



**China Zenith Chemical Group Limited**

**中國天化工集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 362)*

# 2016/17

Interim Report



## CORPORATE INFORMATION

### Board of Directors Executive Directors

Ms. Chan Yuk Foebe  
Mr. Law Tze Ping Eric  
Mr. Yu Defa

### Independent Non-executive Directors

Mr. Ma Wing Yun Bryan  
Mr. Tam Ching Ho  
Mr. Hau Chi Kit

### Company Secretary

Mr. Ma Kin Ling

### Registered Office

P.O. Box 1350,  
Clifton House,  
75 Fort Street,  
Grand Cayman KY1-1108,  
Cayman Islands

### Head Office and Principal Place of Business in Hong Kong

Room 4007, 40/F.  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

### Authorised Representatives

Ms. Chan Yuk Foebe  
Mr. Law Tze Ping Eric

### Auditor

Elite Partners CPA Limited  
10/F, 8 Observatory Road  
Tsim Sha Tsui  
Kowloon  
Hong Kong

### Legal Advisor to the Company

*(as to Hong Kong law)*  
KCL & Partners  
Unit 1602-06, 16/F, FWD Financial Center,  
308 Des Voeux Road Central,  
Sheung Wan, Hong Kong

### Principal Bankers

Hang Seng Bank Limited  
83 Des Voeux Road Central  
Central  
Hong Kong

Agricultural Bank of China  
No. 462 Zhong Yang Road  
Heihe City  
Heilongjiang Province  
PRC

### Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Limited  
P.O. Box 1350,  
Clifton House,  
75 Fort Street,  
Grand Cayman KY1-1108,  
Cayman Islands

### Hong Kong Branch Share Registrar and Transfer Office

Tricor Tengis Limited  
22/F., Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### Financial Year End Date

30 June

### Company Website

[www.chinazenith.com.hk](http://www.chinazenith.com.hk)

### Telephone Number

2845 3131

### Facsimile Number

2845 3535

### Stock Code

00362

## FINANCIAL HIGHLIGHTS

Six months ended 31 December

	2016 HK\$'000	2015 HK\$'000	Change
TURNOVER	144,632	66,920	116.1%
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	140,909	(22,645)  (Restated)	722.3%
BASIC EARNINGS/(LOSS) PER SHARE	HK4.18 cents	HK(0.86) cents	586.0%
INTERIM DIVIDEND PER SHARE	–	–	–

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 2016 (the “**Period**”). The results had been reviewed by the Company’s audit committee (“**Audit Committee**”).

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2016

		(Unaudited)	
		Six months ended	
		31 December	
	Note	2016 HK\$'000	2015 HK\$'000
<b>Turnover</b>	4	144,632	66,920
Cost of sales		(79,142)	(51,341)
Gross profit		65,490	15,579
Gain on disposal of subsidiaries		165,583	–
Other income	6	4,204	48,053
Selling and distribution costs		(5,668)	(2,914)
Administrative expenses		(44,488)	(37,396)
Other operating expenses		(34,967)	(35,849)
<b>Profit/(Loss) from operations</b>		150,154	(12,527)
Finance costs		(15,099)	(32,223)
<b>Profit/(Loss) before tax</b>		135,055	(44,750)
Income tax credit	7	52	13,242
<b>Profit/(Loss) for the Period</b>	8	135,107	(31,508)
<b>Attributable to:</b>			
Owners of the Company		140,909	(22,645)
Non-controlling interests		(5,802)	(8,863)
		135,107	(31,508)

## Condensed Consolidated Income Statement

For the six months ended 31 December 2016

		(Unaudited) Six months ended 31 December	
	Note	2016 HK\$'000	2015 HK\$'000
<b>Earnings/(Loss) per share</b>			(Restated)
– Basic	9	HK4.18 cents	HK(0.86) cents
– Diluted		N/A	N/A

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2016

	(Unaudited) Six months ended 31 December 2016 HK\$'000	2015 HK\$'000
<b>Profit/(Loss) for the Period</b>	135,107	(31,508)
<b>Other comprehensive income after tax:</b>		
<b>Item that may be reclassified to profit or loss:</b>		
Exchange differences on translating foreign operations	(132,989)	(113,895)
<b>Other comprehensive income for the Period, net of tax</b>	(132,989)	(113,895)
<b>Total comprehensive income for the Period</b>	2,118	(145,403)
<b>Attributable to:</b>		
Owners of the Company	15,529	(125,060)
Non-controlling interests	(13,411)	(20,343)
	2,118	(145,403)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	(Unaudited) 31 December 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
<b>Non-current assets</b>			
Fixed assets	10	2,407,700	2,679,295
Land held under finance leases		65,427	65,768
Prepaid land lease payments		337,445	378,241
Other intangible assets		335	613
		<b>2,810,907</b>	<b>3,123,917</b>
<b>Current assets</b>			
Inventories		47,572	48,918
Trade receivables	11	37,212	8,417
Prepayments, deposits and other receivables		100,096	74,811
Financial assets at fair value through profit or loss		92	169
Bank and cash balances		87,001	39,297
		<b>271,973</b>	<b>171,612</b>
<b>TOTAL ASSETS</b>		<b>3,082,880</b>	<b>3,295,529</b>

## Condensed Consolidated Statement of Financial Position

At 31 December 2016

	Note	(Unaudited) 31 December 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
<b>Capital and reserves</b>			
Share capital	12	431,235	287,490
Accumulated losses		(691,672)	(835,473)
Other reserves		2,039,870	2,241,327
<b>Equity attributable to owners of the Company</b>		<b>1,779,433</b>	<b>1,693,344</b>
<b>Non-controlling interests</b>		<b>116,503</b>	<b>129,914</b>
<b>Total equity</b>		<b>1,895,936</b>	<b>1,823,258</b>



## Condensed Consolidated Statement of Financial Position

At 31 December 2016

	Note	(Unaudited) 31 December 2016 HK\$'000	(Audited) 30 June 2016 HK\$'000
<b>Non-current liabilities</b>			
Bank loans	14	28,137	29,358
Bonds payable	13	515,655	416,960
Deferred tax liabilities		18,450	15,006
		562,242	461,324
<b>Current liabilities</b>			
Trade payables	15	60,364	72,906
Bond interest payable		9,216	9,219
Other payables and accruals		463,595	828,481
Other loans		45,568	46,579
Bank loans	14	45,959	53,762
		624,702	1,010,947
<b>Total liabilities</b>		<b>1,186,944</b>	<b>1,472,271</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,082,880</b>	<b>3,295,529</b>
<b>Net current liabilities</b>		<b>(352,729)</b>	<b>(839,335)</b>
<b>Total assets less current liabilities</b>		<b>2,458,178</b>	<b>2,284,582</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2016

	(Unaudited)								
	For the six months ended 31 December 2016 Attributable to owners of the Company								
	Share capital HK\$'000	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 July 2016	287,490	1,837,370	97,402	13,614	292,941	(835,473)	1,693,344	129,914	1,823,258
Total comprehensive income for the Period	-	-	-	-	(125,380)	140,909	15,529	(13,411)	2,118
Issue of share on open offer	71,872	(1,312)	-	-	-	-	70,560	-	70,560
Issue of bonus share on open offer	71,873	(71,873)	-	-	-	-	-	-	-
Cancellation of share options	-	-	-	(2,892)	-	2,892	-	-	-
Changes in equity for the Period	143,745	(73,185)	-	(2,892)	(125,380)	143,801	86,089	(13,411)	72,678
At 31 December 2016	431,235	1,764,185	97,402	10,722	167,561	(691,672)	1,779,433	116,503	1,895,936

	(Unaudited)								
	For the six months ended 31 December 2015 Attributable to owners of the Company								
	Share capital HK\$'000	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 July 2015	238,290	1,750,810	57,707	14,566	312,524	(247,067)	2,126,830	164,033	2,290,863
Total comprehensive income for the Period	-	-	-	-	(102,416)	(22,645)	(125,061)	(20,343)	(145,404)
Changes in equity for the period	-	-	-	-	(102,416)	(22,645)	(125,061)	(20,343)	(145,404)
At 31 December 2015	238,290	1,750,810	57,707	14,566	210,108	(269,712)	2,001,769	143,690	2,145,459

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2016

	(Unaudited)	
	Six months ended	
	31 December	
	2016	2015
	HK\$'000	HK\$'000
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(61,458)	55,304
NET CASH USED IN INVESTING ACTIVITIES	(34,207)	(48,751)
NET CASH GENERATED FROM FINANCING ACTIVITIES	150,513	34,059
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,848	40,612
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(7,144)	(59,405)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	39,297	41,376
CASH AND CASH EQUIVALENTS AT END OF PERIOD	87,001	22,583
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	87,001	22,583

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

## 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\$352,729,000 as at 31 December 2016.

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 2016 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 2016 annual financial statements except as stated in note 2 below.

# Notes to Condensed Consolidated Financial Statements

*For the six months ended 31 December 2016*

## 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 2016. 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.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 3. Fair value measurements (continued)

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 2016 and 31 December 2016.

### 4. Turnover

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

### 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:

- (i) manufacture and sale of polyvinyl-chloride ("**Polyvinyl-chloride**");
- (ii) manufacture and sale of vinyl acetate ("**Vinyl acetate**");
- (iii) generation and supply of heat and power ("**Heat and power**");
- (iv) manufacture and sale of vitamin C, glucose and starch ("**Vitamin C, glucose and starch**"); and
- (v) manufacture and sale of calcium carbide ("**Calcium carbide**").

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 5. Segment Information (continued)

The accounting policies of the operating segments are the same as those described in the Group's 2016 annual financial statements. Segment profits or losses do not include gain on disposal of subsidiaries, fair value gain on financial assets at fair value through profit or loss, gain on disposal of 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)					Total HK\$'000
	Polyvinyl- chloride HK\$'000	Vinyl acetate HK\$'000	Heat and power HK\$'000	Vitamin C, glucose and starch HK\$'000	Calcium carbide HK\$'000	
Six months ended 31 December 2016						
Revenue from external customers	–	–	105,566	–	39,066	144,632
Segment profit/(loss)	(6,200)	(6,532)	43,843	(936)	(40,424)	(10,249)
As at 31 December 2016						
Segment assets	210,166	109,908	772,562	–	1,833,161	2,925,797
Segment liabilities	17,701	10,208	180,782	–	306,420	515,111

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 5. Segment Information (continued)

	(Unaudited)					
	Polyvinyl- chloride	Vinyl acetate	Heat and power	Vitamin C, glucose and starch	Calcium carbide	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 31 December 2015						
Revenue from external customers	–	–	66,920	–	–	66,920
Segment profit/(loss)	(7,230)	(6,505)	64,606	(6,677)	(32,904)	(11,290)
As at 30 June 2016						
Segment assets	206,970	126,030	721,683	164,790	1,950,850	3,170,323
Segment liabilities	16,359	9,447	328,245	112,834	395,939	862,824



## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 5. Segment Information (continued)

Reconciliation of reportable segment profit or loss:

	(Unaudited)	
	Six months ended	
	31 December	
	2016	2015
	HK\$'000	HK\$'000
<b>Profit or loss</b>		
Total profit or loss of reportable segments	(10,249)	11,290
Gain on disposal of subsidiaries	165,583	–
Loss on disposal of fixed assets	–	(132)
Fair value loss on financial assets at fair value through profit or loss	(77)	(150)
Corporate administrative expenses	(20,150)	(42,516)
Consolidated profit/(loss) for the Period	135,107	(31,508)

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 6. Other Income

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Bank interest income	11	6
Government grants (note)	–	41,856
Reversal of allowance for other receivables	1,943	–
Sundry income	2,250	6,191
	<b>4,204</b>	<b>48,053</b>

Note: The Group did not receive any government grant during the six months ended 31 December 2016. Government grants for the six months ended 31 December 2015 were received as incentive for capital expenditure and subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 7. Income Tax Credit

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Deferred tax	52	13,242

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 (2015: 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.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 8. Profit/(Loss) for the Period

The Group's profit/(loss) for the Period is stated after charging the following:

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Depreciation	48,235	61,663
Loss on disposal of fixed assets	–	132
Amortisation of other intangible assets	278	776
Factory overhead incurred during suspension of production (note)	23,258	55,088
Fair value loss/(gain) on financial assets at fair value through profit or loss	77	150
Operating lease rental expenses	967	909
Staff costs (including Directors' emoluments):		
Wages, salaries and benefits in kind	5,483	5,672
Retirement benefits scheme contributions	1,919	1,986
Directors' emoluments	563	505

Note: For the six months ended 31 December 2016 and 2015, factory overhead was incurred during the temporary suspension of production line of Polyvinyl-chloride segment, Vinyl acetate segment, Calcium carbide segment and Vitamin C, glucose and starch segment.

## Notes to Condensed Consolidated Financial Statements

*For the six months ended 31 December 2016*

### 9. Earnings/(Loss) per Share

#### **Basic earnings/(loss) per share**

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the profit for the Period attributable to owners of the Company of approximately HK\$140,909,000 (2015: loss of approximately HK\$22,645,000) and the weighted average number of ordinary shares of 3,372,440,723 (2015: 2,643,529,154, as adjusted to reflect the open offer on 1 December 2016) in issue during the Period.

#### **Diluted loss per share**

There were no dilutive potential ordinary shares for the Company's share options during the six months ended 31 December 2015 and 2016, therefore no diluted earnings/(loss) per share information is presented for the six months ended 31 December 2015 and 2016.

### 10. Capital Expenditure

During the Period, the additions to fixed assets including the construction in progress in the PRC were approximately HK\$58.2 million (2015: HK\$23.4 million).

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 11. 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 2016: 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:

	<b>(Unaudited)</b> <b>31 December</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 30 June 2016 HK\$'000
Within 30 days	25,061	56
31 to 60 days	387	1,044
61 to 90 days	1,042	484
91 to 120 days	898	2,453
121 to 150 days	1,187	839
151 to 180 days	3,514	3,541
Over 180 days	5,123	–
	<b>37,212</b>	<b>8,417</b>

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 12. Share Capital

	<b>(Unaudited)</b> <b>31 December</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 30 June 2016 HK\$'000
Authorised 5,000,000,000 ordinary shares of HK\$0.10 each	500,000	500,000
Issued and fully paid 4,312,349,277 (30 June 2016: 2,874,899,519) ordinary shares of HK\$0.10 each	431,235	287,490

A summary of the movements in the issued share capital of the Company during the Period is as follows:

	<b>Number of ordinary shares issued</b> <b>'000</b>	<b>Par value</b> <b>HK\$'000</b>
At 1 June 2015	2,382,899	238,290
Placement of new shares (note a)	138,000	13,800
Issue of shares of purchases of non-controlling interest	354,000	35,400
At 30 June 2016 and 1 July 2016	2,874,899	287,490
Issue of shares on open offer (note b)	718,725	71,872
Issue of bonus shares (note b)	718,725	71,873
At 31 December 2016	4,312,349	431,235

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 12. Share Capital (continued)

Note a: On 15 April 2016, pursuant to the placing and subscription agreement dated 5 April 2016, 138,000,000 ordinary shares of HK\$0.10 each were allotted and issued at the price of HK\$0.315 per share. The net proceed of approximately HK\$42,938,000 were used to repay the construction payable for the Group.

Note b: On 1 December 2016, 718,724,879 ordinary shares of HK\$0.1 each were issued at par by way of an open offer on the basis of one offer share for every four shares held and 718,724,879 ordinary shares of HK\$0.1 each were issued as bonus shares for every offer share taken up under the open offer. The net proceed of approximately HK\$35,000,000 were used to settle the promissory note and the remaining HK\$35,560,000 were used as general working capital for the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on that date.

### 13. Bonds Payable

The movement of the bonds payable is as follows:

	<b>(Unaudited)</b> <b>31 December</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 30 June 2016 HK\$'000
Carrying amount at the beginning of period/year	416,960	291,437
Issuance of bonds	71,743	83,580
Interest charge for the period/year	26,952	41,943
Carrying amount at the end of period/year	<b>515,655</b>	416,960



## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 13. Bonds Payable (continued)

The bonds were repayable as follows:

	<b>(Unaudited)</b> <b>31 December</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 30 June 2016 HK\$'000
In the third to fifth years inclusive	101,509	99,509
After five years	865,651	766,300
	<b>967,160</b>	<b>865,809</b>

The bonds payables are unsecured and interest bearing at coupon rates of 3% to 8.75% (30 June 2016: 3% to 8.75%).

Interest on bond payables at face value of HK\$143,750,000 (30 June 2016: HK\$113,750,000) is payable annually and the principal is repayable in full upon maturity. Interest on bond payables at face value of HK\$823,410,000 (30 June 2016: HK\$752,059,000) was fully paid at issue date and the principal is repayable in full upon maturity.

The bonds payable are measured at amortised cost, using the effective interest method, and the effective rates are ranging from 3.0% to 23.27% per annum (30 June 2016: 3.0% to 23.27% per annum) after taking into account the transaction costs directly attributable to the issuance of the bonds.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 14. Bank Loans

The Group's bank loans are repayable as follows:

	<b>(Unaudited)</b> <b>31 December</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 30 June 2016 HK\$'000
Term loans subject to a repayment on demand clause	43,563	51,366
Within one year	2,396	2,396
In the second year	2,500	2,500
In the third to fifth years inclusive	7,868	7,868
After five years	17,769	18,990
	<b>74,096</b>	<b>83,120</b>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<b>(45,959)</b>	<b>(53,762)</b>
	<b>28,137</b>	<b>29,358</b>

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 14. Bank Loans (continued)

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

	<b>(Unaudited)</b> <b>31 December</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 30 June 2016 HK\$'000
Hong Kong dollars	30,533	31,754
Renminbi	43,563	51,366
	<b>74,096</b>	<b>83,120</b>

At 31 December 2016, bank loans were arranged at floating rates ranging from 2.10% to 7.21% (30 June 2016: 2.10% to 7.21%) 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.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 15. Trade Payables

The Group normally obtains credit terms ranging from 30 to 120 days (30 June 2016: 30 to 120 days) from its suppliers.

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

	<b>(Unaudited)</b> <b>31 December</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 30 June 2016 HK\$'000
Within 30 days	8,547	9,674
31 to 60 days	9,378	10,881
61 to 90 days	864	413
91 to 120 days	297	282
121 to 365 days	3,841	31,805
Over 365 days	37,437	19,851
	<b>60,364</b>	<b>72,906</b>

### 16. Related Party Transactions

Other than Directors' remuneration disclosed in note 8 to the financial statements, there is no other significant related party transaction during the Period (2015: Nil).

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 17. Contingent Liabilities

On 19 July 2013, the Company received a writ of summons in relation to an alleged exercise of unlisted warrants related to issuing of 20,000,000 shares of the Company by Mr. Ko Kin Hang (the "Claims"), a subscriber and holder of the unlisted warrants. The exercise money of the subject unlisted warrants amounted to approximately HK\$3,800,000. By a consent order dated 7 April 2014, the proceeding was stayed and the Company is entitled to withhold the issue and allotment of shares until for further order.

The Company is currently seeking legal advice in relation thereto. Further announcement will be made by the Company in compliance with the Listing Rules as and when appropriate. The directors consider that the Claims do not have any material adverse effect on the operation or financial position of the Group.

### 18. Capital Commitments

The Group's capital commitments at the end of the reporting Period are as follows:

	<b>(Unaudited)</b> <b>31 December</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 30 June 2016 HK\$'000
Contracted, but not provided for: Buildings and construction in progress	548,114	621,552

## Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2016

### 19. Lease Commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are repayable as follows:

	<b>(Unaudited)</b> <b>31 December</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 30 June 2016 HK\$'000
Within one year	148	1,037
	148	1,037

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for a lease term of 3 years (30 June 2016: 3 years) and rentals are fixed over the lease terms and do not include contingent rentals.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Interim Dividend

The Directors have resolved that no interim dividend will be declared in respect of the Period (2015: Nil).

## Management Discussion and Analysis

### Business Review

The profit attributable to owners was mainly derived from the boost of core income in the heat and power division and the gain from disposal of subsidiaries.

For the six months ended 31 December 2016, turnover of the Group amounted to approximately HK\$145 million, representing an increase of 116% when compared with that of the last corresponding period.

Profit attributable to owners of the Company amounted to approximately HK\$141 million, representing an increase of approximately 722% when compared with that of the last corresponding period.

During the financial period under review (the “**Period**”), the increase in the Group’s turnover was attributable to the increase of our heat supplying area and the resumption of operation of the calcium carbide division.

The Group’s selling and distribution costs for the Period was approximately HK\$6 million, representing an increase of approximately 95% when compared with that of the last corresponding period. The increase in selling and distribution costs was resulted from the increase in turnover during the Period.

The Group’s administrative expenses for the Period was approximately HK\$44 million, representing an increase of approximately 19% when compared with that of the last corresponding period. The increase resulted from the initial set up cost for the Heihe factory.

## Management Discussion and Analysis

Excluding the financial effect of factory overhead during the suspension of the production of coal-related chemical and bio-chemical products 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, representing an increase of HK\$10 million when compared with that of the last corresponding period. (Excluding the financial effect of factory overhead during the suspension of the production of coal-related chemical and bio-chemical products which amounted to approximately HK\$34 million, the Group's other operating expenses for the six months ended 31 December 2015 was approximately HK\$2 million.)

### Heat and power division

During the Period, the heat and power segment recorded a turnover of HK\$106 million from external customers. The residential income for the Period was approximately HK\$95 million, representing an increase of approximately 67% compared with that of the last corresponding period. The increase resulted from the increase of the supplying heat residential areas. Segment profit of approximately HK\$44 million was achieved representing an increase of approximately 93% compared with that of the last corresponding period, (excluding the effect of government grants for the six months ended 31 December 2015 of approximately HK\$42 million).

### Chemical production division

#### *Calcium carbide*

During the Period, the calcium carbide segment recorded a turnover of HK\$39 million from external customers. Segment loss before tax of approximately HK\$40 million was recorded, representing a decrease of approximately 12% 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 operated throughout the Period as well as last corresponding period. The calcium carbide facilities were in a set-up period and is expected to run smoothly in the foreseeable future.



# Management Discussion and Analysis

## 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 2016, the Group had total assets of approximately HK\$3,082.9 million (30 June 2016: HK\$3,295.5 million) which were financed by current liabilities of approximately HK\$624.7 million (30 June 2016: HK\$1,010.9 million), non-current liabilities of approximately HK\$562.2 million (30 June 2016: HK\$461.3 million), non-controlling interests of approximately HK\$116.5 million (30 June 2016: HK\$129.9 million) and owners' equity of approximately HK\$1,779.5 million (30 June 2016: HK\$1,693.4 million).

As at 31 December 2016, the current assets of the Group amounted to approximately HK\$272.0 million (30 June 2016: HK\$171.6 million) mainly comprising inventories of approximately HK\$47.6 million (30 June 2016: HK\$48.9 million), trade receivables of approximately HK\$37.2 million (30 June 2016: HK\$8.4 million), prepayments, deposits and other receivables of approximately HK\$100.1 million (30 June 2016: HK\$74.8 million), financial assets at fair value through profit and loss of approximately HK\$0.1 million (30 June 2016: HK\$0.2 million), cash and cash equivalents of approximately HK\$87.0 million (30 June 2016: HK\$39.3 million).

As at 31 December 2016, 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 0.4 (30 June 2016: 0.2), 0.4 (30 June 2016: 0.1), 38.5% (30 June 2016: 44.7%) and 66.7% (30 June 2016: 86.9%), 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.

## Management Discussion and Analysis

### Equity funding

Upon completion of the Open Offer on 1 December 2016, the net proceeds raised from the open offer by issuing 718,724,879 offer shares at HK\$0.1 on the basis of one offer share for every four existing share held were HK\$70.6 million. As at the date of this interim report, approximately HK\$25.6 million was used to reduce the current debts of the Group and approximately HK\$45.0 million was applied to enhance the working capital of the Group.

### Non-equity funding

#### *Bank loans*

As at 31 December 2016, the bank loans of the Group amounted to approximately HK\$74.1 million (30 June 2016: HK\$83.1 million), of which HK\$30.5 million was denominated in Hong Kong Dollar and HK\$43.6 million was denominated in Renminbi (30 June 2016: HK\$31.8 million was denominated in Hong Kong dollar and HK\$51.3 million was denominated in Renminbi). Based on agreed scheduled repayments set out in the loan agreements, bank loans of approximately HK\$46.0 million (30 June 2016: HK\$53.8 million) were repayable within 12 months.

### Bonds and other non-equity financing

#### *Bonds*

On 15 July 2016, the Company and Pico Zeman Securities (HK) Limited (the “**Placing Agent**”) entered into a few placing agreements 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\$200,000,000 within 180 days starting from the date of the placing agreement.

As at 31 December 2016, the aggregate bonds payable was HK\$515.7 million aiming at improving the working capital of the Group during the Period.

## Management Discussion and Analysis

### Significant investments held by the Company

As at 31 December 2016, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK\$0.1 million. The Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK\$0.1 million during the Period.

### Charges on the Group's assets

As at 31 December 2016, bank loans and other loan of approximately HK\$74.1 million and HK\$45.6 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 17 to the condensed consolidated financial statements.

### Contingent liabilities

As at 31 December 2016, except for disclosed in note 17, 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 2016.

### Number and remuneration of employees

As at 31 December 2016, the Group had 391 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.

## Management Discussion and Analysis

During the Period, no share options were granted to senior management of Hong Kong and PRC subsidiaries of the Company, and approximately 38 million share options were cancelled. As at 31 December 2016, there were approximately 52 million share options outstanding with exercisable period up to 10 May 2018 at the exercise price of HK\$0.93 per share.

### Prospect

The management believes that worst situation of the Group had passed and foreseeing a brilliant prospect in coming years.

### Heat and power division

Turnover of the heat and power division increased by 57.7% (2015: 36.3%) and the increase of gross profit by 328% (2015: 8.7%) was because of the increase in residential heat supplying areas (2016: 3.5 million square meters/2015: 1.4 million square meters).

During the Period, the Company has completed the construction of 25 kilometers pipelines which has increased the residential heat supplying area of approximately 2.1 million square meters. The management aims to increase the heat supplying areas to approximately 10 million square meters in the coming few years.

The management believes year 2017 will be the harvest period for the heat and power division. Despite increase in the coal price during the Period by over 50%, the remarkable growth residential heat supplying areas continued to contribute a stable return and maintain the profit margin at a high level.

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

The Heihe factory had resumed production of calcium carbide. During the Period, the calcium carbide segment had recorded a turnover of HK\$39 million. However, it recorded a gross loss of 3% as initial production costs had been incurred during the fine-tuning period.

The chemical market saw a significant improvement during the Period. It is expected, due to the recovery of economy, the market price of calcium carbide would increased steadily.

## Management Discussion and Analysis

### Mudanjiang

The chemical production market was recovering since the third quarter of 2016. The management plans to resume the factories gradually.

### 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 that to bring value to the shareholders. It will not rule out the possibility of further acquisition and disposal of non-core assets.

## DISCLOSURE OF ADDITIONAL INFORMATION

### Directors' Interests or Short Positions in Shares and Underlying Shares

As at 31 December 2016, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), were as follows:

Name of Director	Name of company	Type of interest	Number of ordinary shares held (long position) (% of issued share capital of the Company)	
Ms. Chan Yuk Foebe	The Company	Beneficial Interest	28,680,000	0.66%
Mr. Law Tze Ping Eric	The Company	Beneficial Interest	400,000	0.01%

### Interests in the Shares and Underlying Shares

Save as disclosed above, so far as the Directors are aware, as at 31 December 2016, none of the Directors and chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which was required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Disclosure of Additional Information

### Substantial shareholders' interests and short positions in the Company

As far as the Directors of the Company are aware, as at 31 December 2016, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

<b>Name of shareholders</b>	<b>Number of ordinary shares</b>	<b>Capacity (subject to the notes below)</b>	<b>Approximate percentage of issued share capital of the Company</b>
Chan Yuen Tung	648,304,443 (L)	Beneficial owner	15.03%

(L) long position

Save as disclosed above, as far as the Directors are aware, as at 31 December 2016, no other persons (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

### Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, there is sufficient public float of more than 25% of the Company's shares in the market as required under the Listing Rules.

### 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.

## Disclosure of Additional Information

### 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.

### Corporate Governance Functions

The Board determines the policy for the corporate governance of the Company and is responsible for performing, inter alia, the following corporate governance duties:

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;



## Disclosure of Additional Information

- (d) to develop, review and monitor the code of conduct applicable to employees and directors; and
- (e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

By order of the Board

**Chan Yuk Foebe**

*Chairman and Chief Executive Officer*

Hong Kong, 28 February 2017