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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 2016**

<b>Financial Highlights (in RMB'000, unless otherwise stated)</b>	<b>For the six months ended 30 June</b>		<b>Growth %</b>
	<b>2016</b>	<b>2015</b>	
Revenue	<b>1,210,957</b>	884,859	<b>36.9%</b>
Gross profit	<b>238,170</b>	171,243	<b>39.1%</b>
Profit attributable to equity holders of the Company	<b>79,332</b>	65,482	<b>21.2%</b>
Earnings per share			
— Basic (RMB)	<b>0.10</b>	0.08	<b>21.2%</b>
— Diluted (RMB)	<b>0.10</b>	0.08	<b>21.2%</b>
EBITDA	<b>255,074</b>	185,564	<b>37.5%</b>
		<b>As at</b>	
	<b>30 June</b>	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>	
Total equity	<b>2,185,353</b>	2,118,936	<b>3.1%</b>
Net asset per share (RMB)	<b>2.72</b>	2.64	<b>3.1%</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 2016 together with the comparative figures for the previous period as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		<b>For the six months ended</b>	
		<b>30 June</b>	
	<i>Note</i>	<b>2016</b>	2015
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue	4	<b>1,210,957</b>	884,859
Cost of sales	6	<b>(972,787)</b>	(713,616)
<b>Gross profit</b>		<b>238,170</b>	171,243
Selling and marketing expenses	6	<b>(37,172)</b>	(32,455)
Administrative expenses	6	<b>(45,176)</b>	(41,174)
Other income		<b>816</b>	751
Other gains/(losses) — net		<b>1,440</b>	(1,285)
<b>Operating profit</b>		<b>158,078</b>	97,080
Finance income		<b>6,284</b>	8,608
Finance expenses	5	<b>(48,160)</b>	(29,072)
Finance expenses — net		<b>(41,876)</b>	(20,464)
Share of loss of investments accounted for using the equity method		<b>(2,285)</b>	(3,175)
Gain on disposal of previous investments accounted for using the equity method		<b>—</b>	12,857
<b>Profit before income tax</b>		<b>113,917</b>	86,298
Income tax expense	7	<b>(34,585)</b>	(20,816)
<b>Total comprehensive income for the period</b>		<b>79,332</b>	65,482
Attributable to equity holders of the Company		<b>79,332</b>	65,482
Earnings per share attributable to the equity holders of the Company (RMB)			
— Basic	8	<b>0.10</b>	0.08
— Diluted	8	<b>0.10</b>	0.08
<b>Dividends</b>	9	<b>12,915</b>	16,965

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016

	<b>As at 30 June 2016</b>	<b>As at 31 December 2015</b>
<i>Note</i>	<b>RMB'000 (Unaudited)</b>	<b>RMB'000 (Audited)</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Land use rights	<b>81,411</b>	82,426
Property, plant and equipment	<b>1,863,078</b>	1,850,067
Intangible assets	<b>304,929</b>	311,714
Investment accounted for using the equity method	<b>108,606</b>	110,891
Deferred income tax assets	<b>3,069</b>	3,069
Restricted cash	<b>73,400</b>	106,650
Other non-current assets	<b>29,523</b>	27,400
	<b>2,464,016</b>	2,492,217
<b>Current assets</b>		
Inventories	<b>229,461</b>	236,818
Trade and other receivables	<b>544,075</b>	487,500
Financial assets at fair value through profit or loss	<b>45,787</b>	43,771
Cash and cash equivalents	<b>581,224</b>	470,931
Restricted cash	<b>132,132</b>	191,311
	<b>1,532,679</b>	1,430,331
<b>Total assets</b>	<b>3,996,695</b>	3,922,548
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Company</b>		
Share capital	<b>65,346</b>	65,346
Other reserves	<b>758,582</b>	771,497
Retained earnings	<b>1,361,425</b>	1,282,093
<b>Total equity</b>	<b>2,185,353</b>	2,118,936

		As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		351,727	383,361
Deferred income		10,251	11,002
Deferred income tax liabilities		26,852	28,456
		<u>388,830</u>	<u>422,819</u>
<b>Current liabilities</b>			
Trade and other payables	11	600,851	525,757
Current income tax liabilities		23,150	20,848
Borrowings		798,511	834,188
		<u>1,422,512</u>	<u>1,380,793</u>
<b>Total liabilities</b>		<u>1,811,342</u>	<u>1,803,612</u>
<b>Total equity and liabilities</b>		<u><u>3,996,695</u></u>	<u><u>3,922,548</u></u>

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

*For the six months ended 30 June 2016*

## **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, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. The parent company of the Company is China First Chemical Ltd., a company which was incorporated in the Cayman Islands. The ultimate parent company of the Company is Yihua Crown Limited.

The Company is listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

## **2. BASIS OF PREPARATION**

The interim condensed consolidated financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim financial reporting”. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to IFRS effective for the financial year ending 31 December 2016 .

- (a) Amendments to IFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

- (b) The Group has not early adopted those new or amended standards that have been issued and may be applicable to the Group but not yet effective for the year ending 31 December 2016 in the interim condensed consolidated financial information and will apply those new or amended standards in accordance with their respective effective dates. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether any substantial changes to Group's significant accounting policies or presentation of the Group's consolidated financial statements will be resulted.

#### 4. SEGMENT INFORMATION

The Group is principally engaged in the chemical products business in the PRC. Separate individual financial information of the three business units where the principal operations of the Group are located are presented to the chief operating decision maker (the "CODM") (representing the Board of Directors of the Company) who reviews the internal reports in order to assess performance and allocate resources. The CODM considers the Group's business primarily from product perspective and reviews the key financial information (such as revenue and gross profit) of the Bleaching and disinfectant chemical products, Foaming agent products and Other specialty chemicals products separately on a regular basis. Accordingly, three reportable segments (namely the Bleaching and disinfectant chemicals segment, Foaming agent products segment and Other specialty chemicals segment) have been identified for the purpose of segment reporting.

Majority of the Group's products are sold to customers in the PRC. The Group has a large number of customers which are widely dispersed within the PRC and overseas. No single customer accounted for more than 10% of the Group's total revenue for the six months ended 30 June 2016 and 2015.

The revenue from external customers and the cost, the total assets and the total liabilities are measured in a manner consistent with that of the Group's consolidation financial information.

The CODM assesses the performance of the operating segments based on a measure of gross profit. There is no information in relation to segment assets and segment liabilities provided to the CODM.

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

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>
Total assets	<b><u>3,996,695</u></b>
Total liabilities	<b><u>1,811,342</u></b>

	Six months ended 30 June 2015 (Unaudited)			
	Bleaching and disinfectant chemicals <i>RMB'000</i>	Foaming agent products <i>RMB'000</i>	Other specialty chemicals <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	503,649	247,634	133,576	884,859
Inter-segment revenue	—	—	—	—
Revenue from external customers	<u>503,649</u>	<u>247,634</u>	<u>133,576</u>	<u>884,859</u>
Gross profit	<u>96,366</u>	<u>38,410</u>	<u>36,467</u>	<u>171,243</u>
<b>Unallocated</b>				
Depreciation and amortisation				70,194
Finance income				8,608
Finance expenses				(29,072)
Income tax expense				<u>(20,816)</u>

	<b>As at 31 December 2015 RMB'000 (Audited)</b>
Total assets	<b><u>3,922,548</u></b>
Total liabilities	<b><u>1,803,612</u></b>

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

	<b>Six months ended 30 June</b>	
	<b>2016 RMB'000 (Unaudited)</b>	2015 <i>RMB'000</i> (Unaudited)
Revenue		
Mainland China	<b>1,159,678</b>	797,253
Overseas	<b>51,279</b>	87,606
	<b><u>1,210,957</u></b>	<u>884,859</u>

## 5. FINANCE EXPENSES

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses:		
— Borrowings	32,106	28,232
— Discount interest for bill receivables	3,739	2,667
— Bill payables	1,306	1,274
	<u>37,151</u>	<u>32,173</u>
Less: Interest capitalised in property, plant and equipment	(418)	(3,601)
	<u>36,733</u>	28,572
Other finance charges	1,857	1,895
Net foreign exchange losses/(gains) on financing activities	9,570	(1,395)
	<u>48,160</u>	<u>29,072</u>

## 6. EXPENSES BY NATURE

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Changes in inventories of finished goods and work in progress	7,931	(47,342)
Raw materials used	602,409	437,654
	<u>610,340</u>	390,312
Electricity and other utility fees	227,055	205,809
Depreciation of property, plant and equipment	85,197	63,549
Employee benefit expenses	46,970	45,660
Transportation and related charges	31,873	30,445
Taxes and surcharges	8,549	5,164
Amortisation of land use rights	1,015	967
Amortisation of intangible assets	6,785	5,678
Office and entertainment expenses	5,163	4,860
Operating leases expenses	840	748
Property insurance fee	1,787	1,754
Travelling expenses	997	943
Repairs and maintenance	6,038	4,448
Provision for impairment of trade receivables	1,153	—
Other expenses	21,373	26,908
	<u>1,055,135</u>	<u>787,245</u>
Total cost of sales, selling and marketing expenses and administrative expenses	<u>1,055,135</u>	<u>787,245</u>



## 7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Current income tax		
— PRC enterprise income tax (a)	36,189	22,189
— Hong Kong profits tax (b)	—	—
	<u>36,189</u>	<u>22,189</u>
Deferred income tax credit	(1,604)	(1,373)
	<u><u>34,585</u></u>	<u><u>20,816</u></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 period, adjusted for income and expenses items which are not assessable or deductible for income tax purpose.
- (b) Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit as derived from Hong Kong.
- (c) As at 30 June 2016, deferred income tax liabilities of RMB143,087,000 (as at 31 December 2015: RMB134,621,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of PRC subsidiaries in Mainland China. Such amounts are expected to permanently reinvest in these subsidiaries. Unremitted earnings of these subsidiaries amounting to RMB1,430,869,000 at 30 June 2016 (as at 31 December 2015: RMB1,346,214,000).

## 8. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit for the period of six months ended 30 June 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	
	2016 (Unaudited)	2015 (Unaudited)
Profit attributable to equity holders of the Company (RMB'000)	79,332	65,482
Weighted average number of ordinary shares in issue (thousand)	<u>802,191</u>	<u>802,191</u>
Basic earnings per share (RMB Yuan)	<u><u>0.10</u></u>	<u><u>0.08</u></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.

Diluted earnings per share is same as basic earnings per share as there were no dilutive potential ordinary shares outstanding as of 30 June 2016 and 2015.

## 9. DIVIDENDS

A dividend of approximately HK\$15,402,000 (equivalent to approximately RMB12,915,000) that relates to the year ended 31 December 2015 was approved at the annual general meeting on 13 June 2016 and was paid in July 2016 (2015: approximately HK\$21,529,000, equivalent to approximately RMB16,965,000 related to the year ended 31 December 2014).

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (2015: Nil).

## 10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Trade receivables		
Due from third parties	435,074	418,108
Less: Provision for impairment of receivables	(1,153)	–
	433,921	418,108
Bill receivables	357	438
Prepayments for purchases of raw materials from third parties	12,146	7,379
Value-added tax input credits	5,037	8,755
Other receivables		
Due from third parties	53,921	14,127
Due from a related party	38,693	38,693
	92,614	52,820
	<u>544,075</u>	<u>487,500</u>

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 2016 and 31 December 2015, the ageing analysis of the trade receivables based on recognition date were as follows:

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Within 3 months	431,929	414,619
Between 4 and 6 months	235	307
Between 7 and 12 months	241	1,012
Between 1 and 2 years	1,000	1,635
Above 2 years	1,669	535
	<u>435,074</u>	<u>418,108</u>

## 11. TRADE AND OTHER PAYABLES

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
Trade payables		
Due to third parties	192,215	131,049
Due to a related party	56,148	22,218
	248,363	153,267
Bill payables	170,986	191,910
Other payables and accruals	181,502	180,580
	600,851	525,757

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

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
Within 3 months	236,451	148,260
Between 4 and 6 months	5,456	2,662
Between 7 and 12 months	5,076	1,459
Between 1 and 2 years	1,148	806
Above 2 years	232	80
	248,363	153,267

## **MANAGEMENT DISCUSSION AND ANALYSIS**

During the period under review, the revenue of the Group was approximately RMB1,211.0 million, representing an increase of approximately 36.9% from the revenue of approximately RMB884.9 million for the corresponding period in 2015. The gross profit increased by 39.1% to approximately RMB238.2 million from the same period in 2015. During the six months ended 30 June 2016, the net profit attributable to the equity holders of the Company and the basic earnings per share were approximately RMB79.3 million and approximately RMB0.10, respectively, both representing an increase of approximately 21.2% as compared with the corresponding period last year.

### **BUSINESS REVIEW**

During the first half of 2016, the sales revenue of eco-friendly bleaching and disinfectant chemicals amounted to approximately RMB726.1 million, representing an increase of 44.2% as compared with sales revenue of approximately RMB503.6 million for the first half of 2015. The percentage of revenue attributable to eco-friendly bleaching and disinfectant chemicals increased from approximately 56.9% for the first half of 2015 to approximately 60.0% for the first half of 2016. Revenue from sales of other chemicals was approximately RMB484.9 million for the first half of 2016, representing an increase of approximately 27.2% as compared with that of approximately RMB381.3 million for the first half of 2015. The percentage of revenue attributable to other chemicals dropped from 43.1% for the first half of 2015 to 40.0% for the first half of 2016.

During the period under review, despite the negative impact of challenges and uncertainties on the economy of the world and China, the water treatment industry still enjoyed development opportunities thanks to favourable policies. Adhering to the management philosophy of “innovation and cooperation”, the Group achieved a balanced growth in its principal activities by focusing on the core business (i.e. eco-friendly bleaching and disinfectant chemicals), persisting in technological innovation and management enhancement, as well as actively promoting organic growth and expansion by way of mergers and acquisitions.

With the application of bleaching and disinfectant chemicals, such as sodium chlorate and hydrogen peroxide, to urban and industrial sewage treatment, market demand saw a momentum of balanced growth during the period under review. Capitalizing on its position as a leading supplier of bleaching and disinfectant chemicals, strong R&D capability and the extensive coverage of its sales network, the Group succeeded in achieving year-on-year growth in sales revenue. In addition, the slight increase in selling prices of eco-friendly bleaching and disinfectant chemicals and other chemicals over the corresponding period last year gave rise to the 21.2% increase in the net profit attributable to equity holders of the Company as compared to the corresponding period last year, which was primarily due to (1) the acquisition of 100 % equity of Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd., thus consolidating the Group’s leading position as a supplier of eco-friendly water treatment chemicals and raising its bargaining power; and (2) enhancement of technological input in the Group’s production base, reducing the production consumption and improving the product quality.

During the first half of 2016, Fujian Rongping Chemical Co., Ltd., a wholly-owned subsidiary of the Group, has commenced a technological improvement and expansion project in Pingnan Fine Chemical Industrial Park, which mainly involves eco-friendly bleaching and disinfectant chemicals such as sodium chlorate and hydrogen peroxide. In April 2016, Fuzhou Yihua Chemical Stock Co., Ltd., a wholly-owned subsidiary of the Group, entered into a financing agreement with China Central Financial Leasing Co., Ltd. in relation to a loan facility of RMB100,000,000 for a term of two years. Such financing agreement shall optimise the loan structure of the Group allowing greater financial flexibility.

## **FUTURE PROSPECT**

The Group has been operating in eco-friendly chemical industry for over 50 years, and has now become a market leader in the field of advanced oxidation technology. The Group has accumulated technological and resource advantages in two important areas, namely national environmental protection policies and hydrogen strategies for the development. The Group believes that eco-friendly technology and hydrogen energy will become an important direction and innovation approach to enhance the strategic development of the Company. By implementing the technological improvement and expansion project, the Company will expand its business on the basis of its industrial development together with high-new technologies such as water protection and hydrogen energy.

For the second half of 2016, by adhering to the development strategy of “organic growth and expansion by way of mergers and acquisitions”, the Group will promote the development of its innovative research system, intelligent production system and product marketing system, so as to proactively strengthen the presence of its eco-friendly bleaching and disinfectant chemicals in both domestic and international markets. Meanwhile, the Group will capitalize on the opportunities arising from the development of the water treatment industry to further consolidate its core competitive edge. In addition, the Group will provide funding support for its sustainable development through active exploration of both local and overseas financing channels and reward its shareholders by continuously enhancing operating performance.

## FINANCIAL REVIEW

### Revenue

Revenue for the period under review was approximately RMB1,211.0 million, representing an increase of approximately RMB326.1 million or 36.9% from approximately RMB884.9 million for the corresponding period last year. The increase was mainly attributable to the increase in the sales of bleaching and disinfectant chemicals 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			
	2016		2015	
	Amount	% of Revenue	Amount	% of Revenue
<b>Revenue (RMB'000)</b>				
Bleaching and disinfectant chemicals	<b>726,098</b>	<b>60.0%</b>	503,649	56.9%
Other chemical products	<b>484,859</b>	<b>40.0%</b>	381,210	43.1%
Total	<b><u>1,210,957</u></b>	<b><u>100.0%</u></b>	<u>884,859</u>	<u>100.0%</u>

#### *Bleaching and disinfectant chemicals*

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

During the period under review, the total revenue for the bleaching and disinfectant chemicals was RMB726.1 million, representing an increase of approximately 44.2% or RMB222.5 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 during the period.

#### *Other chemical products*

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

During the period under review, the total revenue for the other chemical products was RMB484.9 million, representing an increase of approximately 27.2% or RMB103.7 million from the corresponding period last year. The increase was mainly attributable to expansion of sales of other chemical products during the period.

## 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 approximately 62.7% and 54.7% of our total cost of sales in the period ended 30 June 2016 and 2015, respectively.

During the period under review, our cost of sales increased by approximately RMB259.2 million or 36.3% to RMB972.8 million from RMB713.6 million in the corresponding period last year, which was primarily due to the increase in sales volume of sodium chlorate which led to a relatively higher electricity and other utility fee. The percentage for cost of sales to revenue was 80.3% and 80.6% for the six months ended 30 June 2016 and 2015, respectively.

## Gross profit and gross margin

Our gross profit increased by approximately RMB67.0 million or 39.1% to RMB238.2 million for the period under review from RMB171.2 million for the corresponding period last year. The overall gross margin increased from 19.4% for the six months ended 30 June 2015 to 19.7% for the six months ended 30 June 2016, which was primarily due to (i) the slight increase in average selling price of sodium chlorate, hydrogen peroxide, and foaming agent as a result of market condition; and (ii) the fact that the Company owns a complete package of key process technologies and has the advantage of stable and reliable production and sound energy saving effects, whose indicators outperform that of other domestic enterprise.

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

Gross margin (%)	For the six months ended		
	30 June		
	2016	2015	Change
Bleaching and disinfectant chemicals	19.0%	19.1%	–
Other chemical products	20.6%	19.6%	5.1%
Overall	19.7%	19.4%	1.5%

### *Bleaching and disinfectant chemicals*

The gross margin of bleaching and disinfectant chemicals remained flat at 19.0% for the six months ended 30 June 2016 as compared to 19.1% for the corresponding period last year, which was primarily attributable to the relative stable average selling price and cost of bleaching and disinfectant chemicals.

### *Other chemical products*

The gross margin of other chemical products increased from 19.6% for the six months ended 30 June 2015 to 20.6% for the six months ended 30 June 2016, which was primarily attributable (i) the increase in average selling price of other chemical products as a result of market condition; and (ii) cost saving after the upgrade of production facilities.

### **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 approximately 14.5% to RMB37.2 million for the six months ended 30 June 2016 from RMB32.5 million for the six months ended 30 June 2015, 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 increased by approximately 9.7% to RMB45.2 million for the six months ended 30 June 2016 from RMB41.2 million for the six months ended 30 June 2015, which was primarily attributable to the expansion of operation by the Group.

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

Other gains/(losses), net, mainly consists of the net gain or loss from the disposal of financial assets at fair value through profit or loss, and the disposal of property, plant and equipment. The other gains, net, of the Group increased to approximately RMB1.4 million for the six months ended 30 June 2016 from the other losses, net of RMB1.3 million for the six months ended 30 June 2015, which was primarily attributable to increase in gain on disposals of financial assets at fair value through profit or loss.

### **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 approximately 27.0% to RMB6.3 million for the six months ended 30 June 2016 from RMB8.6 million for the six months ended 30 June 2015, which was primarily attributable to decrease in interest income from bank deposits.

### **Finance expenses**

Finance expenses primarily consist of interest expenses on bank borrowings, discount interest for bill receivables, bills payables and other finance charges, less interest capitalised in property, plant and equipment and foreign exchange losses. The finance expenses of the Group increased by approximately 65.7% to RMB48.2 million for the six months ended 30 June 2016 from RMB29.1 million for the six months ended 30 June 2015, which was primarily attributable to increase in interest-bearing loans and foreign exchange losses on financing activities 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 approximately 66.1% to RMB34.6 million for the six months ended 30 June 2016 from RMB20.8 million for the six months ended 30 June 2015. The effective tax rate increased to approximately 30.4% for the six months ended 30 June 2016 from 24.1% for the six months ended 30 June 2015 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 approximately 21.2% to RMB79.3 million for the six months ended 30 June 2016 from RMB65.5 million for the six months ended 30 June 2015.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

The balance of the Group's cash and cash equivalents amounted to approximately RMB581.2 million as at 30 June 2016 (31 December 2015: RMB470.9 million), most of which were denominated in Renminbi. As at 30 June 2016, the interest bearing bank borrowings of the Group amounted to approximately RMB1,150.2 million (31 December 2015: RMB1,217.5 million).

As at 30 June 2016, the Group's current ratio (calculated as current assets divided by current liabilities) was approximately 1.08 (31 December 2015: 1.04). The Group was in a gearing ratio of 17.3% (31 December 2015: 19.5%) as at 30 June 2016. The Group has sufficient and readily available finance resource for both general working capital purpose and foreseeable capital expenditure.

### **Working capital**

Inventories were approximately RMB229.5 million in total as at 30 June 2016, as compared with approximately RMB232.0 million as at 30 June 2015. The decrease was primarily due to improved demand from downstream industries during the period. Average inventory turnover days were 43 days for the six months ended 30 June 2016 (six months ended 30 June 2015: 50 days).

As at 30 June 2016, trade and bill receivables amounted to approximately RMB434.3 million in total, as compared with approximately RMB379.5 million as at 30 June 2015. The increase was in line with the respective increase in our sales during the period. The average trade receivables turnover days were 63 days for the six months ended 30 June 2016 (six months ended 30 June 2015: 55 days).

As at 30 June 2016, trade and bill payables amounted to approximately RMB419.3 million in total, as compared with approximately RMB306.1 million as at 30 June 2015. The increase was primarily due to increase in the uses of 90 days letter of credit and bills guaranteed by banks in our payments to suppliers during the period. The average trade and bills payables turnover days were 70 days for the six months ended 30 June 2016 (six months ended 30 June 2015: 55 days).

### **Capital commitments**

As at 30 June 2016, the capital commitments of the Group were approximately RMB24,745,000 (31 December 2015: RMB9,720,000), which were mainly related to the construction of additional production lines and the purchases of equipment for the upgrade of existing production facilities.

### **Contingent liabilities**

As at 30 June 2016, 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 2016, the Group employed a total of 1,916 full time employees. For the six months ended 30 June 2016, the employee benefit expense was approximately RMB47.0 million. The Group's employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of fees, salaries, bonuses and other allowances.

## **OTHER INFORMATION**

### **Corporate Governance**

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

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

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code during the six months ended 30 June 2016.

### **Audit Committee's Review of Financial Information**

The audit committee has reviewed the analysis on the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2016 and this interim results announcement, the accounting principles and practices adopted by the Group, and the Group's internal control functions.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

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

The interim results and the interim report for the six months ended 30 June 2016 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.cfc2121.com](http://www.cfc2121.com)) in due course.

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

31 August 2016

*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. Kou Huizhong, Dr. Wang Xin and Dr. Lin Zhang.*