80,260
Representing:		
Cost	101,031	100,619
Accumulated amortisation	(22,527)	(20,359)
Net book value	78,504	80,260

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 2017, land use rights with net book value of RMB37,542,000 (2016: RMB30,256,000) were secured for bank borrowings (Note 20(f)).

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 2016						
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
Year ended 31 December 2017						
Opening net book amount	**590,045**	**1,193,324**	**3,862**	**3,237**	**37,297**	**1,827,765**
Additions	**–**	**4,388**	**934**	**977**	**269,597**	**275,896**
Transfer upon completion	**66,363**	**162,917**	**–**	**–**	**(229,280)**	**–**
Disposals	**(20)**	**(293)**	**(31)**	**–**	**–**	**(344)**
Depreciation (Note 24)	**(28,173)**	**(151,329)**	**(1,143)**	**(2,042)**	**–**	**(182,687)**
Closing net book amount	**628,215**	**1,209,007**	**3,622**	**2,172**	**77,614**	**1,920,630**
At 31 December 2017						
Cost	**877,875**	**2,062,907**	**11,546**	**16,963**	**77,614**	**3,046,905**
Accumulated depreciation	**(249,660)**	**(853,900)**	**(7,924)**	**(14,791)**	**–**	**(1,126,275)**
Net book amount	**628,215**	**1,209,007**	**3,622**	**2,172**	**77,614**	**1,920,630**

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	
	2017	2016
	RMB'000	RMB'000
Cost of sales	**174,754**	164,530
Selling and marketing costs	**185**	187
Administrative expenses	**7,748**	7,991
	182,687	172,708

(b) Rentals expenses amounting to RMB1,778,000 (2016: RMB1,694,000) 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 amounting to RMB773,000 (2016: RMB521,000) on qualifying assets (Note 28). Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.90% (2016: 5.50%).

(d) As at 31 December 2017, certain buildings and machinery with an aggregate carrying value of RMB592,730,000 (2016: RMB368,477,000) were secured for bank borrowings (Note 20(f)).

(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 2015 (the "Contractual Arrangement") which contains an operating lease:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cost — operating leases	**35,000**	35,000
Accumulated depreciation	**(6,790)**	(3,395)
Net book amount	**28,210**	31,605

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 2016					
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
Year ended 31 December 2017					
Opening net book amount	**188,673**	**106,215**	**329**	**2,925**	**298,142**
Amortisation charge (Note 24)	**–**	**(13,140)**	**(39)**	**(393)**	**(13,572)**
Closing net book amount	**188,673**	**93,075**	**290**	**2,532**	**284,570**
At 31 December 2017					
Cost	**188,673**	**131,400**	**384**	**4,717**	**325,174**
Accumulated amortisation	**–**	**(38,325)**	**(94)**	**(2,185)**	**(40,604)**
Net book amount	**188,673**	**93,075**	**290**	**2,532**	**284,570**

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 (the "impairment assessment"). 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 rate 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% – 15.00%
Gross profit margin	17.29% – 22.94%
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.

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

Based on the aforesaid impairment assessment, the Directors and management have concluded that no impairment loss on the goodwill has to be recognised as of 31 December 2017.

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

- A reduction in the sales growth rate from the 10.00%–15.00% assumption applied to a revised assumption of 8.96%–13.96% or less.
- A reduction in the gross profit margin from the 17.29%–22.94% assumption applied to a revised assumption of 14.15%–19.80% or less.
- An increase in the discount rate from the 13.00% assumption applied to a revised assumption of 15.29% or more.

9 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

Financial assets	Notes	Loans and receivables RMB'000	Assets at fair value through profit or loss RMB'000	Total RMB'000
At 31 December 2017				
Trade and other receivables (excluding prepayments and value-added tax recoverable)	14	629,704	–	629,704
Cash and cash equivalents	16	705,710	–	705,710
Restricted cash	17	145,154	–	145,154
Other non-current assets (excluding prepayments)	12	25,966	–	25,966
Financial assets at fair value through profit or loss	15	–	58,056	58,056
Total		1,506,534	58,056	1,564,590

Financial liabilities	Notes	Financial liabilities at amortised cost RMB'000	Liabilities at fair value through profit or loss RMB'000	Total RMB'000
At 31 December 2017				
Borrowings	20	1,164,623	–	1,164,623
Trade and other payables excluding non-financial liabilities	23	415,075	–	415,075
Financial liabilities at fair value through profit or loss	22	–	102,130	102,130
Total		1,579,698	102,130	1,681,828

Financial assets	Notes	Loans and receivables RMB'000	Assets at fair value through profit or loss RMB'000	Total RMB'000
At 31 December 2016				
Trade and other receivables (excluding prepayments and value-added tax recoverable)	14	462,362	–	462,362
Cash and cash equivalents	16	540,230	–	540,230
Restricted cash	17	187,362	–	187,362
Other non-current assets (excluding prepayments)	12	246,230	–	246,230
Financial assets at fair value through profit or loss	15	–	47,061	47,061
Total		1,436,184	47,061	1,483,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities	Notes	Financial liabilities at amortised cost RMB'000	Liabilities at fair value through profit or loss RMB'000	Total RMB'000
At 31 December 2016				
Borrowings	20	1,227,627	–	1,227,627
Trade and other payables excluding non-financial liabilities	23	394,032	–	394,032
Financial liabilities at fair value through profit or loss	22	–	107,246	107,246
Total		1,621,659	107,246	1,728,905

10 (A) SUBSIDIARIES

As at 31 December 2017, 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 2017	2016
Yihua Sub-Holding Alpha (BVI) Limited (Note a)	BVI/ Limited liability company	Investment holding in Cayman	USD1	100%	100%
Yihua Sub-Holding Beta (BVI) Limited (Note a)	BVI/ Limited liability company	Investment holding in Cayman	USD1	100%	100%
Longpower Corporation Limited	HK/ Limited liability company	Investment holding in Hong Kong	HKD1	100%	100%
Sun Champ Group Holdings Limited	HK/ Limited liability company	Investment holding in Hong Kong	HKD1	100%	100%
Fujian Rongchang Chemical Co., Ltd.	PRC/ Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB313,851,800	100%	100%
Fujian Rongping Chemical Co., Ltd.	PRC/ Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB254,500,000	100%	100%
Fuzhou Yihua Chemical Stock Co., Ltd.	PRC/ Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB240,000,000	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 (A) SUBSIDIARIES *(Continued)*

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 2017	2016
Fujian Jinrong Technical Co., Ltd.	PRC/ Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB100,000,000	**100%**	100%
Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd.	PRC/ Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB42,857,140	**100%**	100%
Maoxian Xin Salt Chemical Co., Ltd.	PRC/ Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB30,000,000	**100%**	100%
Chengdu Minjiang Salt Chemical Co., Ltd.	PRC/ Limited liability company	Manufacturing and sale of chemical products in Mainland China	RMB5,000,000	**100%**	100%
Fujian Chuangyuan Environmental Technology Co., Ltd.	PRC/ Limited liability company	Provision of environmental protection related service in Mainland China	RMB10,000,000	**100%**	100%
Yongtai Juyuan Hydropower Station Co., Ltd.	PRC/ Limited liability company	Generating electricity by water power in Mainland China	RMB51,000,000	**100%**	100%
Shanghai Xuefeng Chemical Technology Co., Ltd. (Note b)	PRC/ Limited liability company	Provision of chemical technology related service and sale of chemical products in Mainland China	–	**100%**	–

Notes:

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

(b) This subsidiary was established by the Fujian Rongchang Chemical Co., Ltd. ("Rongchang") in June 2017. As of 31 December 2017, Rongchang has not yet contributed any capital to the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 (B) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	2017 RMB'000	2016 RMB'000
Associates (note a)	104,400	105,651
Joint venture (note b)	–	–
At 31 December	104,400	105,651

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

	2017 RMB'000	2016 RMB'000
Associates (note a)	(1,251)	(5,240)
Joint venture (note b)	–	–
For the year ended 31 December	(1,251)	(5,240)

(a) Investment in associates

The entities listed below are the associates of the Group as at 31 December 2017 and their share capital consisting solely of ordinary shares, which are held directly by the Company's subsidiaries. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		2017 %	2016 %			2017 RMB'000	2016 RMB'000
Jiangxi Zhengge Investment Stock Co., Ltd. ("Jiangxi Zhengge") (Note i)	PRC	45	45	Associate	Equity method	70,685	73,174
Fujian Nanping Rongxin Trading Co., Ltd. ("Rongxin Trading") (Note ii)	PRC	40	40	Associate	Equity method	33,715	32,477
Total equity accounted investments						104,400	105,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Investment in associates *(Continued)*

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 "impairment assessment"). 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% – 4.52%
Gross margin	18.76% – 20.86%
Pre-tax discount rate	13.00%
Long term growth rate beyond the five-year 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.

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

Based on the aforesaid impairment assessment, the Directors and management concluded that no impairment loss on the investment has to be recognised as of 31 December 2017.

(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, biruea, 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 is no quoted market price available for their shares.

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

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

(a) 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 2017 and 2016

	Jiangxi Zhengge		Rongxin Trading	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Cash and cash equivalents	**15,807**	1,719	**17,377**	18,367
Other current assets (excluding cash)	**120,995**	104,882	**76,397**	73,784
Total current assets	**136,802**	106,601	**93,774**	92,151
Financial liabilities (excluding trade payables)	**(92,800)**	(50,800)	**–**	–
Other current liabilities (including trade payables)	**(62,172)**	(104,088)	**(14,209)**	(15,595)
Total current liabilities	**(154,972)**	(154,888)	**(14,209)**	(15,595)
Non-current				
Assets	**423,766**	433,904	**4,722**	4,637
Total non-current assets	**423,766**	433,904	**4,722**	4,637
Other liabilities	**(202,955)**	(179,558)	**–**	–
Total non-current liabilities	**(202,955)**	(179,558)	**–**	–
Net assets	**202,641**	206,059	**84,287**	81,193
Equity attributable to:				
— Equity holders	**137,981**	143,513	**84,287**	81,193
— Non-controlling interests	**64,660**	62,546	**–**	–
	202,641	206,059	**84,287**	81,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Investment in associates *(Continued)*

Summarised financial information for associates

Summarised statement of comprehensive income — For the years ended 31 December 2017 and 2016:

	Jiangxi Zhengge		Rongxin Trading	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**282,016**	225,087	**89,957**	115,530
(Loss)/profit before income tax	**(3,418)**	(21,841)	**4,125**	4,980
Income tax expense	**–**	–	**(1,031)**	(1,245)
(Loss)/profit and total comprehensive (loss)/ income for the year	**(3,418)**	(21,841)	**3,094**	3,735
Attributable to:				
Equity holders	**(5,532)**	(14,964)	**3,094**	3,735
Non-controlling interests	**2,114**	(6,877)	**–**	–
	(3,418)	(21,841)	**3,094**	3,735

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Investment in associates *(Continued)*

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	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Opening net assets	**206,059**	227,900	**81,193**	77,458
(Loss)/profit for the year	**(3,418)**	(21,841)	**3,094**	3,735
Closing net assets	**202,641**	206,059	**84,287**	81,193
Less: Non-controlling interests	**(64,660)**	(62,546)	**–**	–
	137,981	143,513	**84,287**	81,193
Interests in associates (45%; 40%)	**62,092**	64,581	**33,715**	32,477
Goodwill	**8,593**	8,593	**–**	–
Carrying value	**70,685**	73,174	**33,715**	32,477

(b) Investment in the joint venture

Set out below are the joint venture of the Group as at 31 December 2017:

Name of entity	Place of business/ country of incorporation	% of ownership interest 2017 %	% of ownership interest 2016 %	Nature of relationship	Measurement method	Carrying amount 2017 RMB'000	Carrying amount 2016 RMB'000
Fujian Jinsan Industrial Co.,Ltd. (Note)	PRC	33	33	Joint venture	Equity method	–	–

Note:

On 27 April 2016, Fujian Rongchang Chemical Co., Ltd. ("Fujian Rongchang"), a wholly owned subsidiary of the Company, Fujian Haojingda Industrial Co., Ltd. and Fujian Shunchang Fubaotengda Industrial Co., Ltd. jointly established Fujian Jinsan Industrial Co., Ltd. ("Fujian Jinsan"). Fujian Rongchang holds 33% of equity interests in Fujian Jinsan and Fujian Jinsan is jointly controlled by Fujian Rongchang and the other joint ventures 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 2017, Fujian Rongchang and the other joint ventures have not yet made any capital contribution to Fujian Jinsan and Fujian Jinsan is still inactive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 DEFERRED INCOME TAX

(i) Deferred tax assets:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
— tax losses	**4,150**	4,396
— provision for a legal claim	**1,632**	–
	5,782	4,396

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

Movements	Tax losses	Provision for a legal claim	Total
	RMB'000	RMB'000	RMB'000
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
At 1 January 2017	**4,396**	**–**	**4,396**
Credited/(charged) to profit or loss	**(246)**	**1,632**	**1,386**
At 31 December 2017	**4,150**	**1,632**	**5,782**

11 DEFERRED INCOME TAX *(Continued)*

(ii) Deferred tax liabilities:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
The balance comprises temporary differences attributable to business combination	**(21,962)**	(25,209)

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

	Business combination	**Total**
	RMB'000	RMB'000
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)
At 1 January 2017	**(25,209)**	**(25,209)**
Credited to profit or loss	**3,247**	**3,247**
At 31 December 2017	**(21,962)**	**(21,962)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Long-term deposits (Notes i and ii)	**25,966**	246,230
Long-term prepaid expenses (Note ii)	**3,975**	4,770
Prepayment for land use right	**10,610**	10,610
Others	**–**	708
	40,551	262,318

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 Country 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. As at 31 December 2016, a portion of the deposit of approximately RMB154,000,000 was estimated to be refunded prior to 31 December 2017 and hence was classified as a current other receivable (Note 14(b)) and the remaining amount was accounted for as a long-term deposit under the other non-current assets.

The construction work of the Project has not yet been commenced as of 31 December 2017 due to the safety assessment of the Project has not yet been completed by the relevant local government authorities.

On 22 December 2017, the Group has entered in to a supplemental agreement with SOAIO, pursuant to which, SOAIO is obliged to return a portion of the Guarantee Deposit of RMB154,000,000 to Rongping prior to 31 December 2017 and subsequently to return all of the remaining amount of the Guarantee Deposit of RMB231,000,000 to Rongping prior to 31 December 2018.

SOAIO has subsequently returned deposit amount of RMB154,000,000 to Rongping prior to 31 December 2017 and the Group has reclassified the remaining portion of the Guarantee Deposit of RMB231,000,000 as a current other receivable (Note 14(b)) based on the terms as set out in the aforesaid supplemental agreement.

As at 31 December 2017, long-term deposits also include deposit amounts of approximately RMB7,941,000 (2016: Nil) which were paid by the Group to Fujian Funeng (Ningde) Finance Leasing Co., Ltd. under certain sales and lease back arrangements (Note 20(b)).

(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 in 2015 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 and subsequently measured at amortised cost) has been accounted for as a long-term deposit and the carrying amount of which as at 31 December 2017 amounted to approximately RMB15,230,000 (2016: RMB14,435,000).

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 RMB6,360,000 has been accounted for as long-term prepaid expenses and to be amortised and recognised in profit or loss on a straight-line basis over the contractual period. As at 31 December 2017, the unamortised long-term prepaid expenses amounted to approximately RMB3,975,000 (2016: RMB4,770,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Raw materials	**18,429**	18,937
Work in progress	**149,514**	164,038
Finished goods	**13,700**	25,695
	181,643	208,670

The cost of inventories recognised as expense and included in 'cost of sales' for the year ended 31 December 2017 amounted to approximately RMB1,116,233,000 (2016: RMB1,109,666,000).

As at 31 December 2017, inventories of 20,000 tons of sodium chlorate with carrying amount of approximately RMB37,750,000 (2016: 10,000 tons of sodium chlorate and 6,400 tons of sodium perchlorate with carrying amount of approximately RMB38,865,000) are guarantees for bank borrowings (Note 20 (f)).

14 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade receivables (a)		
Due from third parties	**395,458**	291,643
Less: Provision for impairment of receivables	**(2,971)**	(2,553)
	392,487	289,090
Bills receivables	**341**	1,169
Prepayments		
— purchases of raw materials from a related party (Note 35(e))	**4,781**	5,124
— purchases of raw materials from third parties	**11,056**	7,064
	15,837	12,188
Value-added tax recoverable	**1,052**	4,312
Other receivables (b)		
Due from third parties	**236,876**	172,103
	646,593	478,862

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	**390,801**	287,663
Between 3 and 6 months	**787**	1,046
Between 6 and 12 months	**899**	381
Between 1 and 2 years	**529**	930
Above 2 years	**2,442**	1,623
	395,458	291,643

As of 31 December 2017, trade receivables of approximately RMB1,686,000 (2016: RMB1,427,000) 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	
	2017	2016
	RMB'000	RMB'000
Between 3 and 6 months	**787**	1,046
Between 6 and 12 months	**899**	381
	1,686	1,427

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) *(Continued)*

As of 31 December 2017, trade receivables of approximately RMB2,971,000 were impaired (2016: RMB2,553,000). 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	
	2017	2016
	RMB'000	RMB'000
Between 1 and 2 years	**529**	930
Above 2 years	**2,442**	1,623
	2,971	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 in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	2017	2016
	RMB'000	RMB'000
At 1 January	**2,553**	–
Provision for impairment recognised during the year	**530**	2,699
Unused amount reversed	**(112)**	(146)
At 31 December	**2,971**	2,553

(b) Other receivables

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Deposits (Note)	**231,765**	156,766
Interest receivables	**2,984**	9,405
Others	**2,127**	5,932
	236,876	172,103

Note:

The deposits primarily comprise of the portion of the Guarantee Deposit to be recoverable within one year from the balance sheet date of RMB231,000,000 (2016: RMB154,000,000) (Note 12(i)).

14 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**644,277**	472,476
USD	**2,316**	6,386
	646,593	478,862

(d) Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be approximated their fair value.

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Financial products as designed by a financial institution	**58,056**	47,061

As at 31 December 2017, financial assets at fair value through profit or loss of approximately RMB48,982,000 (2016: RMB47,061,000) were secured for bank borrowings (Note 20(f)).

During the year ended 31 December 2017, realised gain on settlement of financial assets at fair value through profit or loss and the unrealised fair value gain on financial assets at fair value through profit or loss amounted to approximately RMB1,649,000 (2016: RMB1,464,000) and RMB205,000 (2016: RMB630,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash in hand	**16**	80
Bank deposits	**705,694**	540,150
	705,710	540,230

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**704,594**	536,998
USD	**985**	3,228
HKD	**131**	4
	705,710	540,230

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	
	2017	2016
	RMB'000	RMB'000
Current		
— restricted for borrowings (a)	**47,709**	104,354
— restricted for issue of bills payable (b)	**78,721**	63,808
	126,430	168,162
Non-current		
— restricted for borrowings (a)	**18,724**	19,200
Total restricted cash	**145,154**	187,362

(a) As at 31 December 2017, deposits held at bank of approximately RMB66,433,000 (2016: RMB123,554,000) have been restricted for securing borrowings of approximately RMB191,044,000 (2016: RMB577,574,000) (Note 20 (f)). These deposits earn interest income at fixed interest rates ranging from 1.90% to 4.12% (2016: 1.65% to 4.38%) per annum.

(b) As at 31 December 2017, deposits held at bank of approximately RMB78,721,000 (2016: RMB63,808,000) have been restricted for securing the issue of bills payable to the Group's suppliers of approximately RMB190,936,000 (2016: RMB170,945,000) (Note 23 (b)).

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

18 SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares HKD'000	Equivalent nominal value of ordinary shares RMB'000
Ordinary shares, issued and fully paid of HKD0.1 per share:			
As at 31 December 2017 and 2016	802,191,000	80,219	65,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 OTHER RESERVES AND RETAINED EARNINGS

		Other reserves				
	Note	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve (Note) RMB'000	Total RMB'000	Retained earnings RMB'000
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
Balance at 1 January 2017		**262,592**	**311,521**	**201,579**	**775,692**	**1,387,669**
Profit for the year		**–**	**–**	**–**	**–**	**128,590**
Profit appropriations to statutory reserves		**–**	**–**	**14,578**	**14,578**	**(14,578)**
Balance at 31 December 2017		**262,592**	**311,521**	**216,157**	**790,270**	**1,501,681**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current		
Bank borrowings	**67,789**	229,001
Borrowings from other financial institution (Note b)	**203,611**	40,022
Borrowings from non-financial institutions (Note c)	**41,807**	–
Borrowing from a shareholder (Note d)	**10,734**	–
Note instruments (Note a)	**–**	101,280
	323,941	370,303
Current		
Current portion of long-term bank borrowings	**122,428**	200,905
Short-term bank borrowings	**539,747**	600,891
Note instruments (Note a)	**97,096**	–
Current portion of borrowings from other financial institution (Note b)	**80,237**	55,528
Current portion of borrowings from non-financial institutions (Note c)	**1,174**	–
	840,682	857,324
Total borrowings	**1,164,623**	1,227,627

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.

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 have 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%.

(b) On 28 August 2017 and 10 October 2017, Fujian Yihua Chemical Co., Ltd. (a wholly owned subsidiary of the Group) ("Fuzhou Yihua") and Yongtai Juyuan Hydropower Station Co., Ltd. (a wholly owned subsidiary of the Group) ("Yongtai Juyuan") have entered into sale and leaseback agreements with Fujian Funeng (Ningde) Finance Leasing Co., Ltd. ("Funeng (Ningde)") (collectively the "Agreements"). Pursuant to the terms of the Agreements, Fuzhou Yihua and Yongtai Juyuan (the seller/lessee) each sell part of their buildings and equipment with an aggregated carrying amount of RMB250,000,000 to Funeng (Ningde) and lease back those buildings and equipment from Funeng (Ningde) (the purchaser/lessor) with an aggregated quarterly lease payment of approximately RMB14,302,000 for a period of 5 years and Fuzhou Yihua and Yongtai Juyuan have to pay total deposits of RMB12,500,000 (the "Deposits") to Funeng (Ningde) for the use of the buildings and equipment in concern. Considering the Deposits are long-term and interest free, the Deposits have been initially recognised at fair value and subsequently measured at amortised costs. As at 31 December 2017, the carrying amounts of the Deposits amounted to approximately RMB7,941,000. The Group treated the entire arrangement as the drawdown of secured borrowings based on the substance of the transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 BORROWINGS *(Continued)*

Notes: (Continued)

(c) In November 2017, two subsidiaries of the Group have agreed with a construction contractor to extend the repayment terms of the construction costs payable due to the subcontractor of approximately RMB40,813,000, in aggregate (the "Construction Payable") and the amounts will then be repayable by instalments prior to December 2021 without any interest charges. In addition, a subsidiary of the Group has also agreed with its then shareholder to extend the repayment of a payable amount due to the subsidiary's then shareholder of approximately RMB11,686,000 (the "Amount Payable") (which had no fixed repayment term in the past) to be repayable by instalments prior to December 2020 without any interest charges.

In view of the aforesaid arrangements, the Group has derecognised the Construction Payable and the Amount Payable and re-recognised the related liabilities initially at their fair values as borrowings from non-financial institutions and the borrowings will be measured subsequently at amortised costs. Upon the initial re-recognition of the related liabilities, the carrying amounts of the liabilities in excess of their fair values of approximately RMB7,828,000 have been credited as notional interest income from the initial recognition of non-interest bearing borrowings within 'Finance income' (Note 28).

During the year ended 31 December 2017, the Group has repaid part of the aforesaid borrowings from non-financial institutions of approximately RMB1,690,000.

(d) Mr. Lam Wai Wah (a beneficial shareholder of the Company) has advanced borrowings of USD1,643,000 to the Company and its subsidiary, Longpower Corporation Limited in October 2017. The borrowings from the shareholder are unsecured, interest free and repayable in full on 30 September 2019.

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current		
Borrowings secured by:		
— Property, plant and equipment, land use rights and inventories	**259,962**	90,488
— Restricted cash	**1,000**	88,813
	260,962	179,301
Guaranteed borrowings (Note)	**–**	150,980
	260,962	330,281
Current		
Borrowings secured by:		
— Property, plant and equipment, land use rights and inventories	**321,538**	162,163
— Restricted cash	**190,044**	488,761
	511,582	650,924
Guaranteed borrowings (Note)	**281,334**	150,872
	792,916	801,796
Total	**1,053,878**	1,132,077

Note:

As at 31 December 2017, guaranteed borrowings of approximately of RMB184,238,000 (2016: RMB200,572,000) are drawn down by subsidiaries and were guaranteed by other subsidiaries of the Group.

As at 31 December 2017, 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 RMB97,096,000) (2016: USD15,000,000 (equivalent to approximately RMB101,280,000) (Note 20(a)).

20 BORROWINGS *(Continued)*

Notes: (Continued)

(f) Assets pledged as security

The carrying amounts of assets pledged as securities for current and non-current borrowings are:

	Note	2017 RMB'000	2016 RMB'000
Current			
Bank deposits	17	**47,709**	104,354
Financial assets at fair value through profit or loss	15	**48,982**	47,061
Inventories	13	**37,750**	38,865
Total current assets pledged as security		**134,441**	190,280
Non-current			
Bank deposits	17	**18,724**	19,200
Land use right	6	**37,542**	30,256
Property, plant and equipment	7	**592,730**	368,477
Total non-current assets pledged as security		**648,996**	417,933
Total assets pledged as securities		**783,437**	608,213

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Within 1 year	**840,682**	857,324
Between 1 and 2 years	**114,968**	264,977
Between 2 and 5 years	**208,973**	105,326
	1,164,623	1,227,627

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Borrowings	**5.69%**	5.63%

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 for the note instruments and borrowings from other financial institution also approximate their fair values considering that these instruments and borrowings bear interest at fixed rates which are comparable to the applicable market interest rates and also their relatively short remaining maturity periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 BORROWINGS *(Continued)*

Notes: (Continued)

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**862,128**	801,786
HKD	**57,748**	40,253
USD	**244,747**	385,588
	1,164,623	1,227,627

21 DEFERRED INCOME

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

	2017	2016
	RMB'000	RMB'000
At 1 January	**9,500**	11,002
Addition	**14,150**	–
Credited to profit or loss during the year	**(1,469)**	(1,502)
At 31 December	**22,181**	9,500

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Convertible bonds

	2017 RMB'000	2016 RMB'000
As at 1 January	**107,246**	–
Issuance of convertible bonds during the year	–	102,717
Payment of interests	**(7,616)**	–
Fair value losses on the financial liabilities at fair value through profit or loss (Note 27)	**2,500**	4,529
As at 31 December	**102,130**	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 an investment agreement dated 25 July 2016 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. The convertible bonds consists of 7 parts, two parts with face value of US$2.25 million each and five parts with face value US$2.1 million each. Conversion prices for the parts of convertible bonds with face value of US$2.25 million and US$2.1 million each are HK$1.9205 and HK$2.1949 per share respectively. 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 have 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 years ended 31 December 2017 and 2016, no convertible bonds have been 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 2017	For fair value as at 31 December 2016
Risk free interest rate	**1.40%**	1.62%
Expected volatility	**50.18%**	46.69%
Expected dividend yield	**1.48%**	1.71%
Time to maturity	**0.63 years**	1.63 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables (a)		
Due to third parties	**157,332**	113,528
Bills payable (b)		
Due to third parties	**190,936**	170,945
Other payables and accruals (c)		
Due to a related party (Note 35(e))	**552**	–
Due to third parties	**125,873**	149,338
	474,693	433,811

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	**147,402**	100,052
Between 3 and 6 months	**3,440**	4,852
Between 6 and 12 months	**2,881**	4,662
Between 1 and 2 years	**1,240**	3,878
Above 2 years	**2,369**	84
	157,332	113,528

(b) As at 31 December 2017, the entire balance of bills payable were secured by restricted cash of approximately RMB78,721,000 (2016: RMB 63,808,000) (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	
	2017	2016
	RMB'000	RMB'000
Advance from customers	**19,352**	7,502
Payable for purchases of property, plant and equipment	**19,767**	48,124
Freight charges	**15,159**	16,804
Water and electricity	**3,544**	10,280
Salary and welfare payable	**18,128**	19,033
Taxes	**22,138**	13,244
Interest payable	**8,532**	8,128
Amount due to a third party	**–**	11,698
Amount due to a related party	**552**	–
Others	**19,253**	14,525
	126,425	149,338

(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	
	2017	2016
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**26,519**	28,334
Raw materials used	**1,089,714**	1,081,332
Electricity and other utility fees	**470,980**	445,763
Depreciation of property, plant and equipment	**182,687**	172,708
Employee benefit expenses (Note 25)	**88,328**	89,984
Transportation and related charges	**55,550**	61,841
Tax and surcharges	**14,303**	16,394
Amortisation of intangible assets	**13,572**	13,572
Repairs and maintenance	**11,956**	12,067
Office and entertainment expenses	**9,260**	9,482
Auditor's remuneration	**4,000**	4,000
— Audit services	**4,000**	4,000
— Non-audit services	**–**	–
Property insurance fee	**2,801**	2,575
Amortisation of land use rights	**2,168**	2,166
Operating leases expenses	**1,778**	1,694
Travelling expenses	**1,750**	2,065
Impairment loss for trade and other receivables, net	**418**	2,553
Other expenses	**24,751**	20,850
Total cost of sales, selling and marketing costs and administrative expenses	**2,000,535**	1,967,380

25 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	**64,621**	65,833
Contributions to pension plan (a)	**8,311**	7,059
Welfare and other expenses	**15,396**	17,092
	88,328	89,984

(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 certain different rates, according to the requirements of the local government, on the employee's basic salary, subject to certain caps, during each financial year.

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2016: four) directors whose emoluments are reflected in the analysis shown in Note 37. The emoluments payable to the remaining one (2016: one) individual during the year are as follows:

	2017	2016
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances	**424**	414
Contribution to pension scheme	**24**	18
	448	432

The emoluments fell within the following bands:

	Number of individual	
	2017	2016
Emolument bands (in HK dollar)		
Nil — HKD1,000,000 (equivalent to approximately Nil — RMB895,000)	**1**	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Government grant income (Note)	**3,984**	5,297
Insurance compensation	**1,231**	–
Others	**348**	630
	5,563	5,927

Note:

The government grant income for the year ended 31 December 2017 comprises of the amortisation of the deferred government grants for the year of approximately RMB1,469,000 (2016: RMB1,502,000) and also certain government grants for subsidising the Group's operating costs of approximately RMB2,515,000 (2016: RMB3,795,000) as received during the year.

27 OTHER LOSSES — NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Fair value losses on financial liabilities at fair value through profit or loss	**2,500**	4,529
Loss on disposals of property, plant and equipment	**156**	2,523
Gain on settlement of financial assets at fair value through profit or loss	**(1,649)**	(1,464)
Fair value gains on financial assets at fair value through profit or loss	**(205)**	(630)
Provision for a legal claim (Note 31)	**6,530**	–
Net foreign exchange losses/(gains)	**1,173**	(1,091)
	8,505	3,867

28 FINANCE INCOME AND COSTS

Finance income

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Interest income from bank deposits	**4,882**	10,323
Notional interest income from the initial recognition of non-interest bearing borrowings (Note 20 (c))	**7,828**	–
Interest income from deposits with other financial institution	**123**	–
	12,833	10,323

28 FINANCE INCOME AND COSTS *(Continued)*

Finance costs

	Year ended 31 December 2017 RMB'000	2016 RMB'000
Interest expenses:		
— Borrowings	**78,182**	75,028
— Discount interest for bill receivables	**3,648**	3,024
— Bill payables	**2,468**	2,556
	84,298	80,608
Less: Interest capitalised in property, plant and equipment (a)	**(773)**	(521)
	83,525	80,087
Other finance charges	**877**	516
Net foreign exchange (gains)/losses on financing activities	**(21,037)**	30,136
	63,365	110,739

Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings for the year of 5.90% (2016: 5.50%).

29 INCOME TAX EXPENSE

This note provides an analysis of the Group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

(a) Income tax expense

	Year ended 31 December 2017 RMB'000	2016 RMB'000
Current income tax		
— PRC enterprise income tax (i)	**49,586**	60,075
— Hong Kong profits tax (ii)	**–**	–
	49,586	60,075
Deferred income tax credit (Note 11)	**(4,633)**	(4,574)
	44,953	55,501

(i) 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 of the subsidiaries with operations in the PRC, adjusted for income and expenses items which are not assessable or deductible for income tax purpose.

(ii) The provision for Hong Kong profits tax is based on the rate of 16.5% on the estimated assessable profits arising in Hong Kong (if any). No provision for Hong Kong profits tax has been made as the Group has not generated or derived any taxable profit in Hong Kong during the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 INCOME TAX EXPENSE *(Continued)*

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2017 RMB'000	2016 RMB'000
Profit before income tax	**173,543**	178,187
Tax calculated at domestic tax rates applicable to profits in the respective countries	**48,532**	44,562
Income not subject to tax	**(6,700)**	–
Expenses not deductible for tax purposes	**2,091**	6,912
Tax effect of associates' results reported net of tax	**313**	1,310
Tax losses for which no deferred income tax asset was recognised	**724**	2,717
Utilisation of previously unrecognised tax losses	**(7)**	–
Income tax expense	**44,953**	55,501

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 RMB26,559,000 (2016: RMB27,057,000) in respect of losses of the subsidiaries amounting to approximately RMB110,071,000 (2016: RMB111,287,000) that can be carried forward against their future taxable income and these unrecognised deductible tax losses are expiring as follows:

Year	2017 RMB'000	2016 RMB'000
2017	–	4,809
2018	**75,729**	75,729
2019	**334**	334
2020	**8,542**	8,542
2021	**12,637**	12,637
2022	**1,546**	–
No definite expiry date	**11,283**	9,236
	110,071	111,287

Deferred income tax liabilities of approximately RMB159,607,000 (2016: RMB147,792,000) 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 2017, the unremitted earnings of these subsidiaries amounted to approximately RMB1,596,074,000 (2016: RMB1,477,918,000).

30 EARNINGS PER SHARE

(a) Basic earnings per share

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	
	2017	2016
Profit attributable to equity holders of the Company (RMB'000)	**128,590**	122,686
Weighted average number of ordinary shares in issue (thousand)	**802,191**	802,191
Basic earnings per share (RMB Yuan)	**0.160**	0.153

(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.

	Year ended 31 December 2017
Earnings	
Profit attributable to equity holders of the Company (RMB'000)	**128,590**
Adjustment for fair value gain of the convertible bonds	**2,500**
	131,090
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	**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**
Diluted earnings per share (RMB Yuan)	**0.153**

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 was same as the basic earnings per share for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 PROVISIONS

	As of 31 December	
	2017	2016
	RMB'000	RMB'000
Provision for a legal claim	**6,530**	–

In December 2017, Zhuhai People's Court, Xiangzhou District, has passed an unfavourable first instance judgement against a subsidiary of the Group, Fuzhou Yihua Chemical Stock Co., Ltd. ("Fuzhou Yihua"), in respect of a legal claim as initiated by a customer of Zhuhai Chengzhi Tong Development Co., Ltd. (the "Claimant"). Pursuant to the first instance judgement, the Group has to return the Claimant for the amounts as previously prepaid by the Claimant under a sales order (plus the related interest costs) of approximately RMB6,530,000 in total (despite Fuzhou Yihua has already delivered out the goods to fulfil the sale order).

After considering the appropriate legal advice, the Group has lodged an appeal against the first instance judgement on 4 January 2018 and no payment has been made to the Claimant as of the date of these consolidated financial statements. The Directors are of the view that the Group has good grounds to defense the case and will be succeed in the appeal. Considering there is still uncertainty in the outcome of the appeal, the Group has recognised a full provision for the legal claim of approximately RMB6,530,000 during the year ended 31 December 2017 to cover any possible maximum exposure to the Group.

32 DIVIDENDS

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Payment of dividend declared for the prior year of Nil (2016: HKD0.0192) per ordinary share	–	12,915

The dividends paid in 2016 of approximately HKD15,402,000 (equivalent to approximately RMB12,915,000) were related to the final dividend for the year ended 31 December 2015.

As of the date of the consolidated financial statements, no dividend in respect of the years ended 31 December 2017 and 2016 has been proposed by the Board of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	173,543	178,187
Adjustments for:		
— Depreciation	182,687	172,708
— Amortisation of land use rights	2,168	2,166
— Amortisation of intangible assets	13,572	13,572
— Deferred income amortisation	(1,469)	(1,502)
— Finance income	(12,833)	(10,323)
— Finance costs	63,365	110,739
— Loss on disposals of property, plant and equipment	156	2,523
— Share of losses of investments accounted for using the equity method	1,251	5,240
— Gain on settlement of financial assets at fair value through profit or loss	(1,649)	(1,464)
— Fair value losses on financial liabilities at fair value through profit or loss	2,500	4,529
— Exchange losses/(gains)	262	(972)
— Fair value gains of financial assets at fair value through profit or loss	(205)	(630)
— Provisions for a legal claim	6,530	–
— Provision for impairment of trade receivables	418	2,553
Changes in working capital		
— Inventories	27,027	28,148
— Trade and other receivables	(96,862)	123,112
— Trade and other payables	80,358	(66,560)
Cash generated from operations	440,819	562,026

33 CASH FLOW INFORMATION *(Continued)*

(b) Net debt Reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	As at 31 December 2017 RMB'000	2016 RMB'000
Cash and cash equivalents (Note 16)	**705,710**	540,230
Restricted cash as securities of the borrowings (Note 17)	**66,433**	123,554
Borrowings — repayable within one year (Note 20)	**(840,682)**	(857,324)
Borrowings — repayable after one year (Note 20)	**(323,941)**	(370,303)
Convertible bonds — repayable within one year (Note 22)	**(102,130)**	–
Convertible bonds — repayable after one year (Note 22)	**–**	(107,246)
Net debt	**(494,610)**	(671,089)
Cash and cash equivalents and restricted cash as securities of the borrowings	**772,143**	663,784
Gross debt — fixed interest rates	**(998,612)**	(884,864)
Gross debt — variable interest rates	**(214,426)**	(450,009)
Gross debt — interest free	**(53,715)**	–
Net debt	**(494,610)**	(671,089)

	Other assets		Liabilities from financing activities			
			Borrowings			
	Cash and cash equivalents RMB'000	Restricted cash RMB'000	due within 1 year RMB'000	due after 1 year RMB'000	Convertible bonds RMB'000	Total RMB'000
Net debt as at 1 January 2016	470,931	232,351	(834,188)	(383,361)	–	(514,267)
Cash flows	68,327	(108,797)	239,726	(218,444)	(102,717)	(121,905)
Foreign exchange adjustments	972	–	(6,429)	(23,707)	–	(29,164)
Fair value losses	–	–	–	–	(4,529)	(4,529)
Reclassification in accordance with maturity date	–	–	(256,433)	256,433	–	–
Other non-cash movements	–	–	–	(1,224)	–	(1,224)
Net debt as at 31 December 2016	540,230	123,554	(857,324)	(370,303)	(107,246)	(671,089)
Cash flows	**165,742**	**(57,121)**	**286,257**	**(197,696)**	**7,616**	**204,798**
Foreign exchange adjustments	**(262)**	**–**	**8,333**	**12,704**	**–**	**20,775**
Fair value losses	**–**	**–**	**–**	**–**	**(2,500)**	**(2,500)**
Reclassification in accordance with maturity date	**–**	**–**	**(277,948)**	**277,948**	**–**	**–**
Reclassification from other payable	**–**	**–**	**–**	**(44,672)**	**–**	**(44,672)**
Other non-cash movements	**–**	**–**	**–**	**(1,922)**	**–**	**(1,922)**
Net debt as at 31 December 2017	**705,710**	**66,433**	**(840,682)**	**(323,941)**	**(102,130)**	**(494,610)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the year end but not yet recognised as liabilities is as follow:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Property, plant and equipment	**65,832**	15,024

(b) Non-cancellable operating leases — 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	
	2017	2016
	RMB'000	RMB'000
No later than 1 year	**2,036**	1,703
1 – 5 years	**2,014**	2,866
Later than 5 years	**1,376**	–
	5,426	4,569

35 RELATED PARITIES TRANSACTIONS

(a) Parent entities

The Group is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest 2017	2016
China First Chemical Ltd.	Immediate parent entity	Cayman Islands	**52.35%**	52.35%
Yihua Crown Limited ("Yihua") (Note)	Ultimate parent entity and controlling party	Cayman Islands	**62.14%**	62.14%

Note: Yihua directly holds 62.14% equity interest in China First Chemical Ltd.

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.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 10(A).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARITIES TRANSACTIONS *(Continued)*

(c) Key management personnel compensation

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and bonuses	**8,505**	8,481
Contributions to pension plan	**523**	415
	9,028	8,896

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

(d) Transactions with other related parties

The following transactions occurred with a related party:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Purchases of goods from the associate	**52,844**	108,467

(e) Year-end balances with related parties

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Prepayment to the associate (Note 14)	**4,781**	5,124
Other payables to a shareholder (Note 23)	**552**	–
Borrowings from a shareholder (Note 20)	**10,734**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARITIES TRANSACTIONS *(Continued)*

(f) Loans to/from related parties

	2017 RMB'000	2016 RMB'000
Loans to the associate		
At beginning of the year	–	38,693
Loans repayment received	–	(38,693)
At end of the year	–	–

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

	2017 RMB'000	2016 RMB'000
Loans from a shareholder		
At beginning of the year	–	–
Loans received	11,802	–
Loan repaid	(735)	–
Foreign exchange gain	(333)	–
At end of the year	10,734	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**1,449,426**	1,449,426
Other receivables	**540,483**	571,496
	1,989,909	2,020,922
Current assets		
Cash and cash equivalents	**76**	13
Total assets	**1,989,985**	2,020,935
EQUITY		
Share capital	**65,346**	65,346
Other reserves	**1,761,408**	1,761,408
Accumulated losses	**(43,400)**	(14,345)
Total equity	**1,783,354**	1,812,409
LIABILITIES		
Non-current liabilities		
Borrowings	**104,501**	101,280
Financial liabilities at fair value through profit or loss	**102,130**	107,246
	206,631	208,526
Total liabilities	**206,631**	208,526
Total equity and liabilities	**1,989,985**	2,020,935

The balance sheet of the Company was approved by the Board of Directors on 26 March 2018 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 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)
Balance at 1 January 2017		**262,592**	**1,498,816**	**1,761,408**	**(14,345)**
Loss for the year		–	–	–	**(29,055)**
Balance at 31 December 2017		**262,592**	**1,498,816**	**1,761,408**	**(43,400)**

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 2017

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 directors					
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
Non-executive directors					
Mr. He Pei Pei (Note i)	137	–	–	–	137
Mr. Wang Xin	143	–	–	–	143
Mr. Lin Zhang	143	–	–	–	143
Chief executives					
Mr. Tan Boon Chek	–	360	–	–	360
Mr. Zhang Heng (Note ii)	–	270	–	–	270
Total	423	3,230	14	32	3,699

Notes:

(i) Appointed on 17 January 2017.

(ii) Resigned on 29 September 2017.

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 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 directors					
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 directors					
Mr. Kou Huizhong (Note)	116	–	–	–	116
Mr. Wang Xin	141	–	–	–	141
Mr. Lin Zhang	116	–	–	–	116
Chief executives					
Mr. Tan Boon Chek	–	360	–	–	360
Mr. Zhang Heng	–	360	–	–	360
Total	373	3,320	14	34	3,741

Note: Resigned on 15 October 2016.

Except for the emoluments as disclosed above, no other emoluments are paid to or receivable by any of the directors during the year ended 31 December 2017 in respect of their services as directors (whether of the Company or its subsidiary undertakings) or in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertakings (2016: Nil).

37 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(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 of the directors during the year ended 31 December 2017 in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2016: Nil).

(c) Directors' termination benefits

On 29 September 2017, the Board made a resolution to terminate the appointment of Mr. Zhang Heng as the Chief executive of the Company. In agreement with Mr. Zhang Heng, the Company was not obliged to make any payment to Mr. Zhang Heng as compensation.

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

During the year ended 31 December 2017, no consideration was provided to or receivable by third parties for making available directors' services (2016: Nil).

NINE-YEAR FINANCIAL SUMMARY

	2017 RMB'000	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	**2,228,803**	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	**381,888**	445,468	395,014	370,528	466,586	464,684	492,741	320,817	275,656
Operating profit	**225,326**	283,843	244,976	267,770	359,851	360,272	390,930	247,356	214,123
Finance costs	**50,532**	100,416	83,164	39,172	24,492	23,222	24,144	19,581	29,225
Profit before tax	**173,543**	178,187	172,856	231,302	335,359	337,050	366,786	229,396	185,335
EBIT	**236,908**	288,926	270,605	274,408	363,363	365,429	393,609	248,977	214,560
EBITDA	**435,335**	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	**128,590**	122,686	129,043	170,754	250,257	249,712	268,169	169,051	134,413
Profit margin									
Gross profit margin	**17.1%**	19.8%	18.5%	29.9%	30.9%	28.7%	32.3%	26.5%	27.4%
Operating profit margin	**10.1%**	12.6%	11.3%	21.6%	23.8%	22.2%	25.6%	20.4%	21.3%
Net profit margin	**5.8%**	5.5%	6.0%	13.8%	16.6%	15.4%	17.6%	14.0%	13.4%
EBITDA margin	**19.5%**	21.2%	20.1%	30.2%	30.3%	26.8%	29.8%	24.3%	25.6%
Earnings per share									
Basic (RMB)	**0.16**	0.15	0.16	0.21	0.31	0.31	0.49	0.38	0.30
Diluted (RMB)	**0.15**	0.15	0.16	0.21	0.31	0.31	0.49	0.38	0.30
Assets and liabilities									
Total assets	**4,171,593**	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	**2,357,297**	2,228,707	2,118,936	2,006,858	1,860,090	1,632,122	1,415,958	660,819	475,951
Total liabilities	**1,814,296**	1,812,010	1,803,612	1,061,313	677,356	815,798	833,440	927,084	801,522
Net asset value/total equity	**2,357,297**	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	**1,213,038**	1,334,873	1,217,549	854,827	391,075	418,107	478,646	387,850	468,212
Cash and cash equivalents	**705,710**	540,230	470,931	725,234	784,153	778,553	926,148	397,231	195,834
Quick ratio (X)	**1.1**	0.9	0.9	1.8	1.9	1.6	1.9	0.9	0.8
Current ratio (X)	**1.2**	1.1	1.0	2.1	2.2	1.8	2.1	1.1	0.9
Inventory turnover (days)	**38**	44	42	67	56	42	36	34	26
Trade receivables turnover (days)	**55**	56	49	57	58	66	70	75	64
Trade and notes payables turnover (days)	**62**	63	42	64	83	84	80	88	67
Net asset value per share (RMB)	**2.94**	2.78	2.64	2.50	2.32	2.03	2.62	1.49	1.07
Gearing ratio	**17%**	23%	20%	N/A	N/A	N/A	N/A	24%	37%
Total interest-bearing borrowings and convertible bonds to total equity	**51%**	60%	57%	43%	21%	26%	34%	58%	97%

NINE-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, 2016 and 2017 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. Lin Zhang
Dr. He Peipei

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,
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Fujian Province,
PRC