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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 2014

Financial Highlights (in RMB'000, unless otherwise stated)	For the six months ended 30 June		Growth %
	2014	2013	
Revenue	690,232	767,456	(10.1)%
Gross profit	231,346	201,011	15.1%
Profit attributable to equity holders of the Company	124,098	104,465	18.8%
Earnings per share			
— Basic (RMB)	0.15	0.13	18.8%
— Diluted (RMB)	0.15	0.13	18.8%
EBITDA	232,786	202,345	15.0%
		As at	
	30 June	31 December	
	2014	2013	
Total equity	1,960,879	1,860,090	5.4%
Net asset per share (RMB)	2.44	2.32	5.4%

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 2014 together with the comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		For the six months ended 30 June	
	<i>Note</i>	2014	2013
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	690,232	767,456
Cost of sales	7	(458,886)	(566,445)
Gross profit		231,346	201,011
Selling and marketing expenses	7	(19,869)	(19,053)
Administrative expenses	7	(31,161)	(31,240)
Other income		1,335	1,880
Other losses — net	5	(24)	(12,910)
		181,627	139,688
Operating profit			
Finance income		1,864	20,885
Finance costs	6	(16,218)	(17,196)
Finance (cost)/income — net		(14,354)	3,689
Share of loss of an associate		—	(2,973)
Profit before income tax		167,273	140,404
Income tax expense	8	(43,175)	(35,939)
Profit and total comprehensive income for the period		124,098	104,465
Attributable to:			
— Equity holders of the Company		124,098	104,465
— Non-controlling interests		—	—
		124,098	104,465
Earnings per share attributable to the equity holders of the Company (RMB)			
— Basic	9	0.15	0.13
— Diluted	9	0.15	0.13
Dividends	10	24,856	24,692

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014

	<i>Note</i>	As at 30 June 2014 <i>RMB'000</i> (Unaudited)	As at 31 December 2013 <i>RMB'000</i> (Audited)
ASSETS			
Non-current assets			
Land use rights		72,921	73,803
Property, plant and equipment		1,119,019	1,165,438
Intangible assets		3,908	4,105
Investment in associate		–	–
Deferred income tax assets		1,071	1,425
Prepayment for property, plant & equipment		2,233	–
		<u>1,199,152</u>	<u>1,244,771</u>
Current assets			
Inventories		161,747	156,001
Trade and other receivables and prepayments	<i>11</i>	211,757	239,904
Restricted cash		213,362	112,617
Cash and cash equivalents		1,031,236	784,153
		<u>1,618,102</u>	<u>1,292,675</u>
Total assets		<u><u>2,817,254</u></u>	<u><u>2,537,446</u></u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		65,346	65,346
Reserves		756,791	780,100
Retained earnings		1,138,742	1,014,644
Total equity		<u>1,960,879</u>	<u>1,860,090</u>

	<i>Note</i>	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings		164,391	68,078
Deferred income		13,256	14,006
Deferred income tax liabilities		898	743
		<u>178,545</u>	<u>82,827</u>
Current liabilities			
Trade and other payables	<i>12</i>	199,706	246,135
Derivative financial instruments		–	–
Current income tax liabilities		20,214	25,397
Borrowings		457,910	322,997
		<u>677,830</u>	<u>594,529</u>
Total liabilities		<u>856,375</u>	<u>677,356</u>
Total equity and liabilities		<u>2,817,254</u>	<u>2,537,446</u>
Net current assets		<u>940,272</u>	<u>698,146</u>
Total assets less current liabilities		<u>2,139,424</u>	<u>1,942,917</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2014

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 other chemical products.

This condensed consolidated interim financial information is presented in thousands of Renminbi (“RMB’000”), unless otherwise indicated, and approved for issue on 29 August 2014 by the Board of Directors.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2014 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 information for the year ended 31 December 2013, 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 information for the year ended 31 December 2013, 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 2014 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 executive Directors) who reviews the internal reports in order to assess performance and allocate resources. Due to the differences in gross profit, customers etc. for Bleaching and disinfectant chemicals, Forming agent and Other special chemicals respectively, operations of the Group are considered to be three reportable segments in accordance with IFRS 8 “Operation 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 overseas, no single customer accounted for more than 10% of the Group’s total revenues for the six months ended 30 June 2014 and 30 June 2013.

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 information.

The Board of Directors assesses the performance of the operating segments based on a measure of gross profit.

The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2014 and as at 30 June 2013 is as follows:

	Six months ended 30 June 2014 (Unaudited)			
	Bleaching and disinfectant chemicals RMB'000	Forming agent RMB'000	Other specialty chemicals RMB'000	Total RMB'000
Segment revenue	330,710	229,950	129,572	690,232
Inter-segment revenue	—	—	—	—
Revenue from external customers	<u>330,710</u>	<u>229,950</u>	<u>129,572</u>	<u>690,232</u>
Gross profit	<u>121,370</u>	<u>58,677</u>	<u>51,299</u>	<u>231,346</u>
Unallocated				
Depreciation and amortization				49,295
Finance income				1,864
Finance expense				(16,218)
Income tax expense				<u>(43,175)</u>
				As at 30 June 2014 RMB'000 (Unaudited)
Total assets				<u>2,817,254</u>
Total liabilities				<u>856,375</u>
	Six months ended 30 June 2013 (Unaudited)			
	Bleaching and disinfectant chemicals RMB'000	Forming agent RMB'000	Other specialty chemicals RMB'000	Total RMB'000
Segment revenue	301,595	335,660	130,201	767,456
Inter-segment revenue	—	—	—	—
Revenue from external customers	<u>301,595</u>	<u>335,660</u>	<u>130,201</u>	<u>767,456</u>
Gross profit	<u>91,845</u>	<u>64,923</u>	<u>44,243</u>	<u>201,011</u>
Unallocated				
Depreciation and amortization				44,745
Finance income				20,885
Finance expenses				(17,196)
Income tax expense				<u>(35,939)</u>

	As at 31 December 2013 <i>RMB'000</i> (Audited)
Total assets	<u>2,537,446</u>
Total liabilities	<u>677,356</u>

There is no information in relation segment assets and segment liabilities provided to CODM.

Revenue from external customers by geographical area is based on the geographical location of the customers.

Revenue is allocated based on the countries in which the customers are located.

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Mainland China	596,826	651,090
Overseas	93,406	116,366
	<u>690,232</u>	<u>767,456</u>

5. OTHER LOSSES — NET

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Bargain purchase	–	2,973
Financial liabilities at fair value through profit or loss:		
Fair value losses	–	(15,292)
Loss on disposal of property, plant and equipment	(24)	(591)
	<u>(24)</u>	<u>(12,910)</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2014 <i>RMB'000</i> (Unaudited)	2013 <i>RMB'000</i> (Unaudited)
Interest expenses:		
— Bank borrowings	13,368	11,912
— Discount interest for bill payables	1,228	5,603
— Other charges	1,140	1,865
	<u>15,736</u>	<u>19,380</u>
Foreign exchange losses	482	–
Less: Interest capitalised in property, plant and equipment	–	(2,184)
	<u><u>16,218</u></u>	<u><u>17,196</u></u>

7. EXPENSES BY NATURE

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

	Six months ended 30 June	
	2014 <i>RMB'000</i> (Unaudited)	2013 <i>RMB'000</i> (Unaudited)
Raw materials used and changes in inventories	246,075	358,412
Electricity and other utility fees	140,151	142,993
Depreciation of property, plant and equipment	48,216	43,666
Employee benefit expenses	36,117	34,725
Transportation and related charges	15,333	15,907
Taxes and levies on main operations	5,653	3,459
Repairs and maintenance	4,872	3,005
Office and entertainment expenses	3,093	3,674
Property insurance fee	1,143	1,322
Amortization of land use rights	882	882
Amortization of intangible assets	197	197
Operating leases expenses	739	752
Auditors' remuneration	600	600
Travelling expenses	604	715
Research and development costs	375	913
Other expenses	5,866	5,516
	<u><u>509,916</u></u>	<u><u>616,738</u></u>

8. INCOME TAX EXPENSES

	Six months ended	
	30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
— PRC enterprise income tax ^(a)	42,666	39,017
— Hong Kong profits tax ^(b)	—	222
Deferred income tax charge/(credit)	509	(3,300)
	<u>43,175</u>	<u>35,939</u>

- (a) The provision for PRC enterprise income tax is based on the statutory rate of 25% on the basis of the profit for the statutory financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purpose.
- (b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the period ended 30 June 2014.

9. 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.

	Six months ended	
	30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company (RMB'000)	124,098	104,465
Weighted average number of ordinary shares in issue (thousand)	802,191	802,191
Basic earnings per share (RMB yuan)	<u>0.15</u>	<u>0.13</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 2014 to 30 June 2014 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.

10. DIVIDEND

	Six months ended	
	30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividend	24,856	24,692

The final dividend for the year ended 31 December 2013 amounting to RMB24,856,000 was paid in June 2014 (2013: RMB24,692,000).

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2014 (2013: Nil).

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at	As at
	30 June	31 December
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables (a)	202,659	229,253
Due from third parties	203,458	230,052
Less: Provision for impairment of receivables	(799)	(799)
Prepayments	6,398	10,000
Prepayments for purchase goods from related parties	4,180	2,000
Prepayments for purchase goods from third parties	1,702	2,000
Value added tax input credits	516	6,000
Other receivables	2,700	651
	211,757	239,904

The carrying amounts of receivables approximate their fair values.

- (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 30 June 2014 and 31 December 2013, the aging analysis of the trade receivables is set as follows:

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Within 3 months	201,835	228,409
Between 4 and 6 months	17	45
Between 7 and 12 months	8	–
Above 1 year	1,598	1,598
	<u>203,458</u>	<u>230,052</u>

12. TRADE AND OTHER PAYABLES

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Trade payables (a)		
Due to third parties	39,687	51,047
Bills payable (b)		
Due to related parties	–	1,500
Due to third parties	130,381	126,160
Other payables and accrual (c)		
Due to third parties	29,638	67,428
	<u>199,706</u>	<u>246,135</u>

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

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Within 3 months	39,672	51,032
Between 4 and 6 months	–	15
Between 7 and 12 months	15	–
	<u>39,687</u>	<u>51,047</u>

- (b) As at 30 June 2014, the entire balances of bills payable were secured by restricted cash of RMB41,962,000 (31 December 2013: RMB50,517,000).

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

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Freight charges	7,465	8,846
Salary and welfare payable	6,714	8,625
Taxes	6,679	11,651
Interests payable	2,600	–
Deposit	2,511	2,511
Water and electricity	1,147	23,397
Payable for property, plant and equipment purchases	783	10,409
Auditor's remuneration	600	1,275
Payable for repair and maintenance	159	–
Advance from customers	4	3
Others	976	711
	<u>29,638</u>	<u>67,428</u>

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the revenue of the Group was approximately RMB690.2 million, representing a decrease of approximately 10.1% from the revenue of approximately RMB767.5 million for the corresponding period of 2013. The gross profit increased by 15.1% to approximately RMB231.3 million from the same period of 2013. During the six months ended 30 June 2014, the net profit attributable to the equity holders of the Company and the basic earnings per share were approximately RMB124.1 million and approximately RMB0.15, representing an increase of approximately 18.8% and an increase of approximately 18.8% as compared with the corresponding period.

BUSINESS REVIEW

With the successive introduction of “Opinions on Accelerating the Development of Energy Conservation and Environmental Protection Industry” and “Regulation on the Urban Water Drainage and Wastewater Treatment” by the State Council since the second half of 2013, the PRC government increased investment in the fields of wastewater treatment and recycling of water resources and strengthened law enforcement. The eco-friendly bleaching and disinfection products of the Company were widely used in urban and industrial wastewater treatment, reflecting a fast growing trend in demand of users.

During the first half of 2014, the sales revenue of eco-friendly bleaching and disinfectant chemicals amounted to RMB330.7 million, representing an increase of 9.7% as compared with sales revenue of RMB301.6 million in the first half of 2013. The percentage of revenue attributable to eco-friendly bleaching and disinfectant chemicals increased from 39.3% in the first half of 2013 to 47.9% in the first half of 2014. Revenue from sales of other chemicals was RMB359.5 million in the first half of 2014, representing a decrease of 22.8% as compared against sales revenue of RMB465.9 million in the first half of 2013. The percentage of revenue attributable to other chemicals dropped from 60.7% in the first half of 2013 to 52.1% in the first half of 2014.

In June 2014, Fujian Rongping Chemical Co., Ltd. a wholly-owned subsidiary of the Company, entered into the “Cooperative Framework Agreement on the Construction Project of Pingnan Fine Chemical Industrial Park” with the People’s Government of Pingnan County. The proposed cooperation project, the Pingnan Fine Chemical Industrial Park, is located in the industrial zone of Pingnan County, with a construction floor area of approximately 1,000 mu. Once the framework agreement on the new fine chemical park is finalized, the Group will make use of the abundant water resources and energy locally, and apply green chemical technology to expand the production of high value-added water treatment products, including eco-friendly product lines such as sodium chlorate, food-grade and electronic-grade hydrogen peroxide solution. The Group endeavors to further develop its industrial chains, so as to further expand other downstream products and water-treatment-related technology services.

In June 2014, the Company entered into a framework agreement with Chengdu Huaxi Hope Group Co., Ltd. to acquire of 70% equity interest in Sichuan Minjiang Snow Salt Chemical Industry Co.,Ltd. It is expected that the acquisition will complete before the end of the year. Once the acquisition is completed, Sichuan Minjiang Snow Salt Chemical Industry Co.,Ltd. will become a wholly-owned subsidiary of the Company, substantially enhancing the Group's market share and geographical network in the industry of eco-friendly bleaching and disinfectant chemicals, and thus consolidating the Group's leading position as a supplier of eco-friendly water treatment chemicals.

In the first half of 2014, the Company continued to increase its technology investment in research and develop of new water treatment related technology through cooperation with the "Research Centre of Green Chemical Technology" jointly established with Haixi Research Institute of Chinese Academy of Sciences and with advanced scientific research institutes in China. In the second half of 2014, the Company is expected to take a firm step in constructing water treatment technical service platform by way of cooperative research and development as well as introduction of technologies and cooperation to develop water treatment technical service business.

Future Prospect

Looking forward to 2014, the global economy will recover moderately while unstable and uncertain factors still remain. China's economy will continue to be in the adjustment stage with premature periodic and progressive rectification which makes it more difficult to form a new rising trend in the short term. Certain structural conflicts and potential risks will become more significant, while favoring factors such as policy release and deepened reforms also exist.

The PRC government is currently formulating the "Wastewater Prevention and Control Campaign" scheme and will invest RMB2 trillion to support treatment for water pollution. It is expected that from now on to 2020, the government will invest RMB4 trillion to construct various hydraulic infrastructure. We believe the direction of national policy and vast capital contribution shall control pollution in the country, improve ecological environment, and sustain economic and social development. New policies will provide the Group with great development opportunities.

In the second half of 2014, the Group will continue to strengthen its leading position as a supplier of water treatment eco-friendly chemicals through mergers and acquisition. With reference to the National 12th Five-year Plan and the national policy to increase contribution in environment integrated treatment, the Group believes it will achieve growth in earnings and generate substantial returns for the shareholders with its technological advantages and leading position in the industry.

FINANCIAL REVIEW

Revenue

Revenue for the period under review was approximately RMB690.2 million, representing a decrease of approximately RMB77.2 million or 10.1% from approximately RMB767.5 million for the corresponding period last year. The decrease was mainly attributable to the decrease in the sales of foaming agent during the period.

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

	For the six months ended 30 June			
	2014	% of	2013	% of
	Amount	Revenue	Amount	Revenue
Revenue (RMB'000)				
Bleaching and disinfectant chemicals	330,710	47.9%	301,595	39.3%
Other chemical products	359,522	52.1%	465,861	60.7%
Total	<u>690,232</u>	<u>100.0%</u>	<u>767,456</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 RMB330.7 million, representing an increase of approximately 9.7% or RMB29.1 million from the corresponding period last year. The increase in revenue was mainly attributable to the increase in sales volumes of sodium chlorate and hydrogen peroxide as a result of improvement of market condition.

Other chemical products

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

During the period under review, the total revenue for the other chemical products was RMB359.5 million, representing a decrease of approximately 22.8% or RMB106.3 million from the corresponding period last year. The decrease was mainly attributable to the decrease in outsourced production and increase in self-produced sales volumes after the upgrade of our production facilities.

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 53.6% and 63.3% of our total cost of sales in the period ended 30 June 2014 and 2013, respectively.

During the period under review, our cost of sales decreased by approximately RMB107.5 million or 18.9% to RMB458.9 million from RMB566.4 million in the corresponding period last year, which was primarily due to the decrease in sales volume of foaming agent. The percentage for cost of sales to revenue was 66.5% and 73.8% for the six months ended 30 June 2014 and 2013, respectively, reflecting efficient cost control.

Gross profit and gross margin

Our gross profit increased by approximately RMB30.3 million or 15.1% to RMB231.3 million for the period under review from RMB201.0 million for the corresponding period last year. The overall gross margin increased from 26.2% for the six months ended 30 June 2013 to 33.5% for the six months ended 30 June 2014, which was primarily due to (i) the increase of average selling price of eco-friendly bleaching and disinfection products affected by the improved market environment; (ii) the adjustment to the product structure which resulted in a rapid growth of sales of products with relatively higher gross profit margin; and (iii) the fact that the Company owns a complete package of key process technologies and has the advantages of stable and reliable production and sound energy-saving effects, whose product indicators outperform that of other domestic enterprise.

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		
	2014	2013	Change
Bleaching and disinfectant chemicals	36.7%	30.5%	20.3%
Other chemical products	30.6%	23.4%	30.8%
Overall	33.5%	26.2%	27.9%

Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals increased from 30.5% for the six months ended 30 June 2013 to 36.7% for the six months ended 30 June 2014, which was primarily attributable to the increase in average selling price of sodium chlorate and hydrogen peroxide as a result of market condition.

Other chemical products

The gross margin of other chemical products increased from 23.4% for the six months ended 30 June 2013 to 30.6% for the six months ended 30 June 2014, which was primarily attributable to the upgrade of our production facilities and the increase in the usage of self-produced raw materials, for example caustic soda and biurea had improved the gross margin of foaming agent.

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 4.3% to RMB19.9 million for the six months ended 30 June 2014 from RMB19.1 million for the six months ended 30 June 2013, which was primarily attributable to 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 decreased by 0.3% to RMB31.1 million for the six months ended 30 June 2014 from RMB31.2 million for the six months ended 30 June 2013, which was primarily attributable to effective cost control.

Other income

Other income primarily consists of profit from sales of raw materials and government subsidies. The other income of the Group decreased to RMB1.3 million for the six months ended 30 June 2014 from RMB1.9 million for the six months ended 30 June 2013, which was primarily attributable to the decrease in the governmental subsidies.

Other losses, net

Other losses, net, mainly consists of the net gain or loss from the disposal of property, plant and equipment. The other losses, net, of the Group decreased to RMB0.2 million for the six months ended 30 June 2014 from RMB12.9 million for the six months ended 30 June 2013, which was primarily attributable to lack of fair value losses arising from the derivative financial instrument which incurred in last financial period.

Finance income

Finance income relates primarily to interest earned on our bank deposits and foreign exchange gains. The finance income of the Group decreased by 91.1% to RMB1.9 million for the six months ended 30 June 2014 from RMB20.9 million for the six months ended 30 June 2013, which was primarily attributable to lack of foreign exchange gains arising from the foreign currency borrowings in 2013.

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 decreased by 5.7% to RMB16.2 million for the six months ended 30 June 2014 from RMB17.2 million for the six months ended 30 June 2013, which was primarily attributable to decrease in interest capitalised in property, plant and equipment 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 20.1% to RMB43.2 million for the six months ended 30 June 2014 from RMB35.9 million for the six months ended 30 June 2013. The effective tax rate increased to 25.8% for the six months ended 30 June 2014 from 25.6% for the six months ended 30 June 2013 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 18.8% to RMB124.1 million for the six months ended 30 June 2014 from RMB104.5 million for the six months ended 30 June 2013.

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 RMB1,031.2 million as at 30 June 2014 (31 December 2013: approximately RMB784.2 million), most of which were denominated in Renminbi. As at 30 June 2014, the interest bearing bank borrowings of the Group amounted to approximately RMB622.3 million (31 December 2013: approximately RMB391.1 million).

As at 30 June 2014, the Group's current ratio (calculated as current assets divided by current liabilities) was 2.39 (31 December 2013: 2.17). The Group was in a net cash position as at 30 June 2014 and 31 December 2013. The Group has sufficient and readily available finance resource for both general working capital purpose and foreseeable capital expenditure.

Working capital

Inventories were approximately RMB161.7 million in total as at 30 June 2014, as compared with approximately RMB159.9 million as at 30 June 2013. The increase was primarily due to increase in work in progress namely, working solution to be used to produce hydrogen peroxide. Average inventory turnover days were 62 days for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 53 days).

As at 30 June 2014, trade receivables amounted to approximately RMB202.7 million in total, as compared with approximately RMB338.2 million as at 30 June 2013. The decrease was in line with decrease in our sales during the period. The average trade receivables turnover days were 56 days for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 70 days).

As at 30 June 2014, trade and bills payables amounted to approximately RMB199.7 million in total, as compared with approximately RMB302.9 million as at 30 June 2013. The decrease was mainly due to the decrease in usage of 90 days letter of credit and bills guaranteed by banks in our payment. The average trade and bills payables turnover days were 87 days for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 96 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 (excluding those new shares to be issued upon the exercise of over-allotment option) at an offer price of HK\$2.7 per share upon the listing on the Stock Exchange on 9 December 2011, after deducting brokerage and other costs and expenses payable by the Company, amounted to approximately HK\$443.4 million (equivalent to approximately RMB361.2 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 2014, 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	288.2	288.2	–
To be used in merger and acquisition	110.9	–	110.9
To be used for general working capital	44.3	44.3	–
Total	<u>443.4</u>	<u>332.5</u>	<u>110.9</u>

To the extent that the net proceeds were not yet applied as at 30 June 2014, 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 2014, the capital commitments of the Group were Nil (31 December 2013: RMB4.6 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 2014, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

Employees and remuneration policy

As at 30 June 2014, the Group employed a total of 1,237 full time employees. For the six months ended 30 June 2014, the employee benefit expense was approximately RMB36.1 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

OTHER INFORMATION

Corporate Governance

The Company has adopted the code provisions in the Corporate Governance Code ("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 2014.

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 2014, 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 2014.

Publication of Interim Results and Interim Report

The interim results and the interim report for the six months ended 30 June 2014 containing all relevant information as prescribed by the Listing Rules shall be published on the Stock Exchange's website (www.hkexnews.com.hk) and the Company's website (www.cfc2121.com) in due course.

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

29 August 2014

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