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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 FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2014

RESULTS

The Board of Directors ("Board" or "Directors") of China Zenith Chemical Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2014 together with the comparative figures for the previous year as follows:

Consolidated Income Statement

for the year ended 30 June 2014

	Note	2014 HK\$'000	2013 HK\$'000
Turnover	4	163,477	297,446
Cost of sales		(191,024)	(327,392)
Gross loss		(27,547)	(29,946)
Other income	5	21,436	29,618
Selling and distribution costs		(9,099)	(9,884)
Administrative expenses		(120,205)	(114,487)
Other operating expenses		(157,244)	(198,625)
Impairment of fixed assets		(345,008)	–
Loss from operations		(637,667)	(323,324)
Finance costs	7	(32,667)	(14,309)
Loss before tax		(670,334)	(337,633)
Income tax credit	8	79,697	12,736
Loss for the year	9	(590,637)	(324,897)
Attributable to:			
Owners of the Company		(559,532)	(310,652)
Non-controlling interests		(31,105)	(14,245)
		(590,637)	(324,897)
Loss per share			
– Basic	11	(HK24.07 cents)	(HK14.33 cents)
– Diluted		N/A	N/A

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2014

	2014 HK\$'000	2013 HK\$'000
Loss for the year	(590,637)	(324,897)
Other comprehensive income after tax:		
<i>Item that will not be reclassified to profit or loss:</i>		
Gains on property revaluation	7,489	18,567
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(22,474)	78,578
Other comprehensive income for the year, net of tax	(14,985)	97,145
Total comprehensive income for the year	(605,622)	(227,752)
Attributable to:		
Owners of the Company	(574,039)	(228,905)
Non-controlling interests	(31,583)	1,153
	(605,622)	(227,752)

Consolidated Statement of Financial Position

at 30 June 2014

	Note	2014 HK\$'000	2013 HK\$'000
Non-current assets			
Fixed assets		2,845,458	3,232,205
Land held under finance leases		67,132	67,814
Prepaid land lease payments		410,589	464,756
Goodwill		37,904	37,904
Other intangible assets		3,463	5,410
		3,364,546	3,808,089
Current assets			
Inventories		40,490	34,046
Trade receivables	12	76,114	96,385
Other loan receivables		700	31,773
Prepayments, deposits and other receivables		97,357	84,804
Financial assets at fair value through profit or loss		2,721	4,707
Bank and cash balances		85,579	17,039
		302,961	268,754
TOTAL ASSETS		3,667,507	4,076,843
Capital and reserves			
Share capital		232,490	232,490
Reserves		2,065,404	2,639,443
Equity attributable to owners of the Company		2,297,894	2,871,933
Non-controlling interests		208,850	240,433
Total equity		2,506,744	3,112,366

	Note	2014 HK\$'000	2013 HK\$'000
Non-current liabilities			
Bank loans		34,157	36,504
Bonds payable		224,000	–
Deferred tax liabilities		41,132	116,782
		299,289	153,286
Current liabilities			
Trade payables	13	85,531	63,076
Bond interest payable		2,612	–
Other payables and accruals		512,998	436,045
Other loans		24,837	25,051
Due to a non-controlling shareholder of a subsidiary		43,453	43,453
Bank loans		192,043	243,566
		861,474	811,191
Total liabilities		1,160,763	964,477
TOTAL EQUITY AND LIABILITIES		3,667,507	4,076,843
Net current liabilities		(558,513)	(542,437)
Total assets less current liabilities		2,806,033	3,265,652

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings and investments which are carried at their fair values.

2. GOING CONCERN BASIS

The Group incurred a loss of approximately HK\$590,637,000 for the year ended 30 June 2014 and as at 30 June 2014 the Group had net current liabilities of approximately HK\$558,513,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group has bank loans of approximately HK\$189,696,000 which are subject to a repayment on demand clause and therefore are classified as current liabilities as at 30 June 2014. According to the scheduled repayments, an amount of approximately HK\$164,736,000 is repayable after one year. The directors do not consider that the banks will exercise their discretion to demand immediate repayment.

The management expects that the operation of some subsidiaries will be resumed in the near future and will have positive impact to the Group. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 July 2013. 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 and amounts reported for the current year and prior years except as stated below.

(a) HKFRS 12 “Disclosure of Interests in Other Entities”

HKFRS 12 “Disclosure of Interests in Other Entities” specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities.

The adoption of HKFRS 12 only affected the disclosures relating to the Group’s subsidiaries in the consolidated financial statements. HKFRS 12 has been applied retrospectively.

(b) HKFRS 13 “Fair Value Measurement”

HKFRS 13 “Fair Value Measurement” establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurements.

The adoption of HKFRS 13 only affected disclosures on fair value measurements in the consolidated financial statements. HKFRS 13 has been applied prospectively.

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.

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 year.

5. OTHER INCOME

	Group	
	2014	2013
	HK\$'000	HK\$'000
Dividend income from listed investments	62	553
Gain on disposal of prepaid land lease payments	10,604	–
Sales of scrap materials	507	505
Fair value gain on financial assets at fair value through profit or loss	89	508
Gain on disposal of financial assets at fair value through profit or loss	9	2,565
Government grants (note)	9,602	17,105
Bank interest income	12	26
Other interest income	94	1,815
Rental income	457	–
Reversal of revaluation deficit on buildings	–	5,047
Sundry income	–	1,494
	21,436	29,618

Note: Government grants for the years ended 30 June 2014 and 2013 were received as incentive for capital expenditure and subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.

6. SEGMENT INFORMATION

The Group has five reportable segments as follows:

- Polyvinyl-chloride – manufacture and sale of polyvinyl-chloride;
- Vinyl acetate – manufacture and sale of vinyl acetate;
- Heat and power – generation and supply of heat and power;
- Vitamin C, glucose and starch – manufacture and sale of vitamin C, glucose and starch; and
- Calcium carbide – manufacture and sale of calcium carbide.

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.

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:

	Polyvinyl- chloride HK\$'000	Vinyl acetate HK\$'000	Heat and power HK\$'000	Vitamin C, glucose and starch HK\$'000	Calcium carbide HK\$'000	Total HK\$'000
Year ended 30 June 2014						
Revenue from external customers	–	–	72,685	–	90,792	163,477
Segment loss	(73,378)	(24,620)	(43,122)	(329,037)	(92,728)	(562,885)
Interest revenue	1	–	–	–	4	5
Interest expense	–	2,263	6,956	–	14,688	23,907
Depreciation and amortisation	17,036	14,178	9,825	33,837	76,895	151,771
Other material items of income and expense:						
Government grants	–	–	8,084	1,265	253	9,602
Gain on disposal of prepaid land lease payments	737	–	–	–	9,867	10,604
Income tax credit	(44)	(1,617)	(836)	(59,152)	(18,048)	(79,697)
Other material non-cash items:						
Allowance for receivables						
– trade receivables	49,545	–	6,890	–	–	56,435
– other receivables	–	399	1,540	–	–	1,939
Impairment of fixed assets	–	–	–	345,008	–	345,008
Additions to segment non-current assets	–	–	99,759	14	9,013	108,786
As at 30 June 2014						
Segment assets	310,288	285,858	394,829	219,411	2,238,773	3,449,159
Segment liabilities	17,873	36,035	130,078	118,523	318,912	621,421

	Polyvinyl- chloride HK\$'000	Vinyl acetate HK\$'000	Heat and power HK\$'000	Vitamin C, glucose and starch HK\$'000	Calcium carbide HK\$'000	Total HK\$'000
Year ended 30 June 2013						
Revenue from external customers	121,477	–	59,495	–	116,474	297,446
Intersegment revenue	–	–	8,400	–	51,759	60,159
Segment loss	(76,827)	(27,814)	(104,292)	(53,216)	(42,363)	(304,512)
Interest revenue	1,785	2	–	–	18	1,805
Interest expense	–	2,375	3,091	–	7,844	13,310
Depreciation and amortisation	16,402	14,243	9,670	34,105	55,359	129,779
Other material items of income and expense:						
Government grants	–	–	3,029	1,257	12,819	17,105
Income tax expense/(credit)	4,512	1,251	(4,717)	(7,340)	(6,442)	(12,736)
Other material non-cash items:						
Allowance/(reversal of allowance) for receivables						
– trade receivables	48,347	(3,903)	2,463	24,978	(404)	71,481
– other receivables	–	–	482	–	–	482
Additions to segment non-current assets	–	–	7,764	509	165,213	173,486
As at 30 June 2013						
Segment assets	387,518	309,241	316,624	604,429	2,316,779	3,934,591
Segment liabilities	17,936	34,413	101,407	177,360	281,834	612,950

Reconciliation of reportable segment profit or loss, assets and liabilities:

	2014 HK\$'000	2013 HK\$'000
Profit or loss		
Total profit or loss of reportable segments	(562,885)	(304,512)
Fair value gain on financial assets at fair value through profit or loss	89	508
Gain on disposal of financial assets at fair value through profit or loss	9	2,565
Dividend income from listed investments	62	553
Corporate administrative expenses	(27,912)	(24,011)
Consolidated loss for the year	(590,637)	(324,897)
Assets		
Total assets of reportable segments	3,449,159	3,934,591
Goodwill	37,904	37,904
Bank and cash balances	85,579	17,039
Financial assets at fair value through profit or loss	2,721	4,707
Other loan receivables	700	31,773
Other assets	91,444	50,829
Consolidated total assets	3,667,507	4,076,843
Liabilities		
Total liabilities of reportable segments	621,421	612,950
Bonds payable	224,000	–
Bond interest payable	2,612	–
Bank loans	226,200	280,070
Other loans	24,837	25,051
Due to a non-controlling shareholder of a subsidiary	43,453	43,453
Other payables and accruals for general administrative use	18,240	2,953
Consolidated total liabilities	1,160,763	964,477

The Group's revenue is derived from customers based in the People's Republic of China (the "PRC") and accordingly, no geographical information is presented.

Revenue from a major customer of the Group's calcium carbide segment represents approximately HK\$84,940,000 (2013: HK\$108,080,000) of the Group's total revenue.

7. FINANCE COSTS

	Group	
	2014	2013
	HK\$'000	HK\$'000
Interest on bank loans	17,745	18,901
Interest on other loans – wholly repayable within five years	3,200	3,252
Interest on bonds payable – not wholly repayable in five years	7,966	–
Interest on trade payables	3,756	–
Total borrowing costs	32,667	22,153
Amount capitalised	–	(7,844)
	32,667	14,309

8. INCOME TAX CREDIT

	Group	
	2014	2013
	HK\$'000	HK\$'000
Current tax – Overseas		
Overprovision in prior years	(1,617)	–
Deferred tax	(78,080)	(12,736)
	(79,697)	(12,736)

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 year (2013: 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.

Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. (“Mudanjiang Dongbei Gaoxin”), Mudanjiang Dongbei Chemical Engineering Company Limited (“Mudanjiang Dongbei Chemical”) and Heihe LongJiang Chemical Company Limited (“Heihe LongJiang Chemical”), subsidiaries of the Company, are subject to PRC enterprise income tax at the rate of 25% (2013: 25%). No provision for PRC enterprise income tax has been made as Mudanjiang Dongbei Gaoxin, Mudanjiang Dongbei Chemical and Heihe LongJiang Chemical have no assessable profit for the year (2013: Nil).

Mudanjiang Better Day Power Limited (“Mudanjiang BD Power”), Mudanjiang Gaoke Bio-Chem Company Limited (“Mudanjiang Gaoke”) and Mudanjiang Daytech Chemical Ltd. (“Mudanjiang Daytech Chemical”), subsidiaries of the Company, are subject to PRC enterprise income tax at rate of 25%. During the period from 1 January 2010 to 31 December 2012, they were entitled to a 50% relief from PRC enterprise income tax. No provision for PRC enterprise income tax has been made as Mudanjiang BD Power, Mudanjiang Gaoke and Mudanjiang Daytech Chemical have no assessable profit for the year (2013: Nil).

Pursuant to the Corporate Income Tax Law of the PRC approved by the National People’s Congress on 16 March 2007, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividend derived from sources within the PRC.

According to the notice Cai Shui [2008] No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from withholding tax. Accordingly, the retained profits at 31 December 2007 in the Group’s foreign-invested enterprises’ books and accounts will not be subject to withholding tax on dividend on future distribution.

A reconciliation of the tax expense applicable to loss before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

Group

For the year ended 30 June 2014

	Hong Kong		The PRC		Total	
	HK\$’000	%	HK\$’000	%	HK\$’000	%
Loss before tax	(42,309)		(628,025)		(670,334)	
Tax at the statutory tax rate	(6,981)	(16.5)	(157,006)	(25.0)	(163,987)	(24.5)
Income tax exempted	(14)	–	–	–	(14)	–
Expenses not deductible for tax	5,016	11.9	133	–	5,149	0.8
Unrecognised temporary differences	99	0.2	44,909	7.2	45,008	6.7
Tax losses not recognised	1,880	4.4	33,884	5.4	35,764	5.3
Overprovision in prior years	–	–	(1,617)	(0.3)	(1,617)	(0.2)
Tax credit at the Group’s effective tax rate	–	–	(79,697)	(12.7)	(79,697)	(11.9)

For the year ended 30 June 2013

	Hong Kong		The PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	(51,275)		(286,358)		(337,633)	
Tax at the statutory tax rate	(8,460)	(16.5)	(71,590)	(25.0)	(80,050)	(23.7)
Income tax exempted	(93)	(0.1)	(3,218)	(1.1)	(3,311)	(1.0)
Expenses not deductible for tax	7,144	13.9	291	0.1	7,435	2.1
Unrecognised temporary differences	210	0.4	3,727	1.3	3,937	1.2
Tax losses not recognised	1,199	2.3	58,054	20.3	59,253	17.6
Tax credit at the Group's effective tax rate	–	–	(12,736)	(4.4)	(12,736)	(3.8)

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately HK\$50,735,000 (2013: HK\$54,096,000). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

9. LOSS FOR THE YEAR

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

	2014	2013
	HK\$'000	HK\$'000
Auditor's remuneration	1,330	1,270
Allowance for receivables		
– trade receivables	56,435	71,481
– other receivables	1,939	482
Write off of fixed assets	–	25,021
Amortisation of other intangible assets (included in administrative expenses)	1,936	1,923
Cost of inventories sold	191,024	327,392
Depreciation	140,056	118,809
Loss on disposal of fixed assets	582	–
Minimum lease payments under operating leases for land and buildings	14,222	13,705
Factory overhead incurred during suspension of production (note)	85,338	52,158
Revaluation deficits/(reversal of revaluation deficits) on buildings	4,300	(5,047)
Staff costs (excluding directors' emoluments):		
Wages, salaries and benefits in kind	34,465	43,802
Employee share option benefits	–	1,906
Retirement benefits scheme contributions	4,154	5,869

Cost of inventories sold includes staff costs and depreciation of approximately HK\$13,980,000 (2013: HK\$15,240,000) and HK\$27,666,000 (2013: HK\$27,973,000), respectively, which are included in the amounts disclosed separately above.

Note: During the years ended 30 June 2013 and 2014, factory overhead was incurred during the temporary suspension of the production line of coal-related division and bio-chemical division due to a substantial decrease in profit margin.

10. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2014 (2013: Nil).

11. 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 year attributable to owners of the Company of approximately HK\$559,532,000 (2013: HK\$310,652,000) and the weighted average number of ordinary shares of 2,324,899,519 (2013: 2,167,581,273) in issue during the year.

Diluted loss per share

The exercise of the Group's outstanding warrants for the year ended 30 June 2013 would be anti-dilutive and there were no dilutive potential ordinary shares for the Company's share options during the years ended 30 June 2013 and 2014, therefore no diluted loss per share information is presented for the years ended 30 June 2013 and 2014.

12. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (2013: 60 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	Group	
	2014 HK\$'000	2013 HK\$'000
Within 30 days	46	3,381
31 to 60 days	–	18,013
61 to 90 days	300	19,565
91 to 120 days	10,610	231
121 to 150 days	10,456	308
151 to 180 days	9,947	7,166
181 to 240 days	23,435	23,446
241 to 330 days	21,302	21,505
331 to 365 days	18	2,770
	76,114	96,385

As at 30 June 2014, an allowance of approximately HK\$164,375,000 (2013: HK\$109,452,000) was made for estimated irrecoverable trade receivables.

The reconciliation of allowance for trade receivables is as follows:

	Group	
	2014	2013
	HK\$'000	HK\$'000
At beginning of year	109,452	36,896
Allowance made for the year	56,435	71,481
Exchange differences	(1,512)	1,075
At end of year	164,375	109,452

As of 30 June 2014, trade receivables of approximately HK\$45,247,000 (2013: HK\$56,200,000) were past due but not impaired. These mainly relate to an independent customer for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2014	2013
	HK\$'000	HK\$'000
Up to 90 days	300	773
91 to 180 days	193	7,706
181 to 365 days	44,754	47,721
	45,247	56,200

The Group's trade receivables are denominated in RMB.

13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (2013: 30 to 120 days) from its suppliers.

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

	Group	
	2014	2013
	HK\$'000	HK\$'000
Within 30 days	5,150	19,443
31 to 60 days	6,545	1,530
61 to 90 days	5,991	1,018
91 to 120 days	17,088	3,027
121 to 365 days	12,879	6,974
Over 365 days	37,878	31,084
	85,531	63,076

The Group's trade payables are denominated in RMB.

14. 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 BD Power, an indirect wholly-owned subsidiary of the Company.

Mudanjiang BD Power had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of Mudanjiang BD Power (the "Contract"). Owing to the alleged delay in the progress of 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 Mudanjiang BD Power in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13,300,000 for alleged termination of the Contract; and (iv) the legal fees arising from 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 Mudanjiang BD Power, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since 2009. 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 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.

EMPHASIS OF MATTER IN THE INDEPENDENT AUDITOR'S REPORT

The audit opinion in the Independent Auditor's Report for the consolidated financial statements of the Group for the year ended 30 June 2014 is unqualified and contains the following emphasis of matter:

Material uncertainty relating to the going concern basis

"Without qualifying our opinion, we draw attention to note 2 to the financial statements which mentions that the Group incurred a loss of approximately HK\$590,637,000 for the year ended 30 June 2014 and as at 30 June 2014 the Group had net current liabilities of approximately HK\$558,513,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern."

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The loss attributable to shareholders was mainly derived from one-off write-off of fixed assets of the bio-chemical division in Mudanjiang; the idle operating cost incurred during the suspension of coal-related operation because of the high electricity cost in Mudanjiang; and the cost for lay-off the coal-related and bio-chemical divisions in Mudanjiang.

For the year ended 30 June 2014, turnover of the Group amounted to approximately HK\$163,477,000, representing a decrease of 45% compared with that of the financial year ended 30 June 2013. Loss attributable to owners of the Company amounted to approximately HK\$559,532,000, representing an increase of approximately 80% compared with that of the last financial year.

During the Year, the decrease in the Group's turnover was primarily attributed by the decrease in the sales volume of our coal-related chemical products. In particular, no production activities for the Group's coal-related chemical products in Mudanjiang, the PRC were recorded in the Year.

The Group's selling and distribution costs for the Year was approximately HK\$9.1 million, representing a decrease of approximately 8% when compared with that of the last financial year. The decrease in selling and distribution costs was resulted from the decrease in turnover during the Year.

The Group's administrative expenses for the Year was approximately HK\$120 million, representing an increase of approximately 5% when compared with that of the last financial year. The increase was resulted from effective administrative cost control of the Group.

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\$85 million, the Group's other operating expenses for the year ended 30 June 2014 was approximately HK\$72 million, representing a decrease of HK\$75 million when compared with that of the last financial year. (Excluding the effect of impairment of receivables of approximately HK\$72 million, factory overhead during the suspension of the production of coal-related chemical and bio-chemical products which amounted to approximately HK\$52 million and written off of fixed assets which amounted to approximately HK\$25 million, the Group's other operating expenses for the year ended 30 June 2013 was approximately HK\$50 million.) The decrease was principally due to the suspension of the production of the coal-related chemical and bio-chemical products.

Coal related chemical production division

Calcium carbide

During the Year, the calcium carbide segment recorded a turnover of approximately HK\$91 million from external customers, representing a decrease of approximately 22% over that of the last financial year. Segment loss of approximately HK\$93 million was attained, representing an increase of approximately 119% compared with that of the last financial year.

The production of calcium carbide in Mudanjiang, the PRC was suspended since the fourth quarter of year 2012 because the revenue of calcium carbide production in Mudanjiang, the PRC could not cover the cost of electricity and other cost of conversion of certain raw materials.

On the other hand, the cost advantage is apparent in Heihe, the PRC when comparing with that in Mudanjiang, the PRC. During the Year, nine months of operation was recorded and the production of calcium carbide in Heihe, the PRC was maintained at the annual capacities of approximately 50,000 tones. However, the production of calcium carbide in Heihe was suspended since the second quarter of year 2014 because Heihe Longjiang Chemical Co., Ltd., a subsidiary of the Company filed a writ against both the Heihe

City Local Government and the State Grid Heilongjiang Electric Power Company Limited (the “Defendants”) on failing in offering the preferential electricity price as promised. A writ was filed at the local court while the Defendants rose to settle the case out of court. The claim is still under negotiation on both the agreed electricity price and economic loss. The management believed such claim will have a positive impact on the operation and financial position of the Group and the production of calcium carbide in Heihe will be resumed after conclusion of the claim.

PVC and vinyl acetate

Beginning from late of November 2012 and during the Year, the management decided to temporarily shut down the vertically integrated production chain from calcium carbide to polyvinyl-chloride (“PVC”) and vinyl acetate segments since the selling price of products could not cover the cost of production in Mudanjiang, the PRC and the cost of production was relatively high when compared with those in Heihe, the PRC. Therefore, no turnover was recorded for the PVC and vinyl acetate segments during the Year. (Approximately five months of production of PVC and no production of vinyl acetate in last financial year.) Segment loss of approximately HK\$73 million and HK\$25 million were recorded, representing a decrease of approximately 5% and 12% compared with that of the last financial year respectively.

Bio-chemical products division

During the Year, the production vitamin C was suspended because the market selling price of vitamin C was not able to cover its cost of production. No production and sales of vitamin C was recorded during the Year.

Heat and power division

During the Year, the heat and power segment recorded a turnover of HK\$73 million from external customers, representing an increase of approximately 22% over that of the last financial year. Segment loss of approximately HK\$43 million was attained, representing a decrease of approximately 59% compared with that of the last financial year.

The local management had closely monitored the operation to reduce coal or energy consumption and avoid wastage so as to minimize the loss from operating our heat and power generating facilities. Approximately ten months of operation and sales of electricity and heat was recorded during the Year.

The management considered that impairment of the construction in progress and adequate accrued liabilities for such project should be made prudently. During the year end 30 June 2013, the contract sums paid for construction of coal-powered electricity generating facilities amounting to approximately HK\$25.0 million included in the construction in progress are considered as impairment. The accrued liabilities for the compensation from the claim amounting to approximately HK\$16.3 million were charged and the under estimation of construction progress payment of approximately HK\$17.6 million was recorded as accrued liabilities in last financial year.

Sufficient provisions on the main contract sum for construction of coal-powered electricity generating facilities was made towards the dispute in contract sum at this stage. (For details, please refer to “Contingent liabilities” section on page 15). The book carrying value of such coal-powered electricity generating facilities included in construction in progress was approximately HK\$118.4 million as at 30 June 2014.

Final adjustment on this contract sum for such construction in progress could only be made, if necessary, after the valuation assessment to be performed by the professional valuer accepted by the high court of Heilongjiang Province which is scheduled in coming years.

PROSPECT

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

Heat and power division

The decrease in coal price for approximately of 30% will substantial enhance the earning power. Moreover, Mudanjiang Better Day Power, a wholly-owned subsidiary of the Company, has successfully obtained the supplying heat for approximately 1,000,000 million square meters to the new residential areas. Furthermore, the local management has lay-off of approximately 30% of redundancy of workforce. Hence, it is strongly believed that the heat and power division is going to turnaround and contributes positive impact of the Group.

Coal-related chemical production division

Heihe

Heihe Longjiang Chemical Co., Ltd. ("HLCC"), a subsidiary of the Company, has filed a writ against the State Grid Heilongjiang Electric Power Company Limited (the "Defendant"). HLCC has received a settlement offer from the Defendant. As a result, the management foresees that the electricity cost for calcium carbide production will be substantially reduced in a short period of time.

Secondly, the installation of gas fired kiln system for the production of calcium carbon is going to be completed shortly and by design, the cost of production will be further lowered by approximately 20%.

Therefore, it is no doubt that Heihe Longjiang Chemical Co., Ltd will become our main source of profit and growth driver of the Group.

Mudanjiang

After the settlement of electricity price in Heihe, the management will plan to reallocate the coal-related chemical production in Mudanjiang to Heihe. The total turnover of the coal-related chemical production facilitates in Mudanjiang, based on the historical records, is approximately HK\$1 billion.

The lands for the coal related division and the bio-chemical division are approximately 900,000 square meter will be released. Those lands are already surrounded by residential and commercial buildings. After the reallocation, the Group plans to develop the land into residential and/or commercial usage by its own or by partnership.

The management does not rule out the option to carry out possibility of new economy projects for bring value and benefit to the shareholders of the Company.

Capital Structure, Liquidity and Financial Resources

Capital structure

The Group financed its operations and business development with internally generated resources and non-equity funding.

Liquidity and Financial Ratios

As at 30 June 2014, the Group had total assets of approximately HK\$3,667.5 million (2013: HK\$4,076.8 million) which were financed by current liabilities of approximately HK\$861.5 million (2013: HK\$811.2 million), non-current liabilities of approximately HK\$299.3 million (2013: HK\$153.3 million), non-controlling interests of approximately HK\$208.9 million (2013: HK\$240.4 million) and shareholders' equity of approximately HK\$2,297.8 million (2013: HK\$2,871.9 million).

As at 30 June 2014, the current assets of the Group amounted to approximately HK\$303.0 million (2013: HK\$268.8 million) comprising inventories of approximately HK\$40.5 million (2013: HK\$34.0 million), trade receivables of approximately HK\$76.1 million (2013: HK\$96.4 million), prepayments, deposits and other receivables of approximately HK\$97.4 million (2013: HK\$84.8 million), other loan receivables of approximately HK\$0.7 million (2013: HK\$31.8 million), financial assets at fair value through profit or loss of approximately HK\$2.7 million (2013: HK\$4.7 million), cash and cash equivalents of approximately HK\$85.6 million (2013: HK\$17.0 million). As at 30 June 2014, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets – inventory)/current liabilities), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/shareholders' equity) of the Group were approximately 0.4 (2013: 0.3), 0.3 (2013: 0.3), 31.6% (2013: 23.7%) and 50.5% (2013: 33.6%), respectively.

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

Non-equity funding

Bank loans

As at 30 June 2014, the bank loans of the Group amounted to approximately HK\$226.2 million (2013: HK\$280.1 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\$192.0 million (2013: HK\$243.6 million) were repayable within 12 months, of which HK\$2.3 million was denominated in Hong Kong Dollar and HK\$189.7 million was denominated in Renminbi (2013: HK\$2.3 million was denominated in Hong Kong dollar and HK\$241.3 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\$192.0 million, approximately HK\$27.3 million will fall due within one year and approximately HK\$164.7 million, among other things, will fall due after one year.

Bonds

On 11 September 2013, the Company announced the placing of bonds in an aggregated principal amount up to HK\$400,000,000 within the placing period or 120 days starting from the date of the placing agreement of the same date. Such placing agreement was entered into between the Company and Anglo Chinese Securities, Limited ("Anglo Chinese").

On 16 January 2014, the Company and Anglo Chinese entered into a supplemental agreement for the purpose to (i) extend the placing period to 231 days from the date of the placing agreement, which shall fall on 30 April 2014 and (ii) to determine the subscription price for the bonds based on the then market conditions but in any event not be less than 95% of the principal amount of the bonds.

On 17 June 2014, the Company and Zenith Investment Limited (the "Bond Agent") entered into an agency agreement pursuant to which the Bond Agent has agreed to endeavor to procure the subscribers to subscribe for the bonds in an aggregated principal amount of not less than HK\$300,000,000 within 90 days starting from the date of the agency agreement. Moreover, the Company had also issued other bonds to independent third parties.

As at 30 June 2014, the aggregate bonds payable was HK\$224,000,000 aiming at improving the working capital of the Group during the Year.

Significant investment held by the Company

As at 30 June 2014, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK\$2.7 million. The Company had recorded a fair value gain on financial assets at fair value through profit or loss of approximately HK\$89,000 during the Year.

Charges on the Group's assets

As at 30 June 2014, bank loans and other loan of approximately HK\$226.2 million and HK\$24.8 million respectively are secured by charges over the Group's certain fixed assets, land held under finance leases and prepaid land lease payments.

Contingent liabilities

As at 30 June 2014, except for disclosed in Note 14, the Group did not have any significant contingent liabilities.

Foreign exchange exposure

Although most of the Group's operations were carried out in the PRC in which transactions were denominated in RMB, the directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of RMB in recent years. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the Year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2014.

Number and Remuneration of Employees

As at 30 June 2014, the Group had 368 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 Year, no share options were granted to senior management of Hong Kong and PRC subsidiaries of the Company. As at 30 June 2014, there were approximately 22 million share options outstanding with exercisable period up to 18 April 2016 at the exercise price of HK\$0.204 per share.

DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company had reviewed the audited consolidated results of the Group for the Year.

SCOPE OF WORK OF RSM NELSON WHEELER

The figures in respect of the preliminary announcement of the Group's results for the year ended 30 June 2014 have been agreed by the Group's auditors, RSM Nelson Wheeler, to the amounts set out in the Group's audited consolidated financial statements for the year ended 30 June 2014. The work performed by RSM Nelson Wheeler in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Nelson Wheeler on this announcement.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the Year, complied with the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 of the Listing Rules, except for the deviation which is summarised below:

Code Provision A.2.1

The code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Throughout the Year, 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 and considers that this deviation will not impair the balance of power and authority of the Board and the Company's management and thus, the Board believes the current structure will enable effective planning and implementation of corporate strategies and decisions of the Group. Notwithstanding the above, the Board will review the current structure from time to time and shall make necessary amendments at the appropriate time.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiries to all the Directors, all the Directors confirmed that they have complied with the code provisions in the Model Code during the Year.

By Order of the Board

China Zenith Chemical Group Limited

Chan Yuk Foebe

Chairman and Executive Director

Hong Kong, 30 September 2014

As at the date of this announcement, the executive directors of the Company are Ms. Chan Yuk Foebe, Mr. Chiau Che Kong, Mr. Yu Defa and Ms. Wong Pak Ka Mary and the independent non-executive directors of the Company are Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit.