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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

Financial Highlights	**Year ended 31 December**		
	2016	2015	Variance
	RMB'000	*RMB'000*	*%*
Revenue	**2,249,163**	2,135,545	5.3%
Gross profit	**445,468**	395,014	12.8%
Profit attributable to equity holders of the Company	**122,686**	129,043	(4.9%)
Earnings per share			
— Basic (RMB)	**15.3 cents**	16.1 cents	(5.0%)
— Diluted (RMB)	**15.3 cents**	16.1 cents	(5.0%)
EBITDA	**477,372**	429,479	11.2%
Proposed final dividend	**–**	12,904	(100.0%)
	As at 31 December		
	2016	2015	Variance
	RMB'000	*RMB'000*	*%*
Total equity	**2,228,707**	2,118,936	5.2%
Net asset per share (RMB)	**2.78**	2.64	5.3%

The Board of Directors (the "Board") of China First Chemical Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**2,249,163**	2,135,545
Cost of sales	*6*	**(1,803,695)**	(1,740,531)
Gross profit		**445,468**	395,014
Selling and marketing expenses	*6*	**(70,793)**	(65,245)
Administrative expenses	*6*	**(92,892)**	(85,973)
Other income		**5,927**	3,435
Other losses — net		**(3,867)**	(2,255)
Operating profit		**283,843**	244,976
Finance income		**10,323**	14,585
Finance expenses	*5*	**(110,739)**	(97,749)
Finance expenses — net		**(100,416)**	(83,164)
Gain on disposal of previous investments accounted for using the equity method		**–**	12,857
Share of losses of investments accounted for using the equity method		**(5,240)**	(1,813)
Profit before income tax		**178,187**	172,856
Income tax expense	*7*	**(55,501)**	(43,813)
Profit for the year		**122,686**	129,043
Other comprehensive income		**–**	–
Total comprehensive income for the year		**122,686**	129,043
Attributable to equity holders of the Company		**122,686**	129,043
Earnings per share attributable to the equity holders of the Company (RMB Yuan)			
— Basic	*8*	**0.153**	0.161
— Diluted	*8*	**0.153**	0.161

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**80,260**	82,426
Property, plant and equipment		**1,827,765**	1,850,067
Intangible assets		**298,142**	311,714
Investments accounted for using the equity method		**105,651**	110,891
Deferred income tax assets		**4,396**	3,069
Restricted cash		**19,200**	106,650
Other non-current assets		**262,318**	27,400
		2,597,732	2,492,217
Current assets			
Inventories		**208,670**	236,818
Trade and other receivables	*10*	**478,862**	487,500
Financial assets at fair value through profit or loss		**47,061**	43,771
Cash and cash equivalents		**540,230**	470,931
Restricted cash		**168,162**	191,311
		1,442,985	1,430,331
Total assets		**4,040,717**	3,922,548
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		**65,346**	65,346
Other reserves		**775,692**	771,497
Retained earnings		**1,387,669**	1,282,093
Total equity		**2,228,707**	2,118,936
LIABILITIES			
Non-current liabilities			
Borrowings		**370,303**	383,361
Deferred income		**9,500**	11,002
Deferred income tax liabilities		**25,209**	28,456
Financial liabilities at fair value through profit or loss	*11*	**107,246**	–
		512,258	422,819
Current liabilities			
Trade and other payables	*12*	**433,811**	525,757
Current income tax liabilities		**8,617**	20,848
Borrowings		**857,324**	834,188
		1,299,752	1,380,793
Total liabilities		**1,812,010**	1,803,612
Total equity and liabilities		**4,040,717**	3,922,548

NOTES

1. GENERAL INFORMATION

China First Chemical Holdings Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell bleaching and disinfectant chemical products, foaming agent products and other specialty chemical products in the People's Republic of China (the "PRC").

The Company was incorporated in the Cayman Islands on 24 November 2010, as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1- 1104, Cayman Islands. The parent company of the Company is China First Chemical Ltd., a company which was incorporated in the Cayman Islands. The ultimate parent company of the Company is Yihua Crown Limited.

The Company has been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2011.

2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and requirement of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss, which are carried at fair value.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New and amended standards and annual improvements adopted by the Group

The following new and amended standards or annual improvements have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

IFRS 14 "Regulatory Deferred Accounts"
Amendments to IFRS 11 "Accounting for Acquisitions of Interest in Joint Operations"
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"
Amendments to IAS 27 "Equity Method in Separate Financial Statements"
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investments Entities: Applying the Consolidation Exception"
Amendments to IAS 1 "Disclosure Initiative"
Annual Improvements 2012–2014 cycle

The adoption of the abovementioned new and amended standards and annual improvements did not result in any significant changes in the Group's significant accounting policies and presentation of the consolidated financial statements.

(b) New and amended standards issued but not yet adopted by the Group

A number of new standards and amendments to existing standards which may be applicable to the Group and are effective for annual periods beginning after 1 January 2016 are summarised as below.

	Effective for accounting periods beginning on or after
Amendments to IAS 12 "Income Taxes"	1 January 2017
Amendments to IAS 7 "Statement of Cash Flows"	1 January 2017
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	Not yet determined

IFRS 15 'Revenue from contracts with customers'

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim period within annual reporting period beginning on or after 1 January 2018, and will allow early adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and the following areas, if applicable, may be affected:

- revenue from service — the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and

- rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

At this stage, the Group does not intend to adopt IFRS 15 before its effective date.

IFRS 16 'Leases'

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

At this stage, the Group does not intend to adopt IFRS 16 before its effective date.

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 chemical products separately on a regular basis. Accordingly, three reportable segments (namely the Bleaching and disinfectant chemicals segment, Foaming agent products segment and Other specialty chemicals segment) have been identified for the purpose of segment reporting.

The Group's productions are all conducted in the PRC and the majority of the Group's products are sold to customers in the PRC as well. The Group has a large number of customers, which are widely dispersed within the PRC and overseas, no single customer accounted for more than 10% of the Group's total revenue for the years ended 31 December 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 consolidated financial statements.

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

The segment information provided to the CODM for the reportable segments for the years ended 31 December 2016 and 2015 is as follows:

	Year ended 31 December 2016			
	Bleaching and disinfectant chemicals	**Foaming agent products**	**Other specialty chemicals**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue	**1,350,337**	**666,893**	**231,933**	**2,249,163**
Inter-segment revenue	**–**	**–**	**–**	**–**
Revenue from external customers	**1,350,337**	**666,893**	**231,933**	**2,249,163**
Gross profit	**257,821**	**123,622**	**64,025**	**445,468**
Unallocated				
Depreciation and amortisation				**188,446**
Finance income				**10,323**
Finance expenses				**(110,739)**
Income tax expense				**(55,501)**
Total assets				**4,040,717**
Total liabilities				**1,812,010**

	Year ended 31 December 2015			
	Bleaching and disinfectant chemicals	Foaming agent products	Other specialty chemicals	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	1,271,415	600,711	263,419	2,135,545
Inter-segment revenue	–	–	–	–
Revenue from external customers	1,271,415	600,711	263,419	2,135,545
Gross profit	223,492	89,320	82,202	395,014
Unallocated				
Depreciation and amortisation				158,874
Finance income				14,585
Finance expenses				(97,749)
Income tax expense				(43,813)
Total assets				3,922,548
Total liabilities				1,803,612

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue		
Mainland China	**2,139,052**	1,960,876
Overseas	**110,111**	174,669
	2,249,163	2,135,545

5. FINANCE EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest expenses:		
— Borrowings	**75,028**	61,991
— Discount interest for bill receivables	**3,024**	3,594
— Bill payables	**2,556**	2,678
	80,608	68,263
Less: Interest capitalised in property, plant and equipment	**(521)**	(4,437)
	80,087	63,826
Other finance charges	**516**	562
Net foreign exchange losses on financing activities	**30,136**	33,361
	110,739	97,749

6. EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work in progress	**28,334**	(66,172)
Raw materials used	**1,081,332**	1,161,125
Depreciation of property, plant and equipment	**172,708**	144,394
Electricity and other utility fees	**445,763**	428,246
Employee benefit expenses	**89,984**	88,471
Transportation and related charges	**61,841**	62,491
Tax and surcharges	**16,394**	11,824
Amortisation of land use rights	**2,166**	2,026
Amortisation of intangible assets	**13,572**	12,454
Office and entertainment expenses	**9,482**	8,271
Operating lease expenses	**1,694**	1,476
Property insurance fee	**2,575**	2,957
Travelling expenses	**2,065**	1,818
Repairs and maintenance	**12,067**	9,275
Auditor's remuneration	**4,000**	4,000
— Audit services	**4,000**	4,000
— Non-audit services	**–**	–
Provision for impairment of trade receivables	**2,553**	–
Other expenses	**20,850**	19,093
Total cost of sales, selling and marketing expenses and administrative expenses	**1,967,380**	1,891,749

7. INCOME TAX EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax		
— PRC enterprise income tax (a)	**60,075**	49,093
— Hong Kong profits tax (b)	**–**	572
	60,075	49,665
Deferred income tax credit	**(4,574)**	(5,852)
	55,501	43,813

(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 years ended 31 December 2016 and 2015.

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	**122,686**	129,043
Weighted average number of ordinary shares in issue (thousand)	**802,191**	802,191
Basic earnings per share (RMB Yuan)	**0.153**	0.161

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's convertible bonds are on the category of dilutive potential ordinary shares. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the fair value loss of convertible bonds which are not subject to tax. The convertible bonds had anti-dilutive effect on earnings per share for the year ended 31 December 2016 and therefore, the diluted earnings per share is the same as basic earnings per share.

9. DIVIDEND

The dividends paid in 2016 of approximately HKD15,402,000 (HKD0.0192 per share), equivalent to approximately RMB12,915,000, related to the final dividend for the year ended 31 December 2015 (2015: HKD21,498,000 (HKD0.0268 per share), equivalent to approximately RMB16,965,000, related to the final dividend for the year ended 31 December 2014).

The Board of Directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2016.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Payment of dividend declared for the prior year of HKD0.0192 (2015: HKD0.0268) per ordinary share	**12,915**	16,965
Proposed final dividend for the year of HKDNil (2015: HKD0.0192) per ordinary share	**–**	12,904

10. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables		
Due from third parties (a)	**291,643**	418,108
Less: Provision for impairment of receivables (b)	**(2,553)**	–
	289,090	418,108
Bills receivables	**1,169**	438
Prepayments		
Prepayments for purchases of raw materials from a related party	**5,124**	–
Prepayments for purchases of raw materials from third parties	**7,064**	7,379
	12,188	7,379
Value-added tax input credits	**4,312**	8,755
Other receivables		
Due from third parties	**172,103**	14,127
Due from a related party	**–**	38,693
	172,103	52,820
	478,862	487,500

(a) The Group has a large number of customers, which are widely dispersed within the PRC and Southeast Asia. The outstanding balances are within credit terms of between 30 days and 90 days for both domestic and overseas customers. There is no concentration of credit risk with respect to trade receivables. As at 31 December 2016 and 2015, the ageing analysis of the trade receivables based on recognition date were as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**287,663**	414,619
Between 3 and 6 months	**1,046**	307
Between 6 and 12 months	**381**	1,012
Between 1 and 2 years	**930**	1,635
Above 2 years	**1,623**	535
	291,643	418,108

As of 31 December 2016, trade receivables of approximately RMB1,427,000 (2015: RMB3,489,000) were past due but not impaired.

(b) Movements on the Group's allowance for impairment of trade receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**–**	1,598
Provision for receivables impairment	**2,553**	–
Receivables written off during the year as uncollectible	**–**	(1,598)
At 31 December	**2,553**	–

11. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Convertible bonds

	2016
	RMB'000
As at 1 January 2016	**–**
Issuance of convertible bonds during the year	**102,717**
Fair value losses on the financial liabilities at fair value through profit or loss	**4,529**
As at 31 December 2016	**107,246**

The Company has issued convertible bonds with aggregated principal amounts of USD15,000,000 on 17 August 2016 (the "Issue Date"). The convertible bonds bear interest at the fixed rate of 7.5% per annum and the subscriber has the right to convert the whole or part of the principal amounts of the convertible bonds into the Company's shares at pre-determined conversion prices at any time prior to the original maturity date on 17 August 2018, or 17 August 2019 if the Company applies for an extension pursuant to the provisions of the relevant convertible bond instruments. If the convertible bonds are to be redeemed by the Company (rather than converting into the Company's shares by the subscriber upon the maturity date), the Company has to pay the holders of the relevant convertible bonds a premium the amount of which would yield to the relevant holders of the convertible bonds an annualised internal rate of return of 10%. During the year ended 31 December 2016, no convertible bonds have been converted into the Company's ordinary shares.

The Company designated the whole convertible bonds as financial liabilities at fair value through profit or loss and initially recognised the convertible bonds at fair value. In subsequent periods, such convertible bonds are measured at fair value with changes in fair values recognised in profit or loss. Transaction costs relating to the issuance of the convertible bonds has been charged to profit or loss.

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables (a)		
Due to third parties	**113,528**	131,049
Due to a related party	**–**	22,218
	113,528	153,267
Bills payable (b)		
Due to third parties	**170,945**	191,910
Other payables and accruals		
Due to third parties	**149,338**	180,580
	433,811	525,757

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**100,052**	148,260
Between 3 and 6 months	**4,852**	2,662
Between 6 and 12 months	**4,662**	1,459
Between 1 and 2 years	**3,878**	806
Above 2 years	**84**	80
	113,528	153,267

(b) As at 31 December 2016, the entire balances of bills payable were secured by restricted cash of approximately RMB63,808,000 (2015: RMB 65,610,000).

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2016 as presented above in this preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue for the year under review was approximately RMB2,249.2 million, representing an increase of approximately RMB113.7 million or 5.3% as compared to the revenue of approximately RMB2,135.5 million for the corresponding period in last year. The increase was mainly attributable to the increase in the sales of bleaching and disinfectant chemicals and foaming agent products during the year.

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

	For the year ended 31 December			
	2016		2015	
	Revenue amount	***% of Revenue***	*Revenue amount*	*% of Revenue*
Revenue ***(RMB'000)***				
Bleaching and disinfectant chemicals	**1,350,337**	**60.0%**	1,271,415	59.5%
Other chemical products	**898,826**	**40.0%**	864,130	40.5%
Total	**2,249,163**	**100.0%**	2,135,545	100.0%

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 ECF and TCF pulp bleaching process by our downstream customers, respectively.

During the year under review, the total revenue from the sales of bleaching and disinfectant chemicals was approximately RMB1,350.3 million, representing an increase of approximately 6.2% or RMB78.9 million from that in 2015. The increase in revenue was mainly attributable to expansion of sales during the year.

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 year under review, the total revenue from the sales of other chemical products was approximately RMB898.8 million, representing an increase of approximately 4.0% or RMB34.7 million from that in 2015. The increase was mainly attributed to expansion of sales of foaming agent products during the year.

Cost of sales

Our cost of sales primarily consists of costs of raw materials used and changes in inventories, electricity and other utility fees, depreciation of property, plant and equipment, employee benefit expenses, transportation and related charges, repairs and maintenance, tax and levies on main operations, office and entertainment expenses, traveling expenses and other expenses. For the years ended 31 December 2016, raw materials used and changes in inventories (including foaming agent sourced from third parties) form the largest component of our cost of sales, representing approximately 61.5% (2015: 62.9%) of our total cost of sales.

During the year under review, our cost of sales increased by approximately RMB63.2 million or 3.6% to RMB1,803.7 million from approximately RMB1,740.5 million for the corresponding period in last year, which was primarily due to the increase in sales volume of sodium chlorate. The percentage for cost of sales to revenue was 80.2% and 81.5% for the years ended 31 December 2016 and 2015, as a result of increased production of sodium chlorate which lead the unit cost of production relatively lower.

Gross profit and gross margin

Our gross profit increased by approximately RMB50.5 million or 12.8% to RMB445.5 million for the year under review from approximately RMB395.0 million for the corresponding period in last year. The overall gross margin increased from 18.5% in 2015 to 19.8% in 2016, which was primarily due to: (i) an increase in the average selling prices of bleaching and disinfectant chemicals and other chemicals as a result of improving market condition; (ii) the fact that the Company has a whole package of advance technologies over all of its key production processes, has the sustainable and stable power advantage, and the Company's product indicators and added values are all outperform that of other domestic enterprises.

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

Gross margin (%)	For the year ended 31 December 2016	2015	Change
Bleaching and disinfectant chemicals	**19.1%**	17.6%	8.5%
Other chemical products	**20.9%**	19.8%	5.6%
Overall	**19.8%**	18.5%	7.0%

Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals increased from 17.6% for the year ended 31 December 2015 to 19.1% for the year ended 31 December 2016, which was primarily attributable to the increase in average selling prices of bleaching and disinfectant chemicals as a result of improving market condition.

Other chemical products

The gross margin of other chemical products increased from 19.8% for the year ended 31 December 2015 to 20.9% for the year ended 31 December 2016, which was also primarily attributable to the increase in average selling prices of other chemical products as a result of improving market condition.

Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation and related charges for our products, sales taxes such as urban maintenance and construction tax, educational surtax, travelling expenses and other selling and marketing expenses. The selling and marketing expenses of the Group increased by approximately 8.6% to approximately RMB70.8 million for the year ended 31 December 2016 from approximately RMB65.2 million for the year ended 31 December 2015, which was primarily attributable to the increase in the sales volume of the Group's chemical products.

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 8.0% to approximately RMB92.9 million for the year ended 31 December 2016 from approximately RMB86.0 million for the year ended 31 December 2015, which was primarily attributable to the expansion in the operation of the Group.

Other income

Other income primarily consists of government grant income and profit from sales of raw materials. The other income of the Group increased by approximately 73.5% to approximately RMB5.9 million for the year ended 31 December 2016 from approximately RMB3.4 million for the year ended 31 December 2015, which was primarily attributable to the increase in government grant income.

Other losses — net

Other losses — net, mainly consists of the fair value losses on financial liabilities at fair value through profit or loss and losses on disposal of property, plant and equipment, net of certain settlement/fair value gains on financial assets and foreign exchange gains. The other losses, net of the Group increased by approximately 69.6% to approximately RMB3.9 million for the year ended 31 December 2016 from approximately RMB2.3 million for the year ended 31 December 2015, which was primarily attributable to increase in fair value losses on financial liabilities at fair value through profit or loss.

Finance income

Finance income primarily represents interest income from bank deposits. The finance income of the Group decreased by approximately 29.5% to approximately RMB10.3 million for the year ended 31 December 2016 from approximately RMB14.6 million for the year ended 31 December 2015, which was primarily attributable to the decrease in term deposits during the year.

Finance expenses

Finance expenses primarily consist of interest expenses on bank borrowings, discount interest for bill receivables, bill payables, other finance charges and foreign exchange losses on financing activities, less interest capitalised in property, plant and equipment. The finance costs of the Group increased by approximately 13.3% to approximately RMB110.7 million for the year ended 31 December 2016 from approximately RMB97.7 million for the year ended 31 December 2015, which was primarily attributed to the increase in interest-bearing borrowings during the year.

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 26.7% to approximately RMB55.5 million for the year ended 31 December 2016 from approximately RMB43.8 million for the year ended 31 December 2015. The effective tax rate increased to approximately 31.1% for the year ended 31 December 2016 from approximately 25.3% for the year ended 31 December 2015 is primarily attributable to the increase in certain expenses not deductible for income tax purpose and also certain tax deferred income tax assets associated with losses have not been recognised.

Profit for the year

As a result of the foregoing factors, the profit attributable to the equity holders of the Company decreased by approximately 4.9% to approximately RMB122.7 million for the year ended 31 December 2016 from approximately RMB129.0 million for the year ended 31 December 2015.

LIQUIDITY AND CAPITAL RESOURCES

Financial position and bank borrowings

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

The balance of the Group's cash and cash equivalents amounted to approximately RMB540.2 million (2015: RMB470.9 million), most of which were denominated in Renminbi. As at 31 December 2016, the Group's interest bearing borrowings and financial liabilities at fair value through profit or loss amounted to approximately RMB1,334.9 million (2015: RMB1,217.5 million).

The Group's current ratio (calculated as current assets divided by current liabilities) was approximately 1.11 (2015: 1.04). The gearing ratio (calculated as net debt divide by total capital) of the Group was 23.1% as at 31 December 2016 (2015: 19.5%). The Group has sufficient and readily available finance resource for both general working capital purpose and foreseeable capital expenditure.

Working capital

Inventories as at 31 December 2016 were approximately RMB208.7 million (2015: RMB236.8 million). The decrease was primarily due to better inventory control during the year. Average inventory turnover days was 44 days for the year 2016 (2015: 42 days).

As at 31 December 2016, trade receivables amounted to approximately RMB289.1 million (2015: RMB418.1 million). The decrease is primarily due to our effective control over trade receivables, despite the continuous growth in our sales. The average trade receivables turnover days was 56 days for the year 2016 (2015: 49 days).

As at 31 December 2016, trade and bills payables amounted to approximately RMB284.5 million (2015: RMB345.2 million). The decrease was mainly due to the decrease in the uses of letters of credit and bills guaranteed by banks as our payments to suppliers. The average trade and bills payables turnover days was 63 days for the year 2016 (2015: 42 days).

Capital commitments

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Property, plant and equipment	**15,024**	9,720

Contingent liabilities

As at 31 December 2016, the Group had not provided any form of guarantee for any company outside the Group. The Group does not have any pending/potential material legal litigation in which the Group is/will be involved.

PROSPECT

In November 2015, the Ministry of Environmental Protection issued an exposure draft — Discharge Standard of Pollutants for Urban Sewage Treatment Plants, proposing that: Since 1 July 2016, newly-built urban sewage treatment plants shall execute the first-class A standard; since 1 January 2018, existing urban sewage treatment plants within sensitive regions shall execute the first-class A standard. While initiating the standard upgrading of sewage plants, the State has promoted the upgrade of various sewage discharge entities, which means China has genuinely ushered in a new era of sewage treatment.

Achieve development as dually driven by the eco-friendly advanced oxidation technology and the hydrogen energy technology

The Group has long been concentrating on and rooted in environment-friendly products and has developed into a leading provider of environment-friendly products and technical services for water treatment in China. Main products of the Group include sodium chlorate, hydrogen peroxide and other advanced eco-friendly oxidation products. As of 2016, sales volumes of sodium chlorate ranked first in China, while that of hydrogen peroxide ranked top throughout China.

In December 2016, Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Group, entered into the Strategic Cooperation Framework Agreement with the State Key Laboratory of Automotive Safety and Energy of Tsinghua University, Beijing Hydrogen Era Environmental Technology Company Limited, Sichuan Tianyi Science & Technology Co., Ltd., Chengdu Huaqi Houpu Holding Co., Ltd., Chengdu Bus Co., Ltd. and Shanghai Pujiang Specialty Gases Co., Ltd., pursuant to which all parties have agreed to establish strategic cooperation relationship in respect of the HCNG (Hydrogen Enriched Compressed Natural Gas) hybrid vehicle project in order to facilitate the development of HCNG vehicle business.

By taking this strategic cooperation as the opportunity, the Group has implemented strategic upgrade and ushered in the new development routes as dually driven by the eco-friendly advanced oxidation technology and the hydrogen energy technology. The Group has accumulated technological and resource advantages in eco-friendly advanced oxidation technology and hydrogen energy technology. As a supplier of hydrogen purification equipment and hydrogen resources, the Group will fully integrate the high-quality industrial resources of its own and the industry circle, and follow the development direction of hydrogen energy industry chain application.

Advance the construction of Pingnan Fine Chemical Industrial Park by cooperating with SPIC

In July 2016, Fujian (Pingnan) Rongping Chemical Co., Ltd. (hereinafter referred to as "**Rongping Chemical**"), a wholly-owned subsidiary of the Group, completed the feasibility study report on Phase I technological improvement and expansion project in Pingnan Fine Chemical Industrial Park, which mainly involves the expansion project of bleaching and disinfectant chemicals such as sodium chlorate and hydrogen peroxide.

In the same month, Rongping Chemical entered into the Strategic Cooperation Framework Agreement on Construction of Comprehensive Energy Projects in Pingnan Fine Chemical Industrial Park with Pingnan County People's Government and the State Power Investment Corporation (hereinafter referred to as "**SPIC**") Fujian Branch, for the purpose of carrying out comprehensive strategic cooperation concerning the construction of clean energy project and the integrated intelligent energy field in Pingnan Fine Chemical Industrial Park.

In 2017, the Group will continue promoting the technological improvement and expansion projects in Pingnan Fine Chemical Industrial Park, jointly develop high-tech projects like hydrogen energy storage and hazardous wastes recovery by virtue of strategic cooperation with SPIC, thus establish the cooperation platform, and create recycling economy.

Persist in technological innovation and strengthen independent R&D

The Group persisted in technological innovation and continued to invest in independent R&D in 2016. Fujian Rongchang Chemical Co., Ltd., a wholly-owned subsidiary of the Group, succeeded in developing the "drinking water-related product — sodium hypochlorite". Through improvement in process and equipment as well as acceptance by the health department at the county, municipal and provincial level, its sodium hypochlorite solution was granted the hygiene license for sanitary and safe product of drinking water in Fujian.

In 2016, "a kind of multi-electrode multi-diaphragm electrolytic cell for disposing of the hyper-saline industrial wastewater", which was researched and developed by Fujian Chuangyuan Environmental Protection Co., Ltd., a wholly-owned subsidiary of the Group, gained the Utility Model Patent Certificate. The hydrogen peroxide for industrial use, produced by Fuzhou Yihua Chemical Stock Co., Ltd., was awarded the third prize certificate by China Petroleum and Chemical Industry Association.

The “the 13th Five-Year Plan” has just gone through the beginning year. In 2017, the Group will persist in technological innovation and strengthen independent R&D as supplemented by combination of production, education and research with colleges and universities, and create the development motives as dually driven by eco-friendly advanced oxidation technology and hydrogen energy technology.

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 since the listing of the shares of the Company on the Main Board of the Stock Exchange on 9 December 2011 (the “Listing Date”) and up to the date of this annual 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 and senior management confirmed that they have complied with the Model Code since the Listing Date and up to the date of this results announcement.

Audit Committee

The Audit Committee was established since 10 June 2011 with written terms of reference as suggested under the CG Code. The Audit Committee currently has three members, namely Dr. Wang Xin (Chairman), Dr. He Peipei and Dr. Lin Zhang, and all of them are Independent Non-executive Directors. The responsibilities of the Audit Committee include, among others, providing independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, nominating and monitoring external auditors, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee has reviewed the annual results of the Group, the accounting principles and policies adopted by the Group, and the Group’s internal control functions.

Remuneration Committee

The Remuneration Committee was established since 10 June 2011 with written terms of reference as suggested under the CG Code. The Remuneration Committee currently has three members, namely Dr. He Peipei (Chairman), Dr. Lin Zhang and Ms. Miao Fei. Dr. He Peipei and Dr. Lin Zhang are Independent Non-executive Directors and Ms. Miao Fei is an Executive Director. The primary responsibilities of the Remuneration Committee include, among others,

(i) making recommendations to the Directors regarding our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration; (ii) reviewing and approving the remuneration package of the Directors and senior management in accordance with the corporate strategies and objectives set by the Directors; and (iii) considering and approving the grant of share options to eligible participants according to any approved share option scheme.

Nomination Committee

The Nomination Committee was established since 10 June 2011 with written terms of reference. The Nomination Committee currently has three members, namely Dr. He Peipei (Chairman), Mr. Lam Wai Wah and Dr. Lin Zhang. Dr. He Peipei and Dr. Lin Zhang are Independent Non-executive Directors and Mr. Lam Wai Wah is an Executive Director. The primary responsibilities of the Nomination Committee include, among others, reviewing the structure, size and composition of the Board and providing recommendations to the Board for the appointment of members of the Board.

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 year ended 31 December 2016.

Annual General Meeting

The forthcoming 2016 annual general meeting ("AGM") of the Company will be held in Hong Kong on Monday, 12 June 2017. Notice of the AGM will be published and dispatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: HK$1.92 cents (RMB1.61 cents) per share).

Closure of Register of Members

In order to determine the entitlements of the shareholders to attend and vote at the annual general meeting, the register of members of the Company will be closed from Wednesday, 7 June 2017 and Monday, 12 June 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the annual general meeting, all Share transfers, being accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 6 June 2017 (Hong Kong time), being the last share registration date.

Publication of Annual Financial Results and Annual Report

The annual results announcement and the annual report for the year ended 31 December 2016 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

Fujian, The PRC, 24 March 2017

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. He Peipei, Dr. Wang Xin and Dr. Lin Zhang.