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 2016

HIGHLIGHTS

The enlarged residential heat supplying areas built up a solid increment in turnover and gross profit for the Heat and Power division.

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

	Note	(Unaudited) Six months ended 31 December 2016 HK$'000	2015 HK$'000
Turnover	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)
Profit/(Loss) from operations		**150,154**	(12,527)
Finance costs		**(15,099)**	(32,223)
Profit/(Loss) before tax		**135,055**	(44,750)
Income tax credit	7	**52**	13,242
Profit/(Loss) for the Period	8	**135,107**	(31,508)
Attributable to:			
Owners of the Company		**140,909**	(22,645)
Non-controlling interests		**(5,802)**	(8,863)
		135,107	(31,508)
			(Restated)
Earnings/(Loss) per share	9		
— Basic		**HK4.18 cents**	HK(0.86) cents
— Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Profit/(Loss) for the Period	**135,107**	(31,508)
Other comprehensive income after tax:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(132,989)**	(113,895)
Other comprehensive income for the Period, net of tax	**(132,989)**	(113,895)
Total comprehensive income for the Period	**2,118**	(145,403)
Attributable to:		
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

	Note	(Unaudited) 31 December 2016 HK$'000	(Audited) 30 June 2016 HK$'000
Non-current assets			
Fixed assets		**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
		2,810,907	3,123,917
Current assets			
Inventories		**47,572**	48,918
Trade receivables	*10*	**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
		271,973	171,612
TOTAL ASSETS		**3,082,880**	3,295,529
Capital and reserves			
Share capital		**431,235**	287,490
Accumulated losses		**(691,672)**	(835,473)
Other reserves		**2,039,870**	2,241,327
Equity attributable to owners of the Company		**1,779,433**	1,693,344
Non-controlling interests		**116,503**	129,914
Total equity		**1,895,936**	1,823,258

	Note	(Unaudited) 31 December 2016 HK$'000	(Audited) 30 June 2016 HK$'000
Non-current liabilities			
Bank loans	*11*	**28,137**	29,358
Bonds payable		**515,655**	416,960
Deferred tax liabilities		**18,450**	15,006
		562,242	461,324
Current liabilities			
Trade payables	*12*	**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	*11*	**45,959**	53,762
		624,702	1,010,947
Total liabilities		**1,186,944**	1,472,271
TOTAL EQUITY AND LIABILITIES		**3,082,880**	3,295,529
Net current liabilities		**(352,729)**	(839,335)
Total assets less current liabilities		**2,458,178**	2,284,582

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.

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.

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**").

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)					
	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 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**

	(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
	(Audited)					
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

Reconciliation of reportable segment profit or loss:

	(Unaudited) Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Profit or loss		
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)

6. OTHER INCOME

	(Unaudited) Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'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
	4,204	48,053

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.

7. INCOME TAX CREDIT

	(Unaudited) Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'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.

8. PROFIT/(LOSS) FOR THE PERIOD

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

	(Unaudited) Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'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 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.

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 earnings/(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. 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:

	(Unaudited)	(Audited)
	31 December	30 June
	2016	2016
	HK$'000	*HK$'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**	—
	37,212	8,417

11. BANK LOANS

The Group's bank loans are repayable as follows:

	(Unaudited)	(Audited)
	31 December	30 June
	2016	2016
	HK$'000	*HK$'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
	74,096	83,120
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(45,959)**	(53,762)
	28,137	29,358

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

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

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.

12. 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:

	(Unaudited)	(Audited)
	31 December	30 June
	2016	2016
	HK$'000	*HK$'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
	60,364	72,906

13. 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.

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 suppling 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.

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$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 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.

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.

Equity funding

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 shares for every four existing share held were HK$70.6 million. As at the date of this announcement, 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 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 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.

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 13 to the condensed consolidated financial statements.

Contingent liabilities

As at 31 December 2016, 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 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.

During the Period, no share options were granted to senior management of Hong Kong and PRC subsidiaries of the Company. 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.

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.

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 2016/17 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 2017.

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

Hong Kong, 28 February 2017

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.