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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)

CLARIFICATION ANNOUNCEMENT IN RELATION TO THE DISCLOSEABLE TRANSACTION UNDER THE HONG KONG LISTING RULES TRANSFER OF 100% EQUITY OF YONGTAI JUYUAN HYDROPOWER STATION CO., LTD.

Reference is made to the announcement of the Company published on The Hong Kong Stock Exchange dated 9 April 2018 (the “Announcement”), in relation to the transfer of 100% equity of Yongtai Juyuan Hydropower Station Co., Ltd. (“Yongtai Juyuan”) on 9 April 2018 by Fuzhou Yihua Chemical Stock Co., Ltd. (“Fuzhou Yihua”), a wholly-owned subsidiary of the Company to the purchaser, Pingnan Zhongsheng Commercial Management Co., Ltd. (“Pingnan Zhongsheng”). Capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The Board would like to clarify the following information:

DEVELOPMENT MILESTONE OF POWER PLANT ASSET

October 2017	Yongtai Juyuan received a power plant from Fuzhou Yihua as asset injection
November 2017	Yongtai Juyuan obtained the “Power Business Permit” (電力業務許可證) approved by the government authorities and implemented the technical remodeling. During the remodeling process, the operation of the power plant was fully suspended, and could only resume formally after the completion of technical remodeling and the inspection and acceptance of the government
29 March 2018	The government authorities started the inspection and acceptance process of the technical remodeling
4 April 2018	The government authorities approved the power plant to be connected to the grid
9 April 2018	The “Equity Transfer Agreement” was signed between the purchaser and the vendor
18 April 2018	RMB45 million was paid within ten working days upon signing the “Equity Transfer Agreement”

BASIS OF THE PRICING

The aggregated consideration for the transfer has been determined by taking into consideration an valuation of Yongtai Juyuan as at 28 February 2018 implemented by an independent valuer who has reviewed all the government approvals of Yongtai Juyuan, has conducted site visits for fixed properties, and has fully considered such factors related to upgrading and remodeling thereof in conjunction with market conditions of similar products. The designed capacity of power generation has been increased from the original 33,100 kW to 36,000 kW. The total assets in book value of Yongtai Juyuan amounted to RMB357 million with its net assets as RMB49.11 million. The fair value of total assets after valuation was RMB378 million and the fair value of its net assets was RMB69.84 million, where such values have been determined based on an arm's length negotiations with the purchaser.

PAYMENT ARRANGEMENT

The purchaser, Pingnan Zhongsheng, paid RMB45 million within ten working days upon signing the "Equity Transfer Agreement" whereas the Company has received RMB45 million for the transfer from the purchaser on 18 April 2018, and the remaining RMB25 million shall be paid on the completion date of the transfer. As at the date of this announcement, the transaction has not yet been completed.

YONGTAI JUYUAN'S FINANCIAL INFORMATION

According to the audited financial statements of Yongtai Juyuan for the year ended 31 December 2017 and for the two-month period ended 28 February 2018, its loss before tax amounted to approximately RMB1.14 million and approximately RMB0.56 million respectively, and its attributable loss (after tax) amounted to approximately RMB1.14 million and approximately RMB0.56 million respectively.

According to the audited financial statements of Yongtai Juyuan for the two-month period ended 28 February 2018, in terms of book value, its net assets amounted to RMB49.11 million. After the general valuation conducted by an independent party, the net assets amounted to RMB69.84 million.

Being a subsidiary established by Fuzhou Yihua on 30 September 2016 with its 100% shareholding held by Fuzhou Yihua, Yongtai Juyuan was a shell company at the beginning after its incorporation. Fuzhou Yihua had not injected its asset, the power plant, into Yontai Juyuan until October 2017, as a result of which, Yongtai Juyuan could only obtain the "Power Business Permit" (電力業務許可證) approved by the government in November 2017 before the relevant technical remodeling was implemented. Prior to the injection, Yongtai Juyuan was actually a shell company without any operation or assets, while the power plant was in fact an asset of Fuzhou Yihua and also an independent power workshop which had not been independently audited. Therefore, no results were recorded for Yongtai Juyuan for the year of 2016. In October 2017, Yongtai Juyuan received the power plant as asset injection, after which, permission from the governmental authorities for technical remodeling was acquired. During the remodeling process, the operation of the power plant was fully suspended, and could only resume formally after the completion of technical remodeling and the inspection and acceptance of the government.

INFORMATION ON PINGNAN ZHONGSHENG

The controlling shareholder of Pingnan Zhongsheng is Pingnan Tianwaitian International Hotel Co., Ltd. (屏南天外天國際大飯店有限公司).

To the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiries, the purchaser and its ultimate beneficial owners are Independent Third Parties. There is no agreement, arrangement or memorandum between the purchaser and its ultimate beneficial owners and the Company's connected person in respect of the transfer. Neither the purchaser nor its ultimate beneficial owners have any business or other relationship (whether prior or current) with the Company's connected persons (including the Directors and management).

REASONS FOR AND BENEFITS OF THE TRANSFER

After the launching of the national electricity reform policy (國家電改政策), the Company has obtained the preferential policies related to the direct purchase of electricity, and has no longer relied on the hydropower plant. Besides, given that the chemical industry supported by hydropower plant has become uneconomical, the power generating capacity of the hydropower station varies seasonally and the chemical plants need sustainable and constant power supply for their production, we actively seek the transfer of the hydropower station. As the hydropower station is relatively obsolete and thus unable to qualify for the power grid access, it can only be transferred after technical remodeling approval with the qualification for the power grid access obtained. The purchaser is the selected market buyer who has tendered the highest bid after we have conducted extensive price inquiry in the market, who finally signed the "Equity Transfer Agreement" on 9 April 2018 after the technical remodeling has accomplished with our power plant approved on-grid by the government authorities, which conducted the inspection and acceptance procedure for the technical remodeling on 29 March 2018 and agreed to connect our power plant to the grid on 4 April. The practice is in line with the maximization of the interests of the Company.

FINANCIAL IMPACT TO THE COMPANY AND USE OF PROCEEDS

According to the audited accounts of Yongtai Juyuan for the two-month period ended 28 February 2018, the Company expected to record an estimated gain of approximate RMB20.89 million upon the completion of the disposal. The estimated gain of approximate RMB20.89 million was the aggregate of (i) consideration attributable to the disposal on part of the Company (i.e RMB70 million); less (ii) net assets of approximate RMB49.11 million of Yongtai Juyuan as at 28 February 2018.

The actual amount of gain to be recognized would be subject to the operating results of Yongtai Juyuan for the period from 28 February 2018 up to the Completion Date, recognition of the expenses to be incurred in relation to the Company's disposal and the review conducted by the Company's auditors.

The Company intends to apply the net proceeds from the Company's disposal (after tax and deduction of expenses attributable thereto) as the general working capital of the Company, for new investments which are suitable for the Company's growth strategy and for general corporate purposes, including but not limited to the repayment of bank loans of the Company.

Upon the completion of the transaction, Yongtai Juyuan will no longer be the subsidiary of the Company.

Save as disclosed above, all other information in the Announcement remains unchanged.

By Order of the Board
China First Chemical Holdings Limited
Liem Djiang Hwa
Chairman and non-executive Director

18 July 2018

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