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 2017

Financial Highlights	**Year ended 31 December**		
	2017	2016	Variance
	RMB'000	*RMB'000*	*%*
Revenue	**2,228,803**	2,249,163	(0.9%)
Gross profit	**381,888**	445,468	(14.3%)
Profit attributable to equity holders of the Company	**128,590**	122,686	4.8%
Earnings per share			
— Basic (RMB)	**16.0 cents**	15.3 cents	4.6%
— Diluted (RMB)	**15.3 cents**	15.3 cents	–
EBITDA	**435,335**	477,372	(8.8%)
Proposed final dividend	**–**	–	–
	As at 31 December		
	2017	2016	Variance
	RMB'000	*RMB'000*	*%*
Total equity	**2,357,297**	2,228,707	5.8%
Net asset per share (RMB)	**2.94**	2.78	5.8%

The Board of Directors (the "Board") of China First Chemical Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**2,228,803**	2,249,163
Cost of sales of goods	*6*	**(1,846,915)**	(1,803,695)
Gross profit		**381,888**	445,468
Selling and marketing costs	*6*	**(61,487)**	(70,793)
Administrative expenses	*6*	**(92,133)**	(92,892)
Other income		**5,563**	5,927
Other losses — net		**(8,505)**	(3,867)
Operating profit		**225,326**	283,843
Finance income		**12,833**	10,323
Finance costs	*5*	**(63,365)**	(110,739)
Finance costs — net		**(50,532)**	(100,416)
Share of net losses of associates accounted for using the equity method		**(1,251)**	(5,240)
Profit before income tax		**173,543**	178,187
Income tax expense	*7*	**(44,953)**	(55,501)
Profit for the year		**128,590**	122,686
Other comprehensive income		**–**	–
Total comprehensive income for the year		**128,590**	122,686
Attributable to equity holders of the Company		**128,590**	122,686
Earnings per share attributable to the equity holders of the Company (RMB Yuan)			
— Basic	*8*	**0.160**	0.153
— Diluted	*8*	**0.153**	0.153

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**78,504**	80,260
Property, plant and equipment		**1,920,630**	1,827,765
Intangible assets		**284,570**	298,142
Investments accounted for using the equity method		**104,400**	105,651
Deferred income tax assets		**5,782**	4,396
Restricted cash		**18,724**	19,200
Other non-current assets		**40,551**	262,318
Total non-current assets		**2,453,161**	2,597,732
Current assets			
Inventories		**181,643**	208,670
Trade and other receivables	*10*	**646,593**	478,862
Financial assets at fair value through profit or loss		**58,056**	47,061
Cash and cash equivalents		**705,710**	540,230
Restricted cash		**126,430**	168,162
Total current assets		**1,718,432**	1,442,985
Total assets		**4,171,593**	4,040,717
EQUITY			
Share capital		**65,346**	65,346
Other reserves		**790,270**	775,692
Retained earnings		**1,501,681**	1,387,669
Total equity		**2,357,297**	2,228,707
LIABILITIES			
Non-current liabilities			
Borrowings		**323,941**	370,303
Deferred income		**22,181**	9,500
Deferred income tax liabilities		**21,962**	25,209
Financial liabilities at fair value through profit or loss	*11*	**–**	107,246
Total non-current liabilities		**368,084**	512,258
Current liabilities			
Trade and other payables	*12*	**474,693**	433,811
Current income tax liabilities		**22,177**	8,617
Borrowings		**840,682**	857,324
Provision		**6,530**	–
Financial liabilities at fair value through profit or loss	*11*	**102,130**	–
Total current liabilities		**1,446,212**	1,299,752
Total liabilities		**1,814,296**	1,812,010
Total equity and liabilities		**4,171,593**	4,040,717

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, a company incorporated in the Cayman Islands.

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 disclosure requirements 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 measured at fair value.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"
Amendments to IAS 7 "Disclosure Initiative"

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities.

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

Certain new and amended accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group has assessed the impact of these new and amended standards and interpretations to the Group and the impact of those new standards which should be applicable to the Group are as follows:

IFRS 9 'Financial Instruments'

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets because the debt investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9.

There will be no impact on the Group's accounting for financial liabilities. Convertible bonds currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The new standard is mandatory for financial year commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15 'Revenue from contracts with customers'

Management is currently assessing the effects of applying the new standard on the Group's financial statements and the application of IFRS 15 may result in the identification of separate performance obligations in respect of the provision of transportation services to the Group's customers which could affect the timing of the recognition of revenue.

Based on the assessment up to this stage, management does not expect the adoption of the new standard will have a material impact on the Group.

The new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16 'Leases'

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB3,079,000 and within that amount, the Group has no short-term and low value leases which may be exempted from recognising on the balance sheet and to be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other new or amended standards and interpretations that are not yet effective and would be expected to have a material impact on the Group's significant accounting policies and presentation of the consolidated of financial statements.

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 2017 and 2016.

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 2017 and 2016 is as follows:

	Year ended 31 December 2017			
	Bleaching and disinfectant chemicals	**Foaming agent products**	**Other specialty chemicals**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue	**1,334,244**	**658,535**	**236,024**	**2,228,803**
Inter-segment revenue	**–**	**–**	**–**	**–**
Revenue from external customers	**1,334,244**	**658,535**	**236,024**	**2,228,803**
Gross profit	**243,319**	**85,112**	**53,457**	**381,888**
Unallocated				
Depreciation and amortisation				**198,427**
Finance income				**12,833**
Finance costs				**(63,365)**
Income tax expense				**(44,953)**
Total assets				**4,171,593**
Total liabilities				**1,814,296**

	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 costs				(110,739)
Income tax expense				(55,501)
Total assets				4,040,717
Total liabilities				1,812,010

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
Mainland China	**2,105,768**	2,139,052
Overseas	**123,035**	110,111
	2,228,803	2,249,163

5. FINANCE COSTS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest expenses:		
— Borrowings	**78,182**	75,028
— Discount interest for bill receivables	**3,648**	3,024
— Bill payables	**2,468**	2,556
	84,298	80,608
Less: Interest capitalised in property, plant and equipment	**(773)**	(521)
	83,525	80,087
Other finance charges	**877**	516
Net foreign exchange (gains)/losses on financing activities	**(21,037)**	30,136
	63,365	110,739

6. EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work in progress	**26,519**	28,334
Raw materials used	**1,089,714**	1,081,332
Electricity and other utility fees	**470,980**	445,763
Depreciation of property, plant and equipment	**182,687**	172,708
Employee benefit expenses	**88,328**	89,984
Transportation and related charges	**55,550**	61,841
Tax and surcharges	**14,303**	16,394
Amortisation of intangible assets	**13,572**	13,572
Repairs and maintenance	**11,956**	12,067
Office and entertainment expenses	**9,260**	9,482
Auditor's remuneration	**4,000**	4,000
Property insurance fee	**2,801**	2,575
Amortisation of land use rights	**2,168**	2,166
Operating leases expenses	**1,778**	1,694
Travelling expenses	**1,750**	2,065
Impairment loss for trade and other receivables, net	**418**	2,553
Other expenses	**24,751**	20,850
Total cost of sales, selling and marketing costs and administrative expenses	**2,000,535**	1,967,380

7. INCOME TAX EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax		
— PRC enterprise income tax (i)	**49,586**	60,075
— Hong Kong profits tax (ii)	**–**	–
	49,586	60,075
Deferred income tax credit	**(4,633)**	(4,574)
	44,953	55,501

(i) 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 of the subsidiaries with operations in the PRC, adjusted for income and expenses items which are not assessable or deductible for income tax purpose.

(ii) The provision for Hong Kong profits tax is based on the rate of 16.5% on the estimated assessable profits arising in Hong Kong (if any). No provision for Hong Kong profits tax has been made as the Group has not generated or derived any taxable profit in Hong Kong during the years ended 31 December 2017 and 2016.

8. EARNINGS PER SHARE

(a) Basic earnings per share

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	
	2017	2016
Profit attributable to equity holders of the Company (RMB'000)	**128,590**	122,686
Weighted average number of ordinary shares in issue (thousand)	**802,191**	802,191
Basic earnings per share (RMB Yuan)	**0.160**	0.153

(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.

	Year ended 31 December 2017
Earnings	
Profit attributable to equity holders of the Company (RMB'000)	**128,590**
Adjustment for fair value gain of the convertible bonds	**2,500**
	131,090
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	**802,191**
Adjustments for:	
Assumed conversion of the convertible bonds	**55,289**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**857,480**
Diluted earnings per share (RMB Yuan)	**0.153**

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 was same as the basic earnings per share for the year ended 31 December 2016.

9. DIVIDEND

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Payment of dividend declared for the prior year of Nil (2016: HKD0.0192) per ordinary share	**–**	12,915

The dividends paid in 2016 of approximately HKD15,402,000 (equivalent to approximately RMB12,915,000) are related to the final dividend for the year ended 31 December 2015.

As of the date of the consolidated financial statements, no dividend in respect of the years ended 31 December 2017 and 2016 has been proposed by the Board of the Company.

10. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables (a)		
Due from third parties	**395,458**	291,643
Less: Provision for impairment of receivables	**(2,971)**	(2,553)
	392,487	289,090
Bills receivables	**341**	1,169
Prepayments		
— purchases of raw materials from a related party	**4,781**	5,124
— purchases of raw materials from third parties	**11,056**	7,064
	15,837	12,188
Value-added tax recoverable	**1,052**	4,312
Other receivables		
Due from third parties	**236,876**	172,103
	646,593	478,862

(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 2017 and 2016, the ageing analysis of the trade receivables based on recognition date were as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**390,801**	287,663
Between 3 and 6 months	**787**	1,046
Between 6 and 12 months	**899**	381
Between 1 and 2 years	**529**	930
Above 2 years	**2,442**	1,623
	395,458	291,643

(b) As of 31 December 2017, trade receivables of approximately RMB1,686,000 (2016: RMB1,427,000) were past due but not impaired.

11. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Convertible bonds

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**107,246**	–
Issuance of convertible bonds during the year	**–**	102,717
Payment of interests	**(7,616)**	–
Fair value losses on the financial liabilities at fair value through profit or loss	**2,500**	4,529
As at 31 December	**102,130**	107,246

The Company has issued convertible bonds with aggregated principal amounts of USD15,000,000 on 17 August 2016 (the "Issue Date") in accordance with an investment agreement dated 25 July 2016. The convertible bonds bear interest at the fixed rate of 7.5% per annum and the initial investor 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. The convertible bonds consists of 7 parts, two parts with face value USD2.25 million each and five parts with face value USD2.1 million each. Conversion prices for the parts of convertible bonds with face value of USD2.25 million and USD2.1 million each are HKD1.9205 and HKD2.1949 per share respectively. If the convertible bonds are to be redeemed by the Company (rather than converting into the Company's shares by the investor upon the maturity date), the Company have 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 years ended 31 December 2017 and 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 are charged to profit or loss immediately.

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables (a)		
Due to third parties	**157,332**	113,528
Bills payable (b)		
Due to third parties	**190,936**	170,945
Other payables and accruals		
Due to a related party	**552**	–
Due to third parties	**125,873**	149,338
	474,693	433,811

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**147,402**	100,052
Between 3 and 6 months	**3,440**	4,852
Between 6 and 12 months	**2,881**	4,662
Between 1 and 2 years	**1,240**	3,878
Above 2 years	**2,369**	84
	157,332	113,528

(b) As at 31 December 2017, the entire balances of bills payable were secured by restricted cash of approximately RMB78,721,000 (2016: RMB 63,808,000).

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 2017 as presented above in this preliminary annual results announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft 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 this preliminary annual results announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue for the year under review was approximately RMB2,228.8 million, representing a decrease of approximately RMB20.4 million or 0.9% as compared to the revenue of approximately RMB2,249.2 million for the corresponding period in last year. The decrease was mainly attributable to the decrease in the sales of bleaching and disinfectant chemicals during the year.

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

	For the year ended 31 December			
	2017		2016	
	Revenue amount	***% of Revenue***	*Revenue amount*	*% of Revenue*
Revenue (RMB'000)				
Bleaching and disinfectant chemicals	**1,334,244**	**59.9%**	1,350,337	60.0%
Other chemical products	**894,559**	**40.1%**	898,826	40.0%
Total	**2,228,803**	**100.0%**	2,249,163	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 elemental chlorine free ("ECF") and total chlorine free ("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 RMB1,334.2 million, representing a decrease of approximately 1.2% or RMB16.1 million from that in 2016. The decrease in revenue was mainly attributable to the decrease in sales volume of sodium chlorate and hydrogen peroxide due to the market condition 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 RMB894.6 million, representing a decrease of approximately 0.5% or RMB4.2 million from that in 2016. The decrease was mainly attributed to decrease in sales volume of foaming agent products as a result of market condition.

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 2017, 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 60.4% (2016: 61.5%) of our total cost of sales.

During the year under review, our cost of sales increased by approximately RMB43.2 million or 2.4% to RMB1,846.9 million from approximately RMB1,803.7 million for the corresponding period in last year, which was primarily attributable to the increase of unit cost which stems from the increased price of raw materials and purchased products and the decreased quantity outputs. The percentage for cost of sales to revenue for the year under review was 82.9% (2016: 80.2%) and the increase is due to the decreased production of sodium chlorate and foaming agent products which lead the unit cost of production relatively higher.

Gross profit and gross margin

Our gross profit decreased by approximately RMB63.6 million or 14.3% to approximately RMB381.9 million for the year under review from approximately RMB445.5 million for the corresponding period in last year. The overall gross margin decreased from 19.8% in 2016 to 17.1% in 2017, which was primarily due to: (i) the decrease in sales volume of sodium chlorate, hydrogen peroxide, and foaming agent due to the market condition; and (ii) the increase of unit cost which stems from the increased price of raw materials and purchased products and the decrease in quantity outputs.

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

	For the year ended 31 December		
Gross margin (%)	**2017**	2016	Change
Bleaching and disinfectant chemicals	**18.2%**	19.1%	(4.7%)
Other chemical products	**15.5%**	20.9%	(25.8%)
Overall	**17.1%**	19.8%	(13.6%)

Bleaching and disinfectant chemicals

The gross margin of bleaching and disinfectant chemicals decreased from 19.1% for the year ended 31 December 2016 to 18.2% for the year ended 31 December 2017, which was primarily attributable to the increase of unit cost which stems from the increased price of raw materials and purchased products and the decreased quantity outputs.

Other chemical products

The gross margin of other chemical products decreased from 20.9% for the year ended 31 December 2016 to 15.5% for the year ended 31 December 2017, which was also primarily attributable to the increase of unit cost which stems from the increased price of raw materials and purchased products and the decreased quantity outputs.

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 decreased by approximately 13.1% to approximately RMB61.5 million for the year ended 31 December 2017 from approximately RMB70.8 million for the year ended 31 December 2016, which was primarily attributable to effective cost control.

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 approximately 0.9% to approximately RMB92.1 million for the year ended 31 December 2017 from approximately RMB92.9 million for the year ended 31 December 2016, which was primarily attributable to effective cost control.

Other income

Other income primarily consists of government grant income and profit from sales of raw materials. The other income of the Group decreased by approximately 5.1% to approximately RMB5.6 million for the year ended 31 December 2017 from approximately RMB5.9 million for the year ended 31 December 2016, which was primarily attributable to the decrease 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, losses on disposal of property, plant and equipment, fair value gains on financial assets at fair value through profit or loss, provision for a legal claim and foreign exchange losses/gains. The other losses, net of the Group increased by approximately 118.0% to approximately RMB8.5 million for the year ended 31 December 2017 from approximately RMB3.9 million for the year ended 31 December 2016, was primarily attributable to the provision for a legal claim of approximately RMB6.5 million as recognised during the year and also the net foreign exchange losses for the year of approximately RMB1.2 million (2016: a net foreign exchange gain of approximately RMB1.1 million), which was partially offset by the decreases in losses on disposals of property, plant and equipment and decreases in fair value losses on financial liabilities at fair value through profit or loss by approximately RMB2.4 million and RMB2.0 million respectively.

Finance income

Finance income primarily represents interest income from bank deposits and notional interest income from the initial recognition on non-interest bearing borrowings. The finance income of the Group increased by approximately 24.3% to approximately RMB12.8 million for the year ended 31 December 2017 from approximately RMB10.3 million for the year ended 31 December 2016, which was primarily attributable to the notional interest income from the initial recognition of non-interest bearing borrowings during the year of approximately RMB7.8 million, which was partially offset by the decrease in interest income from bank deposits by approximately RMB5.4 million.

Finance costs

Finance costs primarily consist of interest expenses on bank borrowings, discount interest for bill receivables, bill payables, other finance charges and foreign exchange gains on financing activities, less interest capitalised in property, plant and equipment. The finance costs of the Group decreased by approximately 42.7% to approximately RMB63.4 million for the year ended 31 December 2017 from approximately RMB110.7 million for the year ended 31 December 2016, which was primarily attributed to the increase in the net foreign exchange gains on the retranslation of USD-denominated borrowings or notes instrument as a result of depreciation of USD against RMB 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 decreased by approximately 18.9% to approximately RMB45.0 million for the year ended 31 December 2017 from approximately RMB55.5 million for the year ended 31 December 2016. The effective tax rate decreased to approximately 25.9% for the year ended 31 December 2017 from approximately 31.1% for the year ended 31 December 2016 is primarily attributable to relatively much higher amounts of expenses were not deductible for income tax purpose in the prior year and also relatively much higher amounts of deferred income tax assets associated with tax losses were not been recognised in the prior year.

Profit for the year

As a result of the foregoing factors, the profit attributable to the equity holders of the Company increased by approximately 4.8% to approximately RMB128.6 million for the year ended 31 December 2017 from approximately RMB122.7 million for the year ended 31 December 2016.

LIQUIDITY AND CAPITAL RESOURCES

Financial position and bank borrowings

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

The balance of the Group's cash and cash equivalents amounted to approximately RMB705.7 million (2016: RMB540.2 million), most of which were denominated in Renminbi. As at 31 December 2017, the Group's borrowings and financial liabilities at fair value through profit or loss amounted to approximately RMB1,266.8 million (2016: RMB1,334.9 million).

The Group's current ratio (calculated as current assets divided by current liabilities) was approximately 1.19 (2016: 1.11). The gearing ratio (calculated as net debt divide by total equity) of the Group was 21.0% as at 31 December 2017 (2016: 30.1%). 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 2017 were approximately RMB181.6 million (2016: RMB208.7 million). The decrease was primarily due to better inventory control during the year. Average inventory turnover days was 38 days for the year 2017 (2016: 44 days).

As at 31 December 2017, trade receivables amounted to approximately RMB392.5 million (2016: RMB289.1 million). The increase is primarily due to increase in year end sales during the year. The average trade receivables turnover days was 55 days for the year 2017 (2016: 56 days).

As at 31 December 2017, trade and bills payables amounted to approximately RMB348.3 million (2016: RMB284.5 million). The increase was mainly due to the increases in purchases of goods during the year. The average trade and bills payables turnover days was 62 days for the year 2017 (2016: 63 days).

Capital commitments

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Property, plant and equipment	**65,832**	15,024

Contingent liabilities

As at 31 December 2017, the Group had not provided any form of guarantee for any company outside the Group and does not have any significant contingent liabilities.

PROSPECT

The successful commencement of the 19th National Congress of the Communist Party of China (the "19th National Congress") has marked the beginning of a new era since the establishment of Socialism in China, pointing out development directions for various industries in the coming five years. The convention has put its emphasis on environmental protection to a record high level. Policy-driven, the environmental protection industry will be able to acquire unprecedented development.

The market size of China's water treatment industry in 2017 is expected to reach RMB280 billion. The level of urban sewage treatment in China will be substantially increased in future, which will greatly stimulate the market demand for domestic sewage treatment. By the end of 2020, full coverage of urban sewage treatment facilities will be achieved, while the urban sewage treatment rate will reach 95% with the utilisation rate of recycled water in cities and provinces further raised.

The Ministry of Environmental Protection issued the "13th Five-Year Development Plan for the National Standards of Environmental Protection" (《國家環境保護標準「十三五」發展規劃》) in April 2017 proposing the complete implementation of the requirements under the "Ten Water Directives" (《水十條》), under which key areas on prevention and treatment of water pollution such as industrial sources, domestic sources and agricultural sources are stressed with relevant surrounding emission standards made in priority, among which industrial wastewater is mainly related to ten key industries in terms of refining the control indicators and requirements on water pollutants from industrial sources. In addition, more standards on water pollutant discharge regarding emerging industries such as coal chemical industry and shale gas exploitation industry will be formulated, and the Integrated Wastewater Discharge Standard (污水綜合排放標準) will be amended.

Market Development Trend from Single Water Body Treatment to Whole River Basin Management

During the 19th National Congress, it is pointed out that ecological problems have undoubtedly become the major conflicts against the early phase of socialism. In other words, the major conflict in our society has been transformed into the conflict between people's increasing needs for better living and the uneven and unreasonable development. Moreover, the goal of full completion of China's ecologically civilised facilities by the middle of this century has also been put forward, while four major missions have been planned concurrently, including facilitation on green development, treatment on outstanding environmental problems, enhancement on ecosystem protection and regulatory system reforms on ecological environment.

With the speeding development of water environment treatment in our country, it is difficult to eradicate pollution from the sources by means of point source treatment. This also means that the more complicated the water environment treatment projects have become, the stricter requirements will be imposed on the provision and operation of comprehensive corporate solutions. Balancing the development along the industry chain, improving the ability of enterprises for healthy development, it has also laid the foundation for the development in line with the new era of environmental protection, making integrated treatment the mainstream mode applied for water treatment.

Being an Integrated Water Treatment Service Provider for Providing Integrated Solutions

The Group has established strategic partnerships with scientific research institutes such as Fujian Haixi Research Institute of the Chinese Academy of Sciences (中國科學院福建海西研究院), Beijing University of Chemical Technology, Fuzhou University and Fujian Normal University, taking the road of Industry-Academia-Research development. We have a wide range of businesses in areas such as wastewater treatment, solid waste treatment and environmental protection pharmaceuticals with an aim to turn the Group into a provider of integrated water treatment service.

With core water treatment technologies and resource advantages in bleaching and disinfectant chemicals such as sodium chlorate and hydrogen peroxide, the Group provides comprehensive integrated water treatment solutions for different customers, which cover municipal water supply and drainage, industrial water treatment, medical wastewater treatment and rural sewage treatment, especially providing unique solutions in the aspect of recycling highly-saline wastewater in specific areas.

Continuous Investment on Research and Development and Non-stop Enhancement of Water Treatment Technology Barriers

The Group has determined on technological innovation for a long time, with continuous investment on research and development and non-stop enhancement of water treatment technology barriers. Sichuan Minjiang Snow Salt Chemical Industry Co., Ltd, the Group's wholly-owned subsidiary and hereinafter referred to as "Minjiang Snow", obtained four Utility Model Patent Certificates in 2017 in areas of new electrolytic cells, production of sodium chlorate from industrial salt, cooling and crystallisation of high-content sodium chlorate at low temperature and sodium chlorate plants for recovery of chlorine.

Minjiang Snow's scientific research projects, the "Study of the Electrolysis and Purification of Emission by Sodium Chlorate and the Comprehensive Utilisation of Waste Heat Technology" (《氯酸鈉電解尾氣淨化餘熱綜合利用技術研究》) and the "Study and Application of Barium-free Technology in the Process of Producing Sodium Chlorate from Industrial Salt" (《工業鹽製備氯酸鈉工藝中的無鋇技術研究及應用》)", were awarded the third and the first prize of Scientific and Technological Progress by the People's Government of Ngawa Prefecture, Sichuan in 2017.

Broadened Application of Hydrogen Energy Promoting Two-way Development

With the rapid economy development, more energy is consumed. As a secondary energy, hydrogen plays a crucial role in areas such as production of HCNG (Hydrogen Enriched Compressed Natural Gas), fuel cells and methoxymethane, with enormous potential for market development. Therefore, the Group is highly advantaged in terms of production processes and consolidated cost upon the integrated use of hydrogen, the by-product of sodium chlorate.

In December 2016, Minjiang Snow has entered into a "Strategic Cooperation Framework Agreement in relation to HCNG Hybrid Vehicles Project" (《HCNG (天然氣摻氫)混合燃料汽車項目戰略合作框架協議》) with six parties including State Key Laboratory of Automotive Safety and Energy of Tsinghua University (清華大學汽車安全與節能國家重點實驗室), pursuant to which all parties have agreed to establish strategic cooperation relationship in respect of the HCNG hybrid vehicles project in order to facilitate the development of HCNG-fuelled vehicles business, and to start collaborating in the overall cooperation, channel integration and resource sharing of HCNG vehicle projects.

The Group will gather innovative and industrial resources by taking advantage of market mechanism, coordinate in promoting infrastructure improvement regarding hydrogen production, storage and transportation as well as hydrogenation, so that we can commence in-depth cooperation in the application, safety and protection as well as technology standards with respect to hydrogen energy. Leveraging the Group's experience in safe production of hydrogen for over 30 years, we actively grip the momentum for hydrogen energy development by fully utilising our self-developed key technology of hydrogen purification to broaden the application of hydrogen energy and promote two-way development.

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 consolidated financial statements and this annual results announcement 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 2017.

Annual General Meeting

The forthcoming annual general meeting ("AGM") of the Company will be held in Hong Kong on Monday, 25 June 2018. 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 2017 (2016: Nil).

Closure of Register of Members

In order to determine the entitlements of the shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 20 June 2018 to Monday, 25 June 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, 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, 19 June 2018 (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 2017 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, 26 March 2018

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.