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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)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012**

<b>Financial Highlights</b>	<b>For the six months ended 30 June</b>		<b>Growth %</b>
	<b>2012 RMB'000</b>	<b>2011 RMB'000</b>	
Revenue	<b>857,765</b>	715,316	<b>19.9%</b>
Gross profit	<b>268,669</b>	227,983	<b>17.8%</b>
Profit attributable to equity holders of the Company	<b>152,134</b>	132,185	<b>15.1%</b>
Earnings per share			
– Basic (RMB)	<b>19 cents</b>	29 cents	<b>(34.5)%</b>
– Diluted (RMB)	<b>19 cents</b>	29 cents	<b>(34.5)%</b>

The board (the “Board”) of directors (the “Directors”) of China First Chemical Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 June 2012 together with the comparative figures for the previous period as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Note	For the six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
Revenue	5	857,765	715,316
Cost of sales	8	(589,096)	(487,333)
<b>Gross profit</b>		<b>268,669</b>	<b>227,983</b>
Selling and marketing expenses	8	(18,995)	(15,200)
Administrative expenses	8	(30,763)	(27,071)
Other income	6	571	3,511
Other (losses)/gains-net		(116)	350
		<b>219,366</b>	<b>189,573</b>
<b>Operating profit</b>			
Finance income		3,023	1,127
Finance costs	7	(17,338)	(13,523)
Finance costs – net		(14,315)	(12,396)
<b>Profit before income tax</b>		<b>205,051</b>	<b>177,117</b>
Income tax expense	9	(52,380)	(43,927)
<b>Profit and total comprehensive income for the period</b>		<b>152,671</b>	<b>133,250</b>
Attributable to:			
– Equity holders of the Company		152,134	132,185
– Non-controlling interests		537	1,065
		<b>152,671</b>	<b>133,250</b>
Earnings per share attributable to the equity holders of the Company (RMB)			
– Basic	10	0.19	0.29
– Diluted	10	0.19	0.29
<b>Dividends</b>	11	<b>40,697</b>	<b>100,374</b>

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2012

	<i>Note</i>	As at 30 June 2012 <i>RMB'000</i> (Unaudited)	As at 31 December 2011 <i>RMB'000</i> (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		76,449	77,331
Property, plant and equipment		777,693	773,606
Deferred income tax assets		–	170
Prepayment for property, plant & equipment		26,185	1,834
		<u>880,327</u>	<u>852,941</u>
<b>Current assets</b>			
Inventories		105,893	101,056
Trade and other receivables	12	329,331	341,963
Restricted cash		60,041	37,692
Cash and cash equivalents		1,023,710	926,148
		<u>1,518,975</u>	<u>1,406,859</u>
<b>Total assets</b>		<u><b>2,399,302</b></u>	<u><b>2,259,800</b></u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		65,346	65,168
Reserves		790,697	784,936
Retained earnings		677,291	565,854
		<u>1,533,334</u>	<u>1,415,958</u>
Non-controlling interests		–	10,402
<b>Total equity</b>		<u><b>1,533,334</b></u>	<u><b>1,426,360</b></u>

		As at 30 June 2012	As at 31 December 2011
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		137,310	137,310
Deferred income		14,629	14,743
		<u>151,939</u>	<u>152,053</u>
<b>Current liabilities</b>			
Trade and other payables	13	368,080	310,732
Current income tax liabilities		28,497	29,319
Borrowings		317,452	341,336
		<u>714,029</u>	<u>681,387</u>
<b>Total liabilities</b>		<u>865,968</u>	<u>833,440</u>
<b>Total equity and liabilities</b>		<u>2,399,302</u>	<u>2,259,800</u>
<b>Net current assets</b>		<u>804,946</u>	<u>725,472</u>
<b>Total assets less current liabilities</b>		<u>1,685,273</u>	<u>1,578,413</u>

# **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

*For the six months ended 30 June 2012*

## **1. GENERAL INFORMATION**

The Company was incorporated in the Cayman Islands on 24 November 2010, and was listed on the Main Board of the Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 9 December 2011. The address of its registered office is P.O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is a leading specialty chemicals provider in China specializing in bleaching and disinfectant chemicals and foaming agent.

This condensed consolidated interim financial information is presented in thousands of Renminbi (“RMB’000”), unless otherwise indicated, and approved for issue on 28 August 2012 by the Board of Directors.

## **2. BASIS OF PREPARATION**

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied in the preparation of the condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2011, unless otherwise stated.

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

There are certain new standards and amendments to standards which have been issued but are not yet effective for the year beginning 1 January 2012 and have not been early adopted by the Company in the unaudited condensed interim financial information. Management expected the adoption of the above would not have significant impact on the Group.

## **4. SEGMENT INFORMATION**

The Group is principally engaged in the chemical products business in the PRC. Separate individual financial information of the three locations where the principal operations of the Group is located are presented to the chief operating decision maker (the Board) who reviews the internal reporting in order to assess performance and allocate resources. Due to the similarities in economic characters, nature of products and production, customers, etc, they are aggregated into a single reportable segment. Majority of the Group’s products are sold to customers in the PRC. The Group has a large number of customers, which are widely dispersed within the PRC and Southeast Asia, no single customer accounted for more than 10% of the Group’s total revenues for the six months ended 30 June 2012.

## 5. REVENUE

	For the six months ended	
	30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Bleaching and disinfectant chemicals	307,338	269,051
Foaming agent	414,994	329,333
Other specialty chemicals	135,433	116,932
	<u>857,765</u>	<u>715,316</u>

## 6. OTHER INCOME

	For the six months ended	
	30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Profit from sales of raw materials	–	2,444
Subsidy income granted by government	571	1,067
	<u>571</u>	<u>3,511</u>

## 7. FINANCE COSTS

	For the six months ended	
	30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Interest expenses:		
– Bank borrowings	12,835	12,663
– Discount interest for bill receivables	3,823	2,544
– Other charges	2,235	2,371
	<u>18,893</u>	<u>17,578</u>
Less: Interest capitalised in property, plant and equipment	(1,101)	–
	<u>17,792</u>	<u>17,578</u>
Exchange gains	(454)	(4,055)
	<u>17,338</u>	<u>13,523</u>

## 8. EXPENSES BY NATURE

The Group's cost of sales, selling and marketing expenses and administrative expenses represent the following items:

	For the six months ended	
	30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Raw materials used and changes in inventories	391,922	307,084
Depreciation of property, plant and equipment	32,815	29,078
Electricity and other utility fees	141,739	129,838
Employee benefit expenses	33,174	28,500
Transportation and related charges	13,994	10,835
Taxes and levies on main operations	7,606	7,709
Amortization of land use rights	882	882
Office and entertainment expenses	4,145	3,975
Operating lease expenses	625	528
Property insurance fee	1,471	1,137
Travelling expenses	1,047	962
Repairs and maintenance	3,844	3,953
Auditors' remuneration	500	73
Other expenses	5,090	5,050
	<u>638,854</u>	<u>529,604</u>

## 9. INCOME TAX EXPENSES

	For the six months ended	
	30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Current income tax – PRC enterprise income tax	52,210	43,594
Deferred income tax charge	170	333
	<u>52,380</u>	<u>43,927</u>

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

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

## 10. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit for the six months ended 30 June attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period of six months ended 30 June. In determining the weighted average number of ordinary shares in issue during the period of six months ended 30 June 2011, the 1 share issued and allotted on 24 November 2010, the 1 share issued and allotted on 3 December 2010, the 1 share issued and allotted on 7 April 2011, the 1 share issued and allotted on 14 June 2011 and the 599,999,996 shares issued and allotted through capitalisation of the share premium account arose from the Listing of the Company on 9 December 2011 have been regarded as if 450,000,000 shares were in issue since 1 January 2010, 150,000,000 shares were in issue since 14 June 2011.

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Audited)
Profit attributable to equity holders of the Company (RMB'000)	152,134	132,185
Weighted average number of ordinary shares in issue (thousand)	802,125	463,151
Basic earnings per share (RMB yuan)	<u>0.19</u>	<u>0.29</u>

### (b) Diluted

Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The pre-IPO share options granted by the Company are taken into the consideration when the Company calculates the diluted earnings per share. The average market price of the shares for the period from 1 January 2012 to 30 June 2012 is lower than the exercise price of the pre-IPO share options, the pre-IPO share options is not included in the diluted earnings per share calculation. The diluted earnings per share are same with the basic earnings per share.

## 11. DIVIDEND

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Dividend	<b>40,697</b>	100,374

On 29 April 2011, the Company declared a dividend of HK\$0.27 per share totalled to HK\$120 million to the shareholders of the Company. In determining the number of ordinary shares as at 29 April 2011, the 1 share issued and allotted on 24 November 2010, the 1 share issued and allotted on 3 December 2010, the 1 share issued and allotted on 7 April 2011, and the 599,999,996 shares issued and allotted through capitalisation of the share premium account arose from the Listing of the Company on 9 December 2011 have been regarded as if 450,000,000 shares were in issue since 1 January 2010, and 150,000,000 shares were in issue since 14 June 2011. Therefore, the dividend per share was calculated based on 450,000,000 shares. Such dividend was paid in April 2011.

The final dividend for the year ended 31 December 2011 amounting to RMB40,697,000 was paid in April 2012.

The Board of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2012.

## 12. TRADE AND OTHER RECEIVABLES

	<b>As at 30 June</b>	As at 31 December
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Trade receivables (a)	<b>327,906</b>	336,813
Prepayments	–	4,095
Other receivables	<b>1,425</b>	1,055
	<b>329,331</b>	341,963

- (a) The outstanding balances are within credit terms of between 30 days and 90 days for both domestic customers and overseas customers.

As at 30 June 2012 and 31 December 2011, the aging analysis of the trade receivables is set out as follows:

	<b>As at 30 June</b>	As at 31 December
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Within 3 months	<b>325,559</b>	336,160
Between 4 and 6 months	<b>2,267</b>	639
Between 7 and 12 months	<b>80</b>	14
	<b>327,906</b>	336,813

### 13. TRADE AND OTHER PAYABLES

	As at 30 June 2012 <i>RMB'000</i> (Unaudited)	As at 31 December 2011 <i>RMB'000</i> (Audited)
Trade payables (a)	84,475	100,871
Bills payable (b)	205,927	135,772
Other payables and accrual (c)	77,678	74,089
	<b>368,080</b>	<b>310,732</b>

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

	As at 30 June 2012 <i>RMB'000</i> (Unaudited)	As at 31 December 2011 <i>RMB'000</i> (Audited)
Within 3 months	83,938	100,611
Between 4 and 6 months	278	240
Between 7 and 12 months	259	20
	<b>84,475</b>	<b>100,871</b>

(b) As at 30 June 2012 and 31 December 2011, the entire balances of bills payable were secured by restricted cash of RMB60,041,000 and RMB37,692,000 respectively.

(c) Details of other payables and accrual are as follows:

	As at 30 June 2012 <i>RMB'000</i> (Unaudited)	As at 31 December 2011 <i>RMB'000</i> (Audited)
Advance from customers	460	629
Payable for IPO expenses	16,148	22,266
Auditors' remuneration	500	2,200
Payable for property, plant and equipment purchases	11,907	3,530
Freight charges	13,606	12,954
Water and electricity	12,847	13,147
Salary and welfare payable	5,743	7,549
Taxes	12,108	8,131
Others	4,359	3,683
	<b>77,678</b>	<b>74,089</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

China First Chemical Holdings Limited and its subsidiaries (together the “Group”) are going to celebrate the 1st anniversary of its shares successfully listed on the main board of The Stock Exchange of Hong Kong Limited on 9 December 2011 which marked an important milestone for the Group. During this period, a number of measures have been launched which strengthened our leading position in the PRC market and further expanded our production capacity.

During the period under review, the revenue of the Group was approximately RMB857.8 million, representing an increase of approximately 19.9% from the revenue of approximately RMB715.3 million for the corresponding period of 2011. The gross profit increased by 17.8% to approximately RMB268.7 million from the same period of 2011. The net profit attributable to the equity holders of the Company and the basic earnings per share were approximately RMB152.1 million and approximately RMB0.19, representing an increase of approximately 15.1% and a decrease of approximately 34.5% as compared with the corresponding period last year.

### Business Review

In 2012, under multiple influences initiated by the prolonged European debt crisis and the sluggish global economy, the growth momentum of the macro economy in the PRC has been slowing down. The GDP growth rate in the first half of the year achieved 7.8%. The overall domestic economic was sound and maintained a steady growth while the living standards of people continued to improve.

In the first half of 2012, the Group captured the opportunity of economic conditions and market trend, and fully capitalized on the product quality advantage, production scale, cost advantage of our own hydroelectricity power plant and integrated production chain, so as to ensure product quality and cater to market demand, and to encourage the implementation of technological advancement and process innovation, which increased the overall operating efficiency. In the first half of 2012, the price of the Group’s major products like hydrogen peroxide and foaming agent was slightly dropped due to the slowdown of the economic growth while sodium chlorate recorded a slight rise thanks to the favourable effect brought by a rise in export price.

Following the completion and operation of production facilities for foaming agent of 5,000 tons in September 2011, the Group has increased more efforts on the research and production of the modified and special foaming agents. In addition, through the efforts and contribution of the Group’s research and development (“R&D”) team and employees, the technology upgrade for the electrolyzers in our existing plants was completed in February 2012, which increased the annual production capacity for sodium chlorate by 10,000 tons. In the first half of 2012, active planning for locations of and land requisition for new plants was made and it is expected that construction will be commenced in this year.

## Future Prospects

In the second half of 2012, under the influence of unanticipated issues, the PRC economic trend was unforeseeable. Nevertheless, it is certain that China economy will continue to grow in the coming years, and the Group will proactively capture market opportunities and cope with market changes. The Group will complete the technology upgrade projects of the existing plants in the second half of 2012, estimated capital expenditures to be approximately RMB490.0 million, in bid to expand production capacity and lower production cost. In addition, the Group will continue to conduct R&D by own efforts, so as to enhance the core competitiveness of the Group; keep stringent production cost control to improve operating efficiency; optimize product design to enhance product quality; implement strategies of talent recruitment and training, so as to fortify a solid foundation for future technological R&D and business development; reinforce the safety and environmental protection work to further improve the introduction of environmental management facilities; maintain stringent supervision and management, and fulfill hierarchical responsibility, so as to ensure “zero accident” regarding plant safety and environmental protection.

The Group will continue to capitalize on its competitive advantage and prominent position in the industry, in order to consolidate and enhance business of the Group, and maximize the return to shareholders.

## FINANCIAL REVIEW

### Revenue

Revenue for the period under review was approximately RMB857.8 million, representing an increase of approximately RMB142.5 million or 19.9% from approximately RMB715.3 million for the corresponding period last period. The increase was mainly attributable to the increase in the sales of bleaching and disinfectant chemicals and foaming agent during the period.

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

	For the six months ended 30 June			
	2012		2011	
	Amount	% of Revenue	Amount	% of Revenue
<b>Revenue (RMB'000)</b>				
Bleaching and disinfectant chemicals	307,338	35.8%	269,051	37.6%
Foaming agent	414,994	48.4%	329,333	46.0%
Other specialty chemicals	135,433	15.8%	116,932	16.4%
Total	<u>857,765</u>	<u>100.0%</u>	<u>715,316</u>	<u>100.0%</u>

### *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.

During the period under review, the total revenue for the bleaching and disinfectant chemicals was RMB307.3 million, representing an increase of approximately 14.2% or RMB38.2 million from the corresponding period last year. The increase in revenue was mainly attributable to the increase in selling price for the export of sodium chlorate, sales of sodium chlorate increased by approximately 44.9% to RMB182.9 million, and increasing its average selling price by approximately 2.2%.

### *Foaming agent*

This segment mainly consists of basic and modified grades of foaming agent. Foaming agent is primarily used in the production of foamed plastics as an additive by the downstream customers of the Group, which is widely applied in the footwear industry, building materials industry, automobile upholstery and furniture and home decoration materials industry.

During the period under review, the total revenue for the foaming agent was RMB415.0 million, representing an increase of approximately 26.0% or RMB85.7 million from the corresponding period last year. The increase was mainly attributable to: (1) the production capacity and sales volumes were increased after the upgrade of our production facilities; and (2) the increase in the usage of self-produced raw materials, for example caustic soda and biurea.

### *Other specialty chemicals*

This segment mainly consists of potassium chlorate, sodium perchlorate, potassium perchlorate, caustic soda, biurea and others.

During the period under review, the total revenue for other specialty chemicals was RMB135.4 million, representing an increase of approximately 15.8% or RMB18.5 million from the corresponding period last year. The increase was mainly attributable to the average selling price of other specialty chemicals agent increasing by approximately 6.8% due to the strong demand from the downstream industries, the sales of caustic soda increased by approximately 56.4% to RMB51.7 million.

### **Cost of sales**

Our cost of sales primarily consists 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, taxes and levies on main operations, office and entertainment expenses, traveling expenses and other expenses. Raw materials used and changes in inventories, including foaming agent sourced from third parties, is the largest component of our cost of sales, representing 66.5% and 63.0% of our total cost of sales in the period ended 30 June 2012 and 2011, respectively.

During the period under review, our cost of sales increased by approximately RMB101.8 million or 20.9% to RMB589.1 million from RMB487.3 million in the corresponding period last year, which was primarily due to the increase in sales volume of both bleaching and disinfectant chemicals and foaming agent. The percentage for cost of sales to revenue was 68.7% and 68.1% for the six months ended 30 June 2012 and 2011, respectively, reflecting efficient cost control.

### Gross profit and gross margin

Our gross profit increased by approximately RMB40.7 million or 17.9% to RMB268.7 million for the period under review from RMB228.0 million for the corresponding period last year. The overall gross margin slightly decreased from 31.9% for the six months ended 30 June 2012 to 31.3% for the six months ended 30 June 2011, which was primarily due to faster increase in sales of foaming agent which had lower margin.

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

Gross margin (%)	For the six months ended 30 June		Change
	2012	2011	
Bleaching and disinfectant chemicals	37.6%	40.3%	(6.7%)
Foaming agent	23.0%	23.7%	(3.0%)
Other specialty chemicals	42.5%	35.5%	19.7%
Overall	<u>31.3%</u>	<u>31.9%</u>	<u>(1.9%)</u>

#### *Bleaching and disinfectant chemicals*

The gross margin of bleaching and disinfectant chemicals decreased from 40.3% for the six months ended 30 June 2011 to 37.6% for the six months ended 30 June 2012, which was primarily attributable to: (1) the decrease in average selling price of hydrogen peroxide as a result of market condition; and (2) the decrease was partially offset by the increase in average selling price of sodium chlorate as a result of increase in average selling price for export.

#### *Foaming agent*

The gross margin of foaming agent decreased from 23.7% for the six months ended 30 June 2011 to 23.0% for the six months ended 30 June 2012, which was primarily attributable to: (1) the decrease in average selling price of foaming agent as a result of market condition; and (2) the upgrade of our production facilities and the increase in the usage of self-produced raw materials, for example caustic soda and biurea had mitigated the impact of decrease of average selling price.

### *Other specialty chemicals*

The gross margin of other specialty chemicals increased from 35.5% for the six months ended 30 June 2011 to 42.5% for the six months ended 30 June 2012, which was primarily attributable to: (1) higher margin of caustic soda by applying the ion membrane production method which is of higher quality and demanded a higher selling price; and (2) the continuous growth in the demand from downstream customers increasing average selling price.

### **Selling and marketing expenses**

Selling and marketing expenses primarily consist of transportation and related charges for the transport of our products, sales taxes such as urban maintenance and construction tax, educational surtax, and other selling and marketing expenses including travelling expenses. The selling and marketing expenses of the Group increased by 25.0% to RMB19.0 million for the six months ended 30 June 2012 from RMB15.2 million for the six months ended 30 June 2011, which was primarily attributable to: (1) increase in the urban maintenance and construction tax and educational surtax as a result of increase of proportion of domestic sales; (2) the expansion of sales by the Group resulting in higher selling expenses.

### **Administrative expenses**

Administrative expenses primarily consist of depreciation of property, plant and equipment, employee benefit expenses and office and entertainment expenses. The administrative expenses of the Group increased by 13.7% to RMB30.8 million for the six months ended 30 June 2012 from RMB27.1 million for the six months ended 30 June 2011, which was primarily attributable to increase in business activities and growth of operation.

### **Other income**

Other income primarily consists of profit from sales of raw materials and government subsidies. The other income of the Group decreased to RMB0.6 million for the six months ended 30 June 2012 from RMB3.5 million for the six months ended 30 June 2011, which was primarily attributable to the decrease in the sales of raw materials.

### **Other (losses)/gains, net**

Other (losses)/gains, net, mainly consists of the net gain or loss from the disposal of property, plant and equipment. The Group recorded the other losses, net of RMB0.1 million for the six months ended 30 June 2012 as compared to the gains, net of RMB0.4 million for the six months ended 30 June 2011, which was primarily attributable to the increase in net losses arising from the disposal of property, plant and equipment.

### **Finance income**

Finance income relates primarily to interest earned on our bank deposits. The finance income of the Group increased by 172.7% to RMB3.0 million for the six months ended 30 June 2012 from RMB1.1 million for the six months ended 30 June 2011, which was primarily attributable to the increase in interest earned on our bank deposits.

## **Finance costs**

Finance costs primarily consist of interest expenses on bank borrowings, discount interest for bill receivables and other finance charges, less interest capitalized in property, plant and equipment and foreign exchange gains. The finance costs of the Group increased by 28.1% to RMB17.3 million for the six months ended 30 June 2012 from RMB13.5 million for the six months ended 30 June 2011, which was primarily attributable to absence of exchange gains from related party loans during the period.

## **Income tax expense**

The Group is subject to PRC enterprise income tax rate of 25% for all our PRC subsidiaries. The income tax expense of the Group increased by 19.4% to RMB52.4 million for the six months ended 30 June 2012 from RMB43.9 million for the six months ended 30 June 2011. The effective tax rate increased to 25.5% for the six months ended 30 June 2012 from 24.8% for the six months ended 30 June 2011 as a result of adjustments for income and expenses items which were not assessable or deductible for income tax purpose.

## **Profit for the period**

As a result of the foregoing factors, the profit attributable to the equity holders of the Company increased by 15.1% to RMB152.1 million for the six months ended 30 June 2012 from RMB132.2 million for the six months ended 30 June 2011.

## **Profit attributable to non-controlling interests**

The profit attributable to non-controlling interests of the Company decreased by 54.5% to RMB0.5 million for the six months ended 30 June 2012 from RMB1.1 million for the six months ended 30 June 2011, which was primarily attributable to acquisition of whole non-controlling interests of Fuzhou Yihua by Fujian Rongping during the period.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Financial position and bank borrowings**

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

The balance of the Group's cash and cash equivalents amounted to approximately RMB1,023.7 million as at 30 June 2012 (31 December 2011: approximately RMB926.1 million), most of which were denominated in Renminbi. As at 30 June 2012, the interest bearing bank borrowings of the Group amounted to approximately RMB454.8 million (31 December 2011: approximately RMB478.6 million).

As at 30 June 2012, the Group's current ratio (calculated as current assets divided by current liabilities) was 2.13 (31 December 2011: 2.06). The Group was in a net cash position as at 30 June 2012 and 31 December 2011. Such significant improvement in our financial position primarily reflected the increase in net profit and cash flow for the period.

## Working capital

Inventories were approximately RMB105.9 million in total as at 30 June 2012, as compared with approximately RMB101.1 million as at 30 June 2011. The increase was primarily due to higher utilization rate of our production capacity. Average inventory turnover days were 32 days for the six months ended 30 June 2012 (for the six months ended 30 June 2011: 39 days).

As at 30 June 2012, trade receivables amounted to approximately RMB327.9 million in total, as compared with approximately RMB336.8 million as at 30 June 2011. The decrease was primarily attributable to continuous growth in our sales against the prudent collection of trade receivables. The average trade receivables turnover days were 70 days for the six months ended 30 June 2012 (for the six months ended 30 June 2011: 67 days).

As at 30 June 2012, trade and bills payables amounted to approximately RMB290.4 million in total, as compared with approximately RMB236.6 million as at 30 June 2011. The increase was mainly due to the increase in the sales during the period by the Group. The average trade and bills payables turnover days were 80 days for the six months ended 30 June 2012 (for the six months ended 30 June 2011: 84 days).

## Use of net proceeds from the initial public offering

The net proceeds estimated to have been raised by the Company through the issue of 200,000,000 new shares and 2,191,000 new shares, at an offer price of HK\$2.7 per share upon the listing on the Stock Exchange on 9 December 2011, and upon the exercise of over-allotment option on 3 January 2012, respectively, after deducting brokerage and other costs and expenses payable by the Company, amounted to approximately HK\$449.3 million (equivalent to approximately RMB366.0 million). The use of the net proceeds from the initial public offering by the Group was consistently the same as those set out in the section headed “Use of Proceeds” in the prospectus of the Company dated 29 November 2011. For the six months ended 30 June 2012, the net proceeds were applied in the following manner:

Use of proceeds	Net proceeds from initial public offering (HK\$ million)		
	Available	Applied	Not yet applied
To be used for the upgrade and expansion of existing production facilities	292.1	126.8	165.3
To be used in merger and acquisition	112.3	–	112.3
To be used for general working capital	44.9	44.9	–
Total	<u>449.3</u>	<u>171.7</u>	<u>277.6</u>

To the extent that the net proceeds were not yet applied as at 30 June 2012, the Company had deposited the same into short term bank deposits or term deposits at licensed banks in Hong Kong or the PRC.

## **Capital commitments**

As at 30 June 2012, the capital commitments of the Group were approximately RMB79.5 million, which were mainly related to the construction of additional production lines and the purchases of equipment for the upgrade of existing production facilities.

## **Contingent liabilities**

As at 30 June 2012, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

## **OTHER INFORMATION**

### **Corporate Governance**

The Company has adopted the code provisions in the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as its own code of corporate governance. The Board considers that up to the date of this interim results announcement, the Company has complied with all the code provisions of the CG Code.

### **Model Code for Securities Transactions by Directors**

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code during the six months ended 30 June 2012.

### **Audit Committee**

The Audit Committee reviewed the analysis on the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2012, the accounting principles and practices adopted by the Group, and the Group’s internal control functions.

### **Purchase, Sale and Redemption of Listed Securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2012.

## **Publication of Interim Results and Interim Report**

The interim results and the interim report for the six months ended 30 June 2012 containing all relevant information as prescribed by the Listing Rules shall be published on the Stock Exchange's website ([www.hkexnews.com.hk](http://www.hkexnews.com.hk)) and the Company's website ([www.chinafirstchemical.com](http://www.chinafirstchemical.com)) in due course.

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

28 August 2012

*As at the date of this announcement, the Board comprises the Chairman and the non-executive director namely Mr. Liem Djiang Hwa, the executive directors namely Mr. Chen Hong, Ms. Miao Fei and Mr. Lam Wai Wah and the independent non-executive directors namely Mr. Chen Xiao, Mr. Kou Huizhong and Mr. Li Junfa.*