China Zenith Chemical Group Limited
中國天化工集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 362)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

HIGHLIGHTS

- Continuous growth in revenue for the last three years
- Non-recurring profit from disposal of Vitamin C, glucose and starch segment was recorded in the last reporting period
- The calcium carbide factory in Heihe was operating on the right track and would make contribution to the Group in the near future
- The utilization rate over the Group's production capacity is still relatively low; nevertheless, the utilization rate is expected to be improved in the coming year

The Board of Directors (the "**Board**" or "**Directors**") of China Zenith Chemical Group Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim financial statements ("**Interim Financial Statements**") of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 31 December 2017 (the "**Period**"). The results had been reviewed by the Company's audit committee ("**Audit Committee**").

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) Six months ended 31 December	
		2017	2016
	Note	***HK$'000***	*HK$'000*
Continuing operations			
Revenue	*4*	**167,150**	144,632
Cost of sales		**(100,694)**	(79,142)
Gross profit		**66,456**	65,490
Other income	*6*	**23,401**	4,204
Selling and distribution costs		**(10,352)**	(5,668)
Administrative expenses		**(45,155)**	(44,488)
Other operating expenses		**(24,702)**	(34,967)
Profit/(Loss) from operations		**9,648**	(15,429)
Finance costs		**(37,246)**	(15,099)
Loss before tax		**(27,598)**	(30,528)
Income tax credit	*7*	**—**	52
Loss for the period from continuing operations	*8*	**(27,598)**	(30,476)
Discontinued operations			
Profit for the period from discontinued operations		**—**	165,583
(Loss)/Profit for the period		**(27,598)**	135,107

	Note	(Unaudited) Six months ended 31 December **2017** *HK$'000*	2016 *HK$'000*
Attributable to:			
Owners of the Company			
— From continuing operations		**(25,815)**	(24,674)
— From discontinued operations		**—**	165,583
		(25,815)	140,909
Non-controlling interests			
— From continuing operations		**(1,783)**	(5,802)
(Loss)/Profit for the period		**(27,598)**	135,107
			(Represented)
(Loss)/Earnings per share			
From continuing and discontinued operations			
— Basic	*9*	**HK(2.33) cents**	HK16.71 cents
— Diluted	*9*	**HK(2.33) cents**	HK16.71 cents
From continuing operations			
— Basic	*9*	**HK(2.33) cents**	HK(2.93) cents
— Diluted	*9*	**HK(2.33) cents**	HK(2.93) cents
From discontinued operations			
— Basic	*9*	**N/A**	HK19.64 cents
— Diluted	*9*	**N/A**	HK19.64 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
(Loss)/Profit for the period	**(27,598)**	135,107
Other comprehensive income after tax:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**18,519**	(132,989)
Other comprehensive income for the period, net of tax	**18,519**	(132,989)
Total comprehensive income for the period	**(9,079)**	2,118
Attributable to:		
Owners of the Company	**(10,723)**	15,529
Non-controlling interests	**1,644**	(13,411)
	(9,079)	2,118

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**(Unaudited) 31 December 2017** *HK$'000*	(Audited) 30 June 2017 *HK$'000*
Non-current assets			
Fixed assets		**2,626,482**	2,572,893
Land held under finance leases		**64,746**	65,087
Prepaid land lease payments		**267,046**	281,296
Other intangible assets		**—**	86
		2,958,274	2,919,362
Current assets			
Inventories		**63,720**	19,914
Trade receivables	*10*	**57,433**	25,719
Prepayments, deposits and other receivables		**136,736**	92,605
Financial assets at fair value through profit or loss		**1,090**	45
Bank and cash balances		**70,916**	93,159
		329,895	231,442
TOTAL ASSETS		**3,288,169**	3,150,804
Capital and reserves			
Share capital		**111,043**	107,809
Reserves		**1,659,852**	1,650,947
Equity attributable to owners of the Company		**1,770,895**	1,758,756
Non-controlling interests		**111,172**	109,528
Total equity		**1,882,067**	1,868,284

	Note	(Unaudited) 31 December 2017 HK$'000	(Audited) 30 June 2017 HK$'000
Non-current liabilities			
Bank loans	*11*	**25,563**	44,087
Bonds payable		**769,525**	633,475
Other payables		**226,640**	243,191
Deferred tax liabilities		**17,716**	17,017
		1,039,444	937,770
Current liabilities			
Trade payables	*12*	**62,523**	42,128
Other payables and accruals		**188,819**	195,952
Other loans		**66,179**	65,131
Bank loans	*11*	**49,137**	41,539
		366,658	344,750
Total liabilities		**1,406,102**	1,282,520
TOTAL EQUITY AND LIABILITIES		**3,288,169**	3,150,804
Net current liabilities		**(36,763)**	(113,308)
Total assets less current liabilities		**2,921,511**	2,806,054

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 31 December 2017

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements (the "**Interim Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" which is one of the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the Period, the Group had net current liabilities of approximately HK$36,763,000 as at 31 December 2017.

In preparing the Interim Financial Statements, the directors have given careful consideration to the future liquidity and financial position of the Group in light of the conditions described in the preceding paragraph. These conditions indicate the existence of uncertainty that may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors are currently implementing stringent cost control measures over administrative and other operating expenses to improve the results of operation and financial position of the Group.

The Group had been undergoing negotiation with various banks for refinancing exercise and new funds to strengthen the Group's financial position. The Group will have sufficient cash resources to satisfy its future working capital and other financial commitments. The directors are of the opinion that the above measures will be successfully implemented. Accordingly, the directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

These condensed consolidated financial statements should be read in conjunction with the 2017 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the 2017 annual financial statements except as stated in note 2 below.

2. ADOPTION OF NEW AND REVISED HKFRSS

In the current Period, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting period beginning on 1 July 2017. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current Period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position. The Group does not plan to adopt these standards prior to their mandatory effective date.

3. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The recurring fair value measurement of the financial assets at fair value through profit or loss was using Level 1 as at 30 June 2017 and 31 December 2017.

4. REVENUE

Revenue represents the net invoiced value of goods sold and services provided, after allowances for returns and trade discounts, and after eliminations of all significant intra-group transactions during the Period.

	2017	2016
	HK$'000	*HK$'000*
Continuing operations:		
Heat supplying services	**126,731**	99,458
Electricity supplying services	**5,139**	6,108
Sales of calcium carbide	**35,280**	39,066
	167,150	144,632

5. SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies. The Group has five reportable segments as follows:

manufacture and sale of polyvinyl-chloride ("**Polyvinyl-chloride**");

manufacture and sale of vinyl acetate ("**Vinyl acetate**");

generation and supply of heat and power ("**Heat and power**");

manufacture and sale of calcium carbide ("**Calcium carbide**"); and

manufacture and sale of vitamin C, glucose and starch ("**Vitamin C, glucose and starch**").

On 26 December 2016, the Vitamin C, glucose and starch segment was disposed of and was presented as a discontinued operation.

The accounting policies of the operating segments are the same as those described in the Group's 2017 annual financial statements. Segment profits or losses do not include fair value gain on financial assets at fair value through profit or loss and corporate administrative expenses. Segment assets do not include bank and cash balances, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, bonds payable, bond interest payable, other loans and other payables and accruals for general administrative use.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about reportable segment profit or loss, assets and liabilities:

				(Unaudited)			
	Polyvinyl-chloride *HK$'000*	**Vinyl acetate** *HK$'000*	**Heat and power** *HK$'000*	**Calcium carbide** *HK$'000*	**Subtotal** *HK$'000*	**Vitamin C, glucose and starch** *HK$'000*	**Total** *HK$'000*
Six months ended 31 December 2017							
Revenue from external customers	—	—	131,870	35,280	167,150	—	167,150
Segment profit/(loss)	(6,130)	(5,473)	57,924	(18,273)	28,048	—	28,048
As at 31 December 2017							
Segment assets	224,784	126,028	973,781	1,726,522	3,051,115	—	3,051,115
Segment liabilities	16,311	23,124	175,547	224,805	439,787	—	439,787

	Polyvinyl-chloride	Vinyl acetate	Heat and power	Calcium carbide	Subtotal	Vitamin C, glucose and starch	Total
	(Unaudited)						
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 31 December 2016							
Revenue from external customers	—	—	105,566	39,066	144,632	—	144,632
Segment profit/(loss)	(6,200)	(6,532)	43,843	(40,424)	(9,313)	165,583	156,270
	(Audited)						
As at 30 June 2017							
Segment assets	222,220	131,583	904,382	1,715,986	2,974,171	—	2,974,171
Segment liabilities	16,898	27,859	165,143	279,634	489,534	—	489,534

Reconciliation of reportable segment profit or loss:

	(Unaudited) Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Profit or loss		
Total profit or loss of reportable segments	**28,048**	156,270
Fair value loss on financial assets at fair value through profit or loss	**(137)**	(77)
Corporate administrative expenses	**(55,509)**	(21,086)
Consolidated (loss)/profit for the period	**(27,598)**	135,107

6. OTHER INCOME

	(Unaudited) Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Bank interest income	**17**	11
Construction income of installation of pipe	**5,441**	—
Reversal of allowance for other receivables	**14,451**	1,943
Write off of other payables due to deregistration	**3,252**	—
Sundry income	**240**	2,250
	23,401	4,204

7. INCOME TAX CREDIT

	(Unaudited) Six months ended 31 December 2017 HK$'000	2016 HK$'000
Deferred tax	**—**	52

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (2016: Nil).

Tax charge on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

8. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

The Group's loss for the Period from continuing operations is stated after charging the following:

	(Unaudited) Six months ended 31 December 2017 HK$'000	2016 HK$'000
Depreciation	**52,088**	48,235
Amortisation of other intangible assets	**86**	278
Factory overhead incurred during suspension of production *(note)*	**23,123**	23,258
Fair value loss on financial assets at fair value through profit or loss	**137**	77
Operating lease rental expenses	**1,422**	967
Staff costs (excluding Directors' emoluments):		
Wages, salaries and benefits in kind	**12,233**	5,483
Employee share option benefits	**10,001**	—
Retirement benefits scheme contributions	**3,354**	1,919
Directors' emoluments	**3,434**	563

Note: For the six months ended 31 December 2017 and 2016, factory overhead was incurred during the temporary suspension of production line of Polyvinyl-chloride segment, Vinyl acetate segment and Calcium carbide segment.

9. EARNINGS/(LOSS) PER SHARE

(a) From continuing and discontinued operations

Basic earnings/(loss) per share

Calculation of basic earnings/(loss) per share attributable to the owners of the Company is based on the loss for the Period attributable to the owners of the Company of approximately HK$25,815,000 (2016: profit of approximately HK$140,909,000) and the weighted average number of ordinary shares of 1,106,776,029 (2016: 843,110,181, as adjusted to reflect the share consolidation of every four shares into one share on 15 May 2017) in issue during the period.

Diluted earnings/(loss) per share

For the period ended 31 December 2017, the diluted loss per share was the same as the basic loss per share as the computation of the diluted loss does not assume the exercise of the Company's share options because assumption of exercise of the share options would result in a decrease in loss per share.

The computation of diluted earnings/(loss) per share for the Periods did not assume the exercise of outstanding share options of the Company since the exercise price of the share option was higher than the average market price during the Period of 2016.

(b) From continuing operations

Basic loss per share

Calculation of basic loss per share from continuing operations attributable to the owners of the Company is based on the loss for the Period from continuing operations attributable to the owners of the Company of approximately HK$25,815,000 (2016: loss of HK$24,674,000) and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

Diluted earnings per share

For the period ended 31 December 2017, the diluted loss per share was the same as the basic loss per share as the computation of the diluted loss does not assume the exercise of the Company's share options because assumption of exercise of the share options would result in a decrease in loss per share.

The computation of diluted loss per share for the Periods did not assume the exercise of outstanding share options of the Company since the exercise price of the share option was higher than the average market price during the Period of 2016.

(c) Earnings/(loss) per share from discontinued operations

Basic earnings/(loss) per share

Basic earnings per share from the discontinued operations for the six months ended 31 December 2016 is HK$19.64 cents, based on the profit for the six months ended 31 December 2016 from discontinued operations attributable to the owners of the Company of approximately HK$165,583,000 and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

10. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (30 June 2017: 60 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	(Unaudited)	(Audited)
	31 December	30 June
	2017	2017
	HK$'000	*HK$'000*
Within 30 days	**27,820**	274
31 to 60 days	**12,180**	268
61 to 90 days	**16,059**	2,491
91 to 120 days	**1,374**	2,880
121 to 150 days	**—**	2,806
151 to 180 days	**—**	17,000
	57,433	25,719

11. BANK LOANS

The Group's bank loans are repayable as follows:

	(Unaudited)	(Audited)
	31 December	30 June
	2017	2017
	HK$'000	*HK$'000*
Term loans subject to a repayment on demand clause	**28,654**	39,039
Within one year	**20,483**	2,500
In the second year	**2,500**	19,827
In the third to fifth years inclusive	**7,988**	7,988
After five years	**15,075**	16,272
	74,700	85,626
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(49,137)**	(41,539)
	25,563	44,087

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	(Unaudited)	(Audited)
	31 December	30 June
	2017	2017
	HK$'000	*HK$'000*
Hong Kong dollars	**28,063**	29,313
Renminbi	**46,637**	56,313
	74,700	85,626

At 31 December 2017, bank loans were arranged at floating rates ranging from 2.10% to 8.50% (30 June 2017: 2.10% to 8.50%) per annum, thus exposing the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets, land held under finance leases and prepaid land lease payments.

12. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (30 June 2017: 30 to 120 days) from its suppliers.

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	(Unaudited)	(Audited)
	31 December	30 June
	2017	2017
	HK$'000	*HK$'000*
Within 30 days	**28,277**	8
31 to 60 days	**6,350**	932
61 to 90 days	**3,861**	571
91 to 120 days	**1,757**	1,656
121 to 365 days	**5,036**	10,442
Over 365 days	**17,242**	28,519
	62,523	42,128

13. CONTINGENT LIABILITIES

On 19 November 2012, China Electricity Construction Consultant Group Dongbei Electricity Design College (translated from the Chinese name of 中國電力工程顧問集團東北電力設計院) (the "Plaintiff") filed a writ (the "Writ") with the high court of Heilongjiang Province in the PRC ("the Heilongjiang High Court") against Mudanjiang Better Day Power Limited ("Mudanjiang BD Power"), an indirect wholly-owned subsidiary of the Company.

Mudanjiang BD Power had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of Mudanjiang BD Power (the "Contract"). Owing to the alleged delay in the progress of construction, the Plaintiff claimed (i) the payment of the contract sum in the amount of approximately RMB42,700,000 and the interest thereon; (ii) the grant of the first priority right to receive payment from Mudanjiang BD Power in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13,300,000 for alleged termination of the Contract; and (iv) the legal fees arising from the action. The Company has been seeking legal advice in respect of the Writ on the dispute in the payment for the Contract since December 2012. According to the management of Mudanjiang BD Power, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since 2009.

During the reporting period, the Heilongjiang High Court had adjudged that Mudanjiang BD Power was liable to compensate the Plaintiff for approximately RMB36,700,000. Upon the end of the reporting period, Mudanjiang BD Power was negotiating with the Plaintiff to continue the construction of the coal-powered electricity generating facilities. Once the performance of the Contract was resumed under the mutual agreement between Mudanjiang BD Power and the Plaintiff, part of the damages granted may be absorbed in the cost of construction.

The management has made sufficient provision for the legal action and believes that a favorable settlement could be reached with the Plaintiff.

14. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2018, Prosper Path Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company entered into a share transfer agreement with Dragon Wise Group Limited (the "**Vendor**"), a company incorporated under the laws of the British Virgin Islands with limited liability pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued share capital of Xinyang Maojian International Holding Limited at a consideration of HK$85,800,000 which will be settled by the allotment and issue of 220,000,000 new shares to be issued by the Company by to the Vendor or its nominee(s) upon completion. Completion of the transaction is subject to, amongst other things, the passing of resolutions by the shareholders of the Company at a special general meeting to be convened ("**SGM**") approving, amongst other things, the share transfer agreement and the transactions contemplated thereunder and the specific mandate to issue the consideration shares. For the purpose of reflecting the adjustment of the business development of the Group, the Directors will propose a special resolution to the Shareholders to change (i) the existing primary name of the Company to "Xinyang Maojian Group Limited" and (ii) the existing secondary name of the Company to "信陽毛尖集團有限公司" at the SGM.

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the six months ended 31 December 2017 (the "Period"), loss attributable to owners mainly came from the idle operating costs incurred which mainly comprised of depreciation and amortisation during the suspension of the coal-related operation.

For the six months ended 31 December 2017, revenue of the Group amounted to approximately HK$167 million, representing an increase of 16% when compared with that of the last corresponding period.

Loss attributable to the owners of the Company for the Period amounted to approximately HK$26 million, in contrast to a gain of approximately HK$141 million for the last corresponding period.

During the Period, the increase in the Group's turnover was attributable to the increase of the heat supplying area of the heat and power division.

The Group's selling and distribution costs for the Period was approximately HK$10 million, representing an increase of approximately 83% when compared with that of the last corresponding period. The increase in selling and distribution costs resulted from increase in turnover during the Period.

The Group's administrative expenses for the Period was approximately HK$45 million, representing an increase of approximately 1% when compared with that of the last corresponding period. During the Period, the Company had granted certain share options to the directors and senior management which recorded a share option benefit of HK$13 million in administrative expenses. Excluding the effect of share option benefit, the administrative expenses was HK$32 million, representing a decrease of approximately 27% when compared with that of the last corresponding period.

Excluding the effect of factory overhead during the suspension of the production of coal-related chemical which amounted to approximately HK$23 million, the Group's other operating expenses for the six months ended 31 December 2017 was approximately HK$2 million, representing a decrease of HK$10 million when compared with that of the last corresponding period. (Excluding the effect of factory overhead during the suspension of the production of coal-related chemical which amounted to approximately HK$23 million, the Group's other operating expenses for the six months ended 31 December 2016 was approximately HK$12 million.)

The Group's finance costs for the Period was approximately HK$37 million, representing an increase of approximately 147% when compared with that of the last corresponding period. The increase in finance costs was resulted from the increase in bonds payable charged at the effective interest rate during the period.

Heat and power division

During the Period, the heat and power segment recorded a revenue of HK$132 million from external customers. Income from supplying heat to residential users for the Period was approximately HK$116 million, representing an increase of approximately 22% compared with that of the last corresponding period. The increase resulted from the increase of the residential heat supplying area. Segment profit of approximately HK$58 million was achieved representing an increase of approximately 32% compared with that of the last corresponding period.

Chemical production division

Calcium carbide

During the Period, the calcium carbide segment recorded a revenue of HK$35 million from external customers. Segment loss of approximately HK$18 million was recorded, representing a decrease of approximately 55% compared with that of the last corresponding period. The segment loss was mainly derived from the unavoidable non-cash expenditure such as depreciation and amortisation in both Heihe and Mudanjiang factories.

The local management had closely monitored the operation to reduce coal or energy consumption and avoid wastage so as to enhance the profit from both operation of the heat and power division and the calcium carbide division. The heat and power generating facilities were in normal operation throughout the Period and the last corresponding period. The calcium carbide facilities were in a set-up period and is expected to run smoothly in the foreseeable future.

Capital Structure, Liquidity and Financial Resources

Capital structure

During the Period, the Group financed its operations with internally generated resources, equity funding and non-equity funding.

Liquidity and Financial Ratio

As at 31 December 2017, the Group had total assets of approximately HK$3,288 million (30 June 2017: HK$3,151 million) which were financed by current liabilities of approximately HK$367 million (30 June 2017: HK$345 million), non-current liabilities of approximately HK$1,039 million (30 June 2017: HK$938 million), non-controlling interests of approximately HK$111 million (30 June 2017: HK$109 million) and owners' equity of approximately HK$1,771 million (30 June 2017: HK$1,759 million).

As at 31 December 2017, the current assets of the Group amounted to approximately HK$330 million (30 June 2017: HK$231 million) mainly comprising inventories of approximately HK$64 million (30 June 2017: HK$20 million), trade receivables of approximately HK$57 million (30 June 2017: HK$25 million), prepayments, deposits and other receivables of approximately HK$137 million (30 June 2017: HK$92 million), financial assets at fair value through profit and loss of approximately HK$1 million (30 June 2017: HK$1 million), cash and cash equivalents of approximately HK$71 million (30 June 2017: HK$93 million).

As at 31 December 2017, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets — inventories)/(current liabilities)), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/owners' equity) of the Group were approximately 0.9 (30 June 2017: 0.7), 0.7 (30 June 2017: 0.6), 42.8% (30 June 2017: 40.7%) and 79.4% (30 June 2017: 72.9%), respectively.

The Group maintained a fairly stable financial position throughout the Period. Although the Group was in net current liabilities position, the management has closely monitored the Group's liquidity and has taken appropriate measures to ensure it had sufficient financial resources to meet its financial obligations.

Equity funding

During the Period, the net proceeds raised from the exercise of share option by issuing new shares at HK$0.31 were HK$10 million. As at the date of this announcement, the net proceeds was applied to enhance the working capital of the Group.

Non-equity funding

Bank loans

As at 31 December 2017, the bank loans of the Group amounted to approximately HK$75 million (30 June 2017: HK$86 million), of which HK$28 million was denominated in Hong Kong Dollar and HK$47 million was denominated in Renminbi (30 June 2017: HK$29 million was denominated in Hong Kong dollar and HK$56 million was denominated in Renminbi). Based on agreed scheduled repayments set out in the loan agreements, bank loans of approximately HK$49 million (30 June 2017: HK$42 million) were repayable within 12 months.

Bonds and other non-equity financing

Bonds

On 19 October 2017, the Company and Pico Zeman Securities (HK) Limited (the "Placing Agent") entered into a placing agreement pursuant to which the Placing Agent has agreed to procure, on a best endeavor basis, independent placees (which may include the Placing Agent and its associates), to subscribe in cash for one or multiple tranches of 3% to 12%, 4 to 10 years terms bonds, each in an aggregate principal amount of up to HK$150,000,000 within 180 days starting from the date of the placing agreement.

As at 31 December 2017, the aggregate bonds payable was approximately HK$770 million which were issued at improving the working capital of the Group during the Period.

Significant investments held by the Company

As at 31 December 2017, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK$1 million.

Charges on the Group's assets

As at 31 December 2017, bank loans and other loan of approximately HK$75 million and HK$54 million respectively were secured by charges over the Group's certain fixed assets, land held under finance leases and prepaid land lease payments.

Contingencies

The board has reviewed and considered the contingent liabilities of the Company and disclosed information concerning such contingent liabilities in note 13 to the condensed consolidated financial statements.

Contingent liabilities

As at 31 December 2017, except for disclosed in note 13, the Group did not have any significant contingent liabilities.

Foreign exchange exposure

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi, which are the functional currencies of the principal operating entities of the Group. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings. During the Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2017.

Number and remuneration of employees

As at 31 December 2017, the Group had 408 full time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance-related commissions.

During the Period, 97,020,000 share options were granted to executive directors and senior management of the Company. As at 31 December 2017, there were 64,680,000 share options outstanding. That comprised 10,780,000 share options with exercisable period up to 16 July 2020 at exercise price of HK$0.31 per share and 53,900,000 share options with exercisable period up to 25 July 2020 at an exercise price of HK$0.345 per share.

PROSPECT

Despite the current tough business environment, the management has implemented certain strategic plans to overcome the difficulties with an aim to improve the financial and operation situation of the Group.

Heat and power division

Turnover of the heat and power division increased by 24.9% (2016: 57.7%) and the increase of gross profit by 4% (2016: 328%) was because of the increase in residential heat supplying areas (2017: 4.1 million square meters/2016: 3.5 million square meters).

The management believes the heat and power division will continuously be the driver of the Group's revenue in the year 2018. The residential heat supplying areas had recorded sustainable growth in the last three years which continuously provide the Group with a stable return and a high profit margin.

That reinforces the management's belief that the heat and power division shall have a promising future benefited from the continued growth of residential heat supplying areas which not only boosts revenue but also generates costs benefit as a result of economies of scale.

Chemical production division

Heihe

Turnover of the calcium carbide division decreased by 10% (2016: N/A) and the gross loss slightly increased by HK$2 million. During the Period, a set of plant and machinery had been installed for reducing the cost incurred in the production. These machineries have been running on a trial basis since the end of October 2017. It is expected that the material cost incurred in production of calcium carbide could be reduced by at least 10% once the machineries can run smooth.

The management believes the worst situation of Heihe factory had passed and expects the Heihe factory to turn around in the year 2018.

Mudanjiang

The management will closely monitor the market situation. The vertical production of coal-related products will be fully resumed once the market situation turns favourable.

Appointment as window company of Mudanjiang City Government

On 25 August 2015, the Mudanjiang City Government appointed the Company as its Hong Kong-based agent and foreign window company representing it in the negotiation of matters concerning the city government's listing of domestic enterprises and projects, fund raising exercise and transfer of equity interest.

GROUP STRATEGY

The Group will actively restructure of the assets so as to create value to the shareholders. It will not rule out the possibility of further acquisition and disposal of non-core assets.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE GROUP

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE

Corporate Governance Code

The Directors are of the view that the Company has complied with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the Period, except for a certain deviation which is summarised below:

Code Provision A.2.1

The roles of Chairman and Chief Executive Officer are performed by the same individual, Ms. Chan Yuk Foebe, and are not separated. The Board meets regularly to consider issues related to corporate matters affecting operations of the Group. The Board considers the structure will not impair the balance of power and authority of the Board and the Company's management and thus, the Board believes this structure will enable effective planning and implementation of corporate strategies and decisions.

AUDIT COMMITTEE

The Company set up the Audit Committee on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision on the Group's financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive Directors of the Company, namely, Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal control and financial reporting aspects of the Company including the review of the unaudited interim results of the Company for the Period and there was no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

REMUNERATION COMMITTEE

A remuneration committee was established by the Company on 1 July 2005 with specific written terms of reference which set out clearly its authority and duties. The Remuneration Committee currently comprises Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit (all being independent non-executive Directors), who are responsible for advising the Board on the remuneration policy and framework for all the remuneration of the Directors and senior management of the Company, as well as reviewing and determining the remuneration packages of Directors and senior management with reference to the Company's objectives from time to time.

NOMINATION COMMITTEE

The Nomination Committee was established on 2 November 2007 with specific written terms of reference. The Nomination Committee currently comprises one executive Director, namely Ms. Chan Yuk Foebe, and three independent non-executive Directors, namely Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit. The Board as a whole, with the Nomination Committee, is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession plan of Directors and assessing the independence of independent non-executive Directors.

INTERIM REPORT

The 2017/18 interim report containing all the financial and other related information of the Company required by the Listing Rules will be available on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.chinazenith.com.hk and dispatched to Shareholders before the end of March 2018.

By order of the Board
Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong, 28 February 2018

As at the date of this announcement, the executive directors of the Company are Ms. Chan Yuk Foebe, Mr. Law Tze Ping Eric and Mr. Yu Defa and the independent non-executive directors of the Company are Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit.