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## **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)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2015**

#### **HIGHLIGHTS**

- Enlarged positive operational cash inflow because of increase in turnover when compared with that of last corresponding period
- Decrease in loss for the Period when compared with that of last corresponding period

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 2015 (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	
		2015	2014
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	4	<b>66,920</b>	49,096
Cost of sales		<u>(51,341)</u>	<u>(41,940)</u>
Gross profit		<b>15,579</b>	7,156
Other income	6	<b>48,053</b>	40,073
Selling and distribution costs		<b>(2,914)</b>	(2,233)
Administrative expenses		<b>(37,396)</b>	(16,863)
Other operating expenses		<u>(35,849)</u>	<u>(66,451)</u>
<b>Loss from operations</b>		<b>(12,527)</b>	(38,318)
Finance costs		<u>(32,223)</u>	<u>(21,447)</u>
<b>Loss before tax</b>		<b>(44,750)</b>	(59,765)
Income tax credit	7	<u>13,242</u>	<u>5,369</u>
<b>Loss for the Period</b>	8	<u><b>(31,508)</b></u>	<u>(54,396)</u>
<b>Attributable to:</b>			
Owners of the Company		<b>(22,645)</b>	(41,924)
Non-controlling interests		<u>(8,863)</u>	<u>(12,472)</u>
		<u><b>(31,508)</b></u>	<u>(54,396)</u>
<b>LOSS PER SHARE</b>	9		
– Basic		<u><b>HK(0.95) cents</b></u>	<u>HK(1.80) cents</u>
– Diluted		<u><b>N/A</b></u>	<u>N/A</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2015</b>	<b>2014</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Loss for the Period</b>	<u><b>(31,508)</b></u>	<u><b>(54,396)</b></u>
<b>Other comprehensive income after tax:</b>		
<b>Item that may be reclassified to profit or loss:</b>		
Exchange differences on translating foreign operations	<u><b>(113,895)</b></u>	<u><b>22,867</b></u>
<b>Other comprehensive income for the Period, net of tax</b>	<u><b>(113,895)</b></u>	<u><b>22,867</b></u>
<b>Total comprehensive income for the Period</b>	<u><b>(145,403)</b></u>	<u><b>(31,529)</b></u>
<b>Attributable to:</b>		
Owners of the Company	<u><b>(125,060)</b></u>	<u><b>(22,807)</b></u>
Non-controlling interests	<u><b>(20,343)</b></u>	<u><b>(8,722)</b></u>
	<u><b>(145,403)</b></u>	<u><b>(31,529)</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>		
Fixed assets	<b>2,688,009</b>	2,845,586
Land held under finance leases	<b>66,109</b>	66,451
Prepaid land lease payments	<b>385,632</b>	401,658
Goodwill	<b>37,904</b>	37,904
Other intangible assets	<b>1,487</b>	1,555
	<b>3,179,141</b>	3,353,154
<b>Current assets</b>		
Inventories	<b>67,244</b>	33,608
Trade receivables	<b>16,569</b>	5,965
Other loan receivables	<b>700</b>	700
Prepayments, deposits and other receivables	<b>100,520</b>	79,394
Financial assets at fair value through profit or loss	<b>253</b>	403
Bank and cash balances	<b>22,583</b>	41,376
	<b>207,869</b>	161,446
<b>TOTAL ASSETS</b>	<b>3,387,010</b>	3,514,600
<b>Capital and reserves</b>		
Share capital	<b>238,290</b>	238,290
Accumulated losses	<b>(269,712)</b>	(247,067)
Other reserves	<b>2,033,191</b>	2,135,607
	<b>2,001,769</b>	2,126,830
<b>Equity attributable to owners of the Company</b>	<b>2,001,769</b>	2,126,830
<b>Non-controlling interests</b>	<b>143,690</b>	164,033
	<b>2,145,459</b>	2,290,863
<b>Total equity</b>	<b>2,145,459</b>	2,290,863
<b>Non-current liabilities</b>		
Bank loans	<b>30,544</b>	31,761
Bonds payable	<b>375,738</b>	291,437
Deferred tax liabilities	<b>4,746</b>	17,539
	<b>411,028</b>	340,737

		<b>(Unaudited)</b>	(Audited)
		<b>31 December</b>	30 June
		<b>2015</b>	2015
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current liabilities</b>			
Trade payables	<i>12</i>	<b>95,951</b>	79,543
Bond interest payable		<b>18,993</b>	6,749
Other payables and accruals		<b>536,089</b>	586,089
Other loans		<b>47,643</b>	49,843
Due to a non-controlling shareholder of a subsidiary		<b>43,453</b>	43,453
Bank loans	<i>11</i>	<b>88,394</b>	117,323
		<u><b>830,523</b></u>	<u>883,000</u>
<b>Total liabilities</b>		<u><b>1,241,551</b></u>	<u>1,223,737</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>3,387,010</b></u>	<u>3,514,600</u>
<b>Net current liabilities</b>		<u><b>(622,654)</b></u>	<u>(721,554)</u>
<b>Total assets less current liabilities</b>		<u><b>2,556,487</b></u>	<u>2,631,600</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the Six Months Ended 31 December 2015*

### 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 incurred a loss of approximately HK\$31,508,000 and had net current liabilities of approximately HK\$622,654,000 as at 31 December 2015.

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 2015 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 2015 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 2015. 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 2015 and 31 December 2015.

### 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**").

The accounting policies of the operating segments are the same as those described in the Group's 2015 annual financial statements. Segment profits or losses do not include 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, dividend income from listed investments and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, other loan receivables, 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, amount due to a non-controlling shareholder of a subsidiary 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 <i>HK\$'000</i>	Vinyl acetate <i>HK\$'000</i>	Heat and power <i>HK\$'000</i>	Vitamin C, glucose and starch <i>HK\$'000</i>	Calcium carbide <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 31 December 2015						
Segment assets	240,989	257,971	513,600	161,505	1,978,150	3,152,215
Segment liabilities	18,742	43,461	185,269	91,744	296,642	635,858

	(Unaudited)					
	Polyvinyl- chloride <i>HK\$'000</i>	Vinyl acetate <i>HK\$'000</i>	Heat and power <i>HK\$'000</i>	Vitamin C, glucose and starch <i>HK\$'000</i>	Calcium carbide <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 31 December 2014						
Revenue from external customers	–	–	49,096	–	–	49,096
Segment profit/(loss)	(9,321)	(7,879)	35,346	(7,126)	(45,381)	(34,361)

	(Audited)					
As at 30 June 2015						
Segment assets	291,599	270,732	464,263	206,706	2,124,214	3,357,514
Segment liabilities	20,042	39,797	154,611	122,637	335,662	672,749

Reconciliation of reportable segment profit or loss:

	(Unaudited)	
	Six months ended	
	31 December	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit or loss</b>		
Total profit or loss of reportable segments	11,290	(34,361)
Loss on disposal of fixed assets	(132)	–
Fair value loss on financial assets at fair value through profit or loss	(150)	(124)
Corporate administrative expenses	(42,516)	(19,911)
Consolidated loss for the Period	<u>(31,508)</u>	<u>(54,396)</u>



## 6. OTHER INCOME

	(Unaudited)	
	Six months ended	
	31 December	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	6	5
Government grants ( <i>note</i> )	41,856	35,575
Other interest income	–	415
Rental income	–	91
Reversal of allowance for other receivables	–	973
Sundry income	6,191	3,014
	<u>6,191</u>	<u>3,014</u>
	<u>48,053</u>	<u>40,073</u>

*Note:* Government grants for the six months ended 31 December 2015 and 2014 were received as incentive for capital expenditure and subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.

## 7. INCOME TAX CREDIT

	(Unaudited)	
	Six months ended	
	31 December	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax	<u>13,242</u>	<u>5,369</u>

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 (2014: 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

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

	(Unaudited)	
	Six months ended	
	31 December	
	2015	2014
	HK\$'000	HK\$'000
Depreciation	61,663	60,090
Loss on disposal of fixed assets	132	88
Amortisation of other intangible assets	776	965
Factory overhead incurred during suspension of production ( <i>note</i> )	55,088	55,378
Fair value loss/(gain) on financial assets at fair value through profit or loss	150	124
Operating lease rental expenses	909	1,034
Staff costs (including Directors' emoluments):		
Wages, salaries and benefits in kind	5,672	5,800
Retirement benefits scheme contributions	1,986	2,076
Directors' emoluments	505	474

*Note:* For the six months ended 31 December 2015 and 2014, 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.

## 9. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the Period attributable to owners of the Company of approximately HK\$22,645,000 (2014: HK\$41,924,000) and the weighted average number of ordinary shares of 2,382,899,519 (2014: 2,324,899,519) 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 2014 and 2015, therefore no diluted loss per share information is presented for the six months ended 31 December 2014 and 2015.

## 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 2015: 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>2015</b> <i>HK\$'000</i>	(Audited) 30 June 2015 <i>HK\$'000</i>
Within 30 days	<b>15,504</b>	–
31 to 60 days	<b>548</b>	70
61 to 90 days	–	4,894
91 to 120 days	–	561
121 to 150 days	<b>83</b>	233
151 to 180 days	<b>63</b>	207
181 to 240 days	<b>105</b>	–
241 to 330 days	<b>266</b>	–
331 to 365 days	–	–
Over 365 days	–	–
	<hr/> <b>16,569</b> <hr/>	<hr/> 5,965 <hr/>

## 11. BANK LOANS

The Group's bank loans are repayable as follows:

	<b>(Unaudited)</b> <b>31 December</b> <b>2015</b> <i>HK\$'000</i>	(Audited) 30 June 2015 <i>HK\$'000</i>
Term loans subject to a repayment on demand clause	<b>85,972</b>	114,926
Within one year	<b>2,422</b>	2,397
In the second year	<b>2,422</b>	2,449
In the third to fifth years inclusive	<b>7,266</b>	7,659
After five years	<b>20,856</b>	21,653
	<hr/> <b>118,938</b> <hr/>	<hr/> 149,084 <hr/>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<hr/> <b>(88,394)</b> <hr/>	<hr/> (117,323) <hr/>
	<hr/> <b>30,544</b> <hr/>	<hr/> 31,761 <hr/>

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

	(Unaudited) 31 December 2015 HK\$'000	(Audited) 30 June 2015 HK\$'000
Hong Kong dollars	32,966	34,158
Renminbi	85,972	114,926
	<u>118,938</u>	<u>149,084</u>

At 31 December 2015, bank loans were arranged at floating rates ranging from 2.10% to 7.21% (30 June 2015: 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.

During the year ended 30 June 2014, the Group received a verdict from the Intermediate People's Court of Heilongjiang Province in the PRC in the relation to the repayment of a bank loan amounting approximately HK\$23,881,000. According to the verdict, the bank loan should be repaid before 8 May 2014. During the period ended 31 December 2015, the Group received another verdict from the Intermediate People's Court of Heilongjiang Province in the PRC in relation to the debts transfer by the bank to an independent third party and the loan was classified to other loan.

## 12. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (30 June 2015: 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) 31 December 2015 HK\$'000	(Audited) 30 June 2015 HK\$'000
Within 30 days	483	6,305
31 to 60 days	8,854	4,353
61 to 90 days	21,171	2,661
91 to 120 days	12,615	45
121 to 365 days	11,403	19,967
Over 365 days	41,425	46,212
	<u>95,951</u>	<u>79,543</u>

## 13. CONTINGENT LIABILITIES

- (a) 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") at the high court of Heilongjiang Province in the PRC against Mudanjiang Better Day Power Limited (牡丹江佳日熱電有限公司) ("MDJ Better Day"), an indirect wholly-owned subsidiary of the Company.

MDJ Better Day had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of MDJ Better Day (the "Contract"). Owing to the alleged delay in the progress of the construction, the Plaintiff claimed (i) the payment of the contract sum in the

amount of approximately RMB42,700,000 and the interest thereof; (ii) the grant of the first priority right to receive payment from MDJ Better Day 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 this legal case. 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 management of MDJ Better Day, 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. To handle the claim from the Plaintiff, the local management has appointed an independent professional valuer to ascertain both the percentage of completion of the subject construction project and the quality of the construction work done in respect of the subject Contract at the moment. Thereafter, the management is expected to have sufficient information to deal with the claims from the Plaintiff and will not rule out the possibility of filing a counterclaim. The management believes that sufficient provision for this legal claim was made at this stage.

- (b) 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.

## **INTERIM DIVIDEND**

The Directors have resolved that no interim dividend will be declared in respect of the Period (2014: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

The loss attributable to owners was mainly derived from the idle operating cost incurred which mainly comprised of depreciation and amortisation during the suspension of coal-related operation.

For the six months ended 31 December 2015, turnover of the Group amounted to approximately HK\$67 million, representing an increase of 36% when compared with that of the last corresponding period.

Loss attributable to owners of the Company amounted to approximately HK\$23 million, representing a decrease of approximately 46% 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 primarily attributed by the increase of our heat supplying area.

The Group's selling and distribution costs for the Period was approximately HK\$3 million, representing an increase of approximately 30% 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\$37 million, representing an increase of approximately 122% when compared with that of the last corresponding period. The increase was resulted from professional and other related expenses incurred for non-equity financing.

Excluding the 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, representing a decrease of HK\$9 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 and bio-chemical products which amounted to approximately HK\$55 million, the Group's other operating expenses for the six months ended 31 December 2014 was approximately HK\$11 million.)

#### *Coal related chemical production division*

##### Calcium carbide

During the Period, no turnover was recorded for the calcium carbide segment from external customers. Segment loss of approximately HK\$33 million, mainly represented depreciation and amortisation charges, was attained, representing a decrease of approximately 27% compared with that of the last corresponding period.

#### *Heat and power division*

During the Period, the heat and power segment recorded a turnover of HK\$67 million from external customers. The residential income for the Period was approximately HK\$57 million, representing an increase of approximately 53% compared with that of the last corresponding period. The increase was resulted from the increase of the supplying heat residential areas. Segment profit of approximately HK\$65 million was attained representing an increase of approximately 83% compared with that of the last corresponding period.

The local management had closely monitored the operation to reduce coal or energy consumption and avoid wastage so as to minimise the loss from operating our heat and power generating facilities. The heat and power generating facilities operated throughout the Period as well as last corresponding period.

## **Capital Structure, Liquidity and Financial Resources**

### *Capital structure*

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

### *Liquidity and Financial Ratio*

As at 31 December 2015, the Group had total assets of approximately HK\$3,387.0 million (30 June 2015: HK\$3,514.6 million) which were financed by current liabilities of approximately HK\$830.5 million (30 June 2015: HK\$883.0 million), non-current liabilities of approximately HK\$411.0 million (30 June 2015: HK\$340.7 million), non-controlling interests of approximately HK\$143.7 million (30 June 2015: HK\$164.0 million) and owners' equity of approximately HK\$2,001.8 million (30 June 2015: HK\$2,126.9 million).

As at 31 December 2015, the current assets of the Group amounted to approximately HK\$207.9 million (30 June 2015: HK\$161.4 million) mainly comprising inventories of approximately HK\$67.2 million (30 June 2015: HK\$33.6 million), trade receivables of approximately HK\$16.6 million (30 June 2015: HK\$6.0 million), other loan receivables of approximately HK\$0.7 million (30 June 2015: HK\$0.7 million), prepayments, deposits and other receivables of approximately HK\$100.5 million (30 June 2015: HK\$79.4 million), financial assets at fair value through profit and loss of approximately HK\$0.3 million (30 June 2015: HK\$0.4 million), cash and cash equivalents of approximately HK\$22.6 million (30 June 2015: HK\$41.4 million).

As at 31 December 2015, 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 0.3 (30 June 2015: 0.2), 0.2 (30 June 2015: 0.1), 36.7% (30 June 2015: 34.8%) and 62.0% (30 June 2015: 57.5%), 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.

### *Non-equity funding*

#### Bank loans

As at 31 December 2015, the bank loans of the Group amounted to approximately HK\$118.9 million (30 June 2015: HK\$149.1 million). Considering the bank loans subject to repayment on demand clauses which can be exercised at the banks' sole discretion, bank loans of approximately HK\$88.4 million (30 June 2015: HK\$117.3 million) were repayable within 12 months, of which HK\$2.4 million was denominated in Hong Kong Dollar and HK\$86.0 million was denominated in Renminbi (30 June 2015: HK\$2.4 million was denominated in Hong Kong dollar and HK\$114.9 million was denominated in Renminbi). Without considering the repayment on demand clauses and based on agreed scheduled repayments set out in the loan agreements, out of the loan amount of HK\$88.4 million, approximately HK\$47.8 million will fall due during year 2016 and approximately HK\$40.6 million, among other things, will fall due after year 2016.

### *Bonds and other non-equity financing*

#### **Bonds**

On 16 September 2015, the Company and Pico Zeman Securities (HK) Limited (the “**Placing Agent**”) entered into the 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 5% to 12%, 4 to 10 years terms bonds, each in an aggregate principal amount of up to HK\$100,000,000 within 120 days starting from the date of the placing agreement.

As at 31 December 2015, the aggregate bonds payable was HK\$376 million aiming at improving the working capital of the Group during the Period.

#### *Significant investments held by the Company*

As at 31 December 2015, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK\$0.3 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 2015, bank loans and other loan of approximately HK\$118.9 million and HK\$48.7 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 2015, 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 2015.



### *Number and remuneration of employees*

As at 31 December 2015, 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.

During the Period, no share options were granted to senior management of Hong Kong and PRC subsidiaries of the Company. As at 31 December 2015, there were approximately 102 million share options outstanding with exercisable period up to 17 April 2016 at the exercise price of HK\$0.204 per share, 34 million share options with exercisable period up to 9 March 2018 at the exercise price of HK\$0.425 per share and 46 million share options were exercisable period up to 10 May 2018 at the exercise price of HK\$1.05 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 heat and power division increased by 36.3% and gross profit increased by 8.7% (2015: 23.3%/2014: 14.6%) was because of increase in residential heat supplying areas (2015: 2 million square meters/2014: 1.2 million square meters).

During the Period, the Company has nearly completed the construction of 25 kilometers pipelines which has a capacity to supply heat for approximately 12 million square meters of residential areas. It is expected, by year 2018, the heat supplying area will increase to approximately 8 million square meters

The increase in residential heat supplying areas will much enhance the profit margin in higher level. Hence, it is strongly believed that the heat and power division will be the gold driver of the Group provided that the coal price remains stably.

#### **Coal-related chemical production division**

##### *Heihe*

Due to the current market downturn, the management will closely monitor the market situation. Once the market situation is satisfied, full resumption of production will be carried out.

##### *Mudanjiang*

Although the new government policy on the preferential tariff is granted during the year, the management will closely monitor the market situation. Once the market situation is satisfied, full resumption of vertical production of coal-related products will be implemented.

## **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.

## **Acquisition of Logistics Centres Project**

On 26 August 2015, the Company entered into a share acquisition framework agreement ("**Framework Agreement**") with Mudanjiang Transportation Group Investment Limited ("**Mudanjiang Transportation Group**"), a PRC state-owned enterprise which is controlled by the Transport Department of the People's Government of Mudanjiang City, Heilongjiang Province of the PRC in relation to the construction and operation of the international and domestic logistics centres ("**Logistics Centres**") in Mudanjiang City. The Framework Agreement has a term of 45 days from the date of execution and takes effect immediately upon signing. Pursuant to the Framework Agreement, the Company is going to acquire 70% equity interest of Mudanjiang Transportation Group which is undergoing the following projects:

- (a) the Mudanjiang International Transportation and Logistics Centre (Phase 1) ("**Phase 1**") which is still under construction and expected to commence operation in October 2015;
- (b) the Mudanjiang International Transportation and Logistics Centre (Phase 2) ("**Phase 2**");
- (c) the drop and pull transportation project; and
- (d) the state-owned interest in the general commercial complex developed by the Mudanjiang Transportation Group.

**During the period, the Company has been making progress and in-depth discussion with Mudanjiang Transportation Group and Government of Mudanjiang City for the cooperation of Logistic Centres. The negotiation of the acquisition is now entering into final stage.**

## **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.

## **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 2015/16 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](http://www.hkexnews.hk) and the website of the Company at [www.chinazenith.com.hk](http://www.chinazenith.com.hk) and dispatched to Shareholders before the end of March 2016.

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

Hong Kong, 29 February 2016

*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.*