# 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 2012

## 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 2012 together with the comparative figures for the previous year as follows:

## Consolidated Income Statement

*for the year ended 30 June 2012*

| | Note | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|---|
| **Turnover** | *4* | **213,791** | 1,415,414 |
| Cost of sales | | **(209,361)** | (1,135,790) |
| **Gross profit** | | **4,430** | 279,624 |
| Other income | *5* | **20,417** | 32,372 |
| Selling and distribution costs | | **(10,438)** | (13,676) |
| Administrative expenses | | **(128,331)** | (114,026) |
| Other operating expenses | | **(327,011)** | (30,980) |
| **(Loss)/profit from operations** | | **(440,933)** | 153,314 |
| Finance costs | *7* | **(7,841)** | (4,274) |
| **(Loss)/profit before tax** | | **(448,774)** | 149,040 |
| Income tax credit/(expense) | *8* | **42,610** | (33,675) |
| **(Loss)/profit for the year** | *9* | **(406,164)** | 115,365 |
| **Attributable to:** | | | |
| Owners of the Company | | **(390,112)** | 95,517 |
| Non-controlling interests | | **(16,052)** | 19,848 |
| | | **(406,164)** | 115,365 |
| **(Loss)/earnings per share** | | | |
| – Basic | *11* | **(HK52.3) cents** | HK14.1 cents |
| – Diluted | | **(HK52.3) cents** | HK14.0 cents |

## Consolidated Statement of Comprehensive Income

*for the year ended 30 June 2012*

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **(Loss)/profit for the year** | **(406,164)** | 115,365 |
| **Other comprehensive income after tax:** | | |
| Exchange differences on translating | | |
| foreign operations | **33,961** | 101,651 |
| (Deficits)/gains on property revaluation | **(27,908)** | 23,318 |
| **Other comprehensive income for the year,** | | |
| **net of tax** | **6,053** | 124,969 |
| **Total comprehensive income for the year** | **(400,111)** | 240,334 |
| **Attributable to:** | | |
| Owners of the Company | **(389,591)** | 203,946 |
| Non-controlling interests | **(10,520)** | 36,388 |
| | **(400,111)** | 240,334 |

## Consolidated Statement of Financial Position

*at 30 June 2012*

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | **3,100,635** | 2,882,586 |
| Land held under finance leases | | **68,495** | 69,176 |
| Prepaid land lease payments | | **468,208** | 475,195 |
| Goodwill | | **37,904** | 102,107 |
| Other intangible assets | | **7,123** | 95,629 |
| Deferred tax assets | | **4,497** | – |
| | | **3,686,862** | 3,624,693 |
| **Current assets** | | | |
| Inventories | | **56,171** | 110,991 |
| Trade receivables | *12* | **155,957** | 438,601 |
| Other loan receivables | | **500** | 10,000 |
| Prepayments, deposits and other receivables | | **54,966** | 141,106 |
| Financial assets at fair value through profit or loss | | **21,744** | 49,941 |
| Current tax assets | | **–** | 967 |
| Bank and cash balances | | **5,333** | 74,909 |
| | | **294,671** | 826,515 |
| **TOTAL ASSETS** | | **3,981,533** | 4,451,208 |
| **Capital and reserves** | | | |
| Share capital | | **74,563** | 74,563 |
| Reserves | | **2,784,009** | 3,200,184 |
| Equity attributable to owners of the Company | | **2,858,572** | 3,274,747 |
| Non-controlling interests | | **239,280** | 262,546 |
| **Total equity** | | **3,097,852** | 3,537,293 |

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| **Non-current liabilities** | | | |
| Bank loans | | **38,806** | 41,055 |
| Deferred tax liabilities | | **125,343** | 162,734 |
| | | **164,149** | 203,789 |
| **Current liabilities** | | | |
| Trade payables | *13* | **48,121** | 79,342 |
| Other payables and accruals | | **258,262** | 257,640 |
| Other loans | | **74,414** | – |
| Due to a non-controlling shareholder of a subsidiary | | **58,764** | 66,124 |
| Bank loans | | **279,961** | 297,183 |
| Current tax liabilities | | **10** | 9,837 |
| | | **719,532** | 710,126 |
| **Total liabilities** | | **883,681** | 913,915 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,981,533** | 4,451,208 |
| **Net current (liabilities)/assets** | | **(424,861)** | 116,389 |
| **Total assets less current liabilities** | | **3,262,001** | 3,741,082 |

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$406,164,000 for the year ended 30 June 2012 and as at 30 June 2012 the Group had net current liabilities of approximately HK$424,861,000. 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.

On 26 April 2012, the Company announced a proposed open offer on the basis of two offer shares for one existing share held. On 20 July 2012, the Company issued 1,491,266,346 offer shares at HK$0.15 each with net proceeds of approximately HK$219,650,000.

In addition, the Group has bank loans of approximately HK$277,709,000 which are subject to a repayment on demand clause and therefore are classified as current liabilities as at 30 June 2012. According to the scheduled repayments, an amount of approximately HK$143,890,000 is repayable after one year. The directors do not consider that the banks will exercise their discretion to demand immediate repayment.

The directors are 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 2011. HKFRSs comprise Hong Kong Financial Reporting Standards; 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.

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.

## 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 | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Dividend income from listed investments | **3,324** | – |
| Gain on disposal of a subsidiary | **45** | – |
| Gain on disposal of fixed assets | **150** | – |
| Sales of scrap materials | **2,206** | 286 |
| Gain on disposal of financial assets at fair value through profit or loss | **1,950** | 1,143 |
| Government grants (note) | **3,178** | 26,553 |
| Bank interest income | **50** | 107 |
| Other interest income | **342** | 421 |
| Rental income | **3,314** | – |
| Consultancy service income | **1,500** | – |
| Reversal of revaluation deficit on buildings | **–** | 2,234 |
| Construction income of installation of pipe | **3,186** | 1,589 |
| Sundry income | **1,172** | 39 |
| | **20,417** | 32,372 |

Note: Government grants for the year ended 30 June 2012 were received as incentive for capital expenditure and subsidy for operating costs. Government grants for the year ended 30 June 2011 were received as incentive for capital expenditure and environmental protection, subsidy for operating costs and refund of value-added tax, business tax, income tax and land use tax. 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 impairment of goodwill, gain on disposal of a subsidiary, fair value loss 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, 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 2012 | | | | | | |
| Revenue from external customers | **73,345** | **34,950** | **77,265** | **25,697** | **2,534** | **213,791** |
| Intersegment revenue | **–** | **–** | **14,391** | **–** | **26,638** | **41,029** |
| Segment loss | **(37,857)** | **(36,583)** | **(112,176)** | **(73,513)** | **(62,142)** | **(322,271)** |
| Interest revenue | **–** | **13** | **–** | **–** | **34** | **47** |
| Interest expense | **–** | **3,646** | **1,715** | **–** | **–** | **5,361** |
| Depreciation and amortisation | **15,061** | **13,950** | **13,814** | **34,053** | **35,599** | **112,477** |
| Other material items of income and expense: | | | | | | |
| Government grants | **–** | **–** | **441** | **1,223** | **1,514** | **3,178** |
| Construction income of installation of pipe | **–** | **–** | **3,186** | **–** | **–** | **3,186** |
| Income tax credit | **(8,945)** | **(4,164)** | **(21,666)** | **(4,802)** | **(3,033)** | **(42,610)** |
| Other material non-cash items: | | | | | | |
| Allowance for inventories | **–** | **–** | **–** | **2,393** | **–** | **2,393** |
| Allowance for receivables | | | | | | |
| – trade receivables | **6,812** | **4,408** | **2,298** | **18,299** | **862** | **32,679** |
| – other receivables | **3,971** | **1,441** | **–** | **2,171** | **2,321** | **9,904** |
| Impairment of other intangible assets | **–** | **–** | **82,530** | **–** | **–** | **82,530** |
| Additions to segment non-current assets | **27,955** | **248** | **15,520** | **105** | **287,975** | **331,803** |
| As at 30 June 2012 | | | | | | |
| Segment assets | **470,907** | **334,367** | **321,410** | **653,637** | **2,058,655** | **3,838,976** |
| Segment liabilities | **17,967** | **36,425** | **72,332** | **180,480** | **120,413** | **427,617** |

| | 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 2011 | | | | | | |
| Revenue from external customers | 770,167 | 449,216 | 63,495 | 126,491 | 6,045 | 1,415,414 |
| Intersegment revenue | 1,070 | – | 109,578 | – | 303,643 | 414,291 |
| Segment profit/(loss) | 105,477 | 64,242 | 2,128 | 11,779 | (16,568) | 167,058 |
| Interest revenue | 37 | 33 | – | – | 26 | 96 |
| Interest expense | – | 3,340 | – | – | – | 3,340 |
| Depreciation and amortisation | 14,366 | 12,798 | 15,421 | 32,845 | 27,087 | 102,517 |
| Other material items of income and expense: | | | | | | |
| Government grants | 15,814 | – | 1,464 | 7,627 | 1,648 | 26,553 |
| Construction income of installation of pipe | – | – | 1,589 | – | – | 1,589 |
| Income tax expense/(credit) | 20,011 | 15,936 | (865) | (239) | (1,168) | 33,675 |
| Other material non-cash items: | | | | | | |
| Allowance for receivables | | | | | | |
| – trade receivables | – | – | 85 | – | – | 85 |
| Additions to segment non-current assets | 9,782 | 194 | 18,868 | 4,144 | 502,859 | 535,847 |
| As at 30 June 2011 | | | | | | |
| Segment assets | 613,017 | 467,193 | 452,006 | 789,022 | 1,814,662 | 4,135,900 |
| Segment liabilities | 30,372 | 40,470 | 112,672 | 209,053 | 113,714 | 506,281 |

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Profit or loss** | | |
| Total profit or loss of reportable segments | **(322,271)** | 167,058 |
| Impairment of goodwill | **(64,203)** | (21,482) |
| Gain on disposal of a subsidiary | **45** | – |
| Fair value loss on financial assets at fair value through profit or loss | **(9,334)** | (1,355) |
| Gain on disposal of financial assets at fair value through profit or loss | **1,950** | 1,143 |
| Dividend income from listed investments | **3,324** | – |
| Corporate administrative expenses | **(15,675)** | (29,999) |
| Consolidated (loss)/profit for the year | **(406,164)** | 115,365 |
| **Assets** | | |
| Total assets of reportable segments | **3,838,976** | 4,135,900 |
| Goodwill | **37,904** | 102,107 |
| Bank and cash balances | **5,333** | 74,909 |
| Financial assets at fair value through profit or loss | **21,744** | 49,941 |
| Other loan receivables | **500** | 10,000 |
| Other assets | **77,076** | 78,351 |
| Consolidated total assets | **3,981,533** | 4,451,208 |
| **Liabilities** | | |
| Total liabilities of reportable segments | **427,617** | 506,281 |
| Bank loans | **318,767** | 338,238 |
| Other loans | **74,414** | – |
| Due to a non-controlling shareholder of a subsidiary | **58,764** | 66,124 |
| Other payables and accruals for general administrative use | **4,119** | 3,272 |
| Consolidated total liabilities | **883,681** | 913,915 |

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.

None of the Group's customers contributed 10% or more of the Group's revenue during the years ended 30 June 2011 and 2012 and accordingly, no major customers information is presented.

## 7. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Interest on bank loans | **21,141** | 17,347 |
| Interest on other loans - wholly repayable within five years | **3,174** | – |
| Interest on discounted bills | **355** | 346 |
| Total borrowing costs | **24,670** | 17,693 |
| Amount capitalised | **(16,829)** | (13,419) |
| | **7,841** | 4,274 |

## 8. INCOME TAX (CREDIT)/EXPENSE

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Current tax – Overseas | | |
| (Tax credit)/provision for the year | **(8,712)** | 37,572 |
| Deferred tax | **(33,898)** | (3,897) |
| | **(42,610)** | 33,675 |

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 (2011: 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.

Pursuant to relevant laws and regulations in the PRC, Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. ("Mudanjiang Dongbei Gaoxin"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year, i.e., from 1 January 2006 to 31 December 2007, and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years, i.e., from 1 January 2008 to 31 December 2010.

Mudanjiang Better Day Power Limited ("Mudanjiang BD Power"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years, i.e., from 1 January 2010 to 31 December 2012. No provision for PRC enterprise income tax has been made as Mudanjiang BD Power has no assessable profit for the year ended 30 June 2012. Mudanjiang BD Power has sufficient tax losses brought forward to set off against the assessable profit for the year ended 30 June 2011.

Mudanjiang Gaoke Bio-Chem Company Limited ("Mudanjiang Gaoke"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years, i.e., from 1 January 2010 to 31 December 2012. No provision for PRC enterprise income tax has been made as Mudanjiang Gaoke has no assessable profit for the year ended 30 June 2012 (2011: Nil).

Mudanjiang Daytech Chemical Ltd. ("Mudanjiang Daytech Chemical"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made as Mudanjiang Daytech Chemical has no assessable profit for the year (2011: Nil).

Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Dongbei Chemical"), a subsidiary of the Company, is subject to PRC enterprise income tax at the rate of 25% (2011: 25%). No provision for PRC enterprise income tax has been made as Mudanjiang Dongbei Chemical has no assessable profit for the year.

Heihe LongJiang Chemical Company Limited ("Heihe LongJiang Chemical"), a subsidiary of the Company, is subject to PRC enterprise income tax at the rate of 25% (2011: 25%). No provision for PRC enterprise income tax has been made as Heihe LongJiang Chemical has no assessable profit for the year (2011: 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)/profit 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 2012**

| | **Hong Kong** | | **The PRC** | | **Total** | |
|---|---|---|---|---|---|---|
| | **HK$'000** | **%** | **HK$'000** | **%** | **HK$'000** | **%** |
| Loss before tax | **(24,896)** | | **(423,878)** | | **(448,774)** | |
| Tax at the statutory tax rate | **(4,108)** | **(16.5)** | **(105,970)** | **(25.0)** | **(110,078)** | **(24.5)** |
| Income tax exempted | **(1,074)** | **(4.3)** | **(1,395)** | **(0.3)** | **(2,469)** | **(0.6)** |
| Expenses not deductible for tax | **2,267** | **9.1** | **16,143** | **3.8** | **18,410** | **4.1** |
| Unrecognised temporary differences | **216** | **0.9** | **5,571** | **1.3** | **5,787** | **1.3** |
| Tax losses not recognised | **2,699** | **10.8** | **43,041** | **10.2** | **45,740** | **10.2** |
| Tax credit at the Group's effective tax rate | **–** | **–** | **(42,610)** | **(10.0)** | **(42,610)** | **(9.5)** |

**For the year ended 30 June 2011**

| | Hong Kong | | The PRC | | Total | |
|---|---|---|---|---|---|---|
| | HK$'000 | % | HK$'000 | % | HK$'000 | % |
| Profit/(loss) before tax | (61,343) | | 210,383 | | 149,040 | |
| Tax at the statutory tax rate | (10,122) | (16.5) | 52,596 | 25.0 | 42,474 | 28.5 |
| Preferential statutory tax rate offered | – | – | (15,113) | (7.2) | (15,113) | (10.1) |
| Income tax exempted | (71) | (0.1) | (1,333) | (0.6) | (1,404) | (0.9) |
| Expenses not deductible for tax | 8,664 | 14.1 | 2,220 | 1.1 | 10,884 | 7.3 |
| Unrecognised temporary differences | (74) | (0.1) | (319) | (0.2) | (393) | (0.3) |
| Tax losses not recognised | 1,603 | 2.6 | 1,496 | 0.7 | 3,099 | 2.1 |
| Utilisation of unrecognised tax losses | – | – | (5,872) | (2.8) | (5,872) | (4.0) |
| Tax expense at the Group's effective tax rate | – | – | 33,675 | 16.0 | 33,675 | 22.6 |

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$59,611,000 (2011: HK$96,608,000). 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)/PROFIT FOR THE YEAR

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

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Auditor's remuneration | **1,125** | 1,023 |
| Allowance for inventories (included in other operating expenses) | **2,393** | – |
| Allowance for receivables | | |
| – trade receivables | **32,679** | 85 |
| – other receivables | **9,904** | – |
| Write off of fixed assets | **16** | 29 |
| Amortisation of other intangible assets (included in administrative expenses) | **6,103** | 6,020 |
| Cost of inventories sold | **209,361** | 1,135,790 |
| Depreciation | **97,645** | 87,768 |
| Minimum lease payments under operating leases for land and buildings | **12,629** | 11,831 |
| Factory overhead incurred during suspension of production (note) | **106,249** | – |
| Fair value loss on financial assets at fair value through profit or loss (held for trading) | **9,334** | 1,355 |
| Impairment of goodwill (included in other operating expenses) | **64,203** | 21,482 |
| Impairment of other intangible assets (included in other operating expenses) | **82,530** | – |
| Revaluation deficits on buildings | **9,077** | – |
| Staff costs (excluding directors' emoluments): | | |
| Wages, salaries and benefits in kind | **42,406** | 45,839 |
| Employee share option benefits | **–** | 5,461 |
| Retirement benefits scheme contributions | **6,737** | 7,255 |

Cost of inventories sold includes staff costs and depreciation of approximately HK$11,818,000 (2011: HK$27,917,000) and HK$10,497,000 (2011: HK$69,128,000), respectively, which are included in the amounts disclosed separately above.

Note: Factory overhead incurred during suspension of production was resulted from an accident which occurred in the calcium carbide production facilities of Mudanjiang Daytech Chemical. Detailed explanation is included in Management Discussion and Analysis.

## 10. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2012 (2011: Nil).

## 11. (LOSS)/EARNINGS PER SHARE

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

The calculation of basic loss (2011: earnings) 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$390,112,000 (2011: profit of approximately HK$95,517,000) and the weighted average number of ordinary shares of 745,633,173 (2011: 679,092,900) in issue during the year.

**Diluted (loss)/earnings per share**

The Company did not have any dilutive potential ordinary shares during the year ended 30 June 2012. Diluted loss per share presented is the same as the basic loss per share for the year ended 30 June 2012.

For the year ended 30 June 2011, the calculation of diluted earnings per share attributable to owners of the Company was based on the profit for the year attributable to owners of the Company of approximately HK$95,517,000 and the weighted average number of ordinary shares of 680,325,552, being the weighted average number of ordinary shares of 679,092,900, in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 1,232,652 assumed to have been issued at no consideration on the deemed exercise of the share options and warrants outstanding at the end of the reporting period.

## 12. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (2011: 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** | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Within 30 days | **42,708** | 53,567 |
| 31 to 60 days | **35,028** | 117,408 |
| 61 to 90 days | **1,498** | 113,574 |
| 91 to 120 days | **1,732** | 115,661 |
| 121 to 150 days | **2,982** | 20,025 |
| 151 to 180 days | **149** | 7,650 |
| 181 to 240 days | **1,991** | 7,287 |
| 241 to 330 days | **14,090** | 256 |
| 331 to 365 days | **18,561** | 37 |
| Over 365 days | **37,218** | 3,136 |
| | **155,957** | 438,601 |

As at 30 June 2012, an allowance was made for estimated irrecoverable trade receivables of approximately HK$36,896,000 (2011: HK$6,847,000).

The reconciliation of allowance for trade receivables is as follows:

| | **Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| At beginning of year | **6,847** | 6,609 |
| Allowance made for the year | **32,679** | 85 |
| Amounts written off | **(2,661)** | – |
| Exchange differences | **31** | 153 |
| At end of year | **36,896** | 6,847 |

As of 30 June 2012, trade receivables of approximately HK$74,799,000 (2011: HK$14,868,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Up to 90 days | **654** | 692 |
| 91 to 180 days | **2,285** | 3,460 |
| 181 to 365 days | **34,642** | 7,580 |
| Over 365 days | **37,218** | 3,136 |
| | **74,799** | 14,868 |

The Group's trade receivables are denominated in Renminibi ("RMB").

## 13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (2011: 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 | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Within 30 days | **6,397** | 19,194 |
| 31 to 60 days | **1,382** | 21,027 |
| 61 to 90 days | **1,054** | 843 |
| 91 to 120 days | **540** | 5,017 |
| 121 to 365 days | **4,091** | 22,854 |
| Over 365 days | **34,657** | 10,407 |
| | **48,121** | 79,342 |

The Group's trade payables are denominated in RMB.

## 14. EVENTS AFTER THE REPORTING PERIOD

On 20 July 2012, 1,491,266,346 ordinary shares of HK$0.1 each were issued at HK$0.15 per share by way of an open offer on the basis of two offer shares for every one share held. The net proceed of approximately HK$219,650,000 will be used to finance the acquisition of fixed assets, reduce current debts and as general working capital for the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on that date.

## 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 2012 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$406,164,000 for the year ended 30 June 2012 and as at 30 June 2012 the Group had net current liabilities of approximately HK$424,861,000. 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 ENVIRONMENT

During the financial year under review, the Group faced a challenging operating environment resulting from tightened national monetary policies adopted by central government of the PRC. These had caused tremendous pressure to the operating environment of manufacturing industry. Moreover, the management had tried the best to cope with the price hikes of major raw materials, for example, coal which is used for the operation of power generating facilities, and the increase in cost of conversion, such as cost of electricity consumed for the manufacturing processes for all coal related chemical products and bio-chemical products.

The increase in cost of production of the Group was hardly passed to downstream customers, and therefore, the margins of our chemical products had been further squeezed when compared with that of the last financial year.

## Business Review

**Coal related chemical production division**

*PVC*

During the financial year under review, the PVC segment recorded revenue of approximately HK$73,345,000, representing a decrease of 90.5% over that of last year. The segment recorded a segment loss of approximately HK$37,857,000 as opposed to the segment profit of approximately HK$105,477,000 last year. Owing to the suspension of production of PVC for over nine months during the current financial year, the turnover of PVC division decreased substantially. The segment loss was caused by the decrease in both price and quantities of PVC being sold during the year and the unavoidable idle operating cost of the PVC production facilities when PVC production was suspended.

*Vinyl acetate*

During the financial year under review, segment revenue was approximately HK$34,950,000, representing a decrease of 92.2% over that of last year. The segment recorded a segment loss of approximately HK$36,583,000 as opposed to the segment profit of approximately HK$64,242,000 last year. The segment loss was caused by the decrease in quantities of vinyl acetate being sold during the year and the unavoidable idle operating cost of the vinyl acetate production facilities during the production suspension period.

*Calcium carbide*

The Group has developed a long term plan to further enhance its production capacities of calcium carbide to meet with the increased demand for calcium carbide in the northeastern part of China.

The acquisition of further 12% of equity interests in Racing Dragon Group Limited, the foreign investment company of Heihe Longjiang Chemical Co. Ltd., was completed on 8 September 2011 and had been subsequently approved by the Company's extraordinary general meeting held on 5 December 2011. Our Group owns 67% interest in Racing Dragon Group Limited after the acquisition.

### Heat and Power division

During the year under review, the heat and power segment recorded a turnover of 77,265,000 representing an increase of 21.7% over that of last year. Although the turnover increased, segment loss of approximately HK$112,176,000 was recorded during the year under review as opposed to a segment profit of HK$2,128,000 last year. The increase in turnover was mainly caused by heat supplied to additional residential areas. However, the unit cost of production of steam and electricity increased as the price of coal, the major raw material for operation, increased as compared to that of the last financial year.

### Bio-chemical products division

During the financial year under review, the vitamin C, glucose and starch segment recorded a revenue of approximately HK$25,697,000, representing a decrease of 79.7% over that of last year. Segmental loss of approximately HK$73,513,000 was attained during the year under review as opposed to segment profit of HK$11,779,000 last year.

During the year under review, the market selling price of vitamin C dropped to historical low. The revenue contribution was not able to cover the cost of production. Our vitamin C production was seriously affected during the year. The management decided to temporarily shut down the production of vitamin C from October 2011.

## PROSPECT

### Coal related chemical production division

The management is not very optimistic on the operation of a vertically integrated product chain from calcium carbide to both PVC and vinyl acetate in Mudanjiang because the cost of electricity and other cost of conversion is relatively high when comparing that with in Heihe. Therefore, the management has performed feasibility study on relocating the calcium carbide production facilities in Mudanjiang to Heihe.

### Heat and Power division

The heat and power division served as a steady supply of steam, one of the major cost ingredients to the production process of the other chemical products of the Group. The cost of coal reached historical price hikes during the current financial year. Thus, it created extra cash flow pressure to the Group during this financial year. The local management had deal with the problem and successfully secured other external steam suppliers to lower the cost of steam for our chemical products.

In order to avoid running the heat and power production facilities at loss and aim for lowering the cost of conversion of our chemical products, the heat and power production facilities was fully shut down in July 2012. The Group started to source the steam or heat for conversion from external steam supplier since then. Furthermore, the price of coal had been dropped from the peak from last quarter. This will inevitably reduce our cost of operation of our power generating facilities. As the operating environment is improving, the local management will consider to resuming the production of our power plant. At the same time, the local management does not rule out the possibilities of disposal of the heat and power production facilities to nationwide power generating company.

### Bio-chemical products division

The management will closely monitor the market price of vitamin C and capture the best time to resume production of vitamin C. Moreover, the management will actively looking for suitable business partners to explore the other means to make use of the idle production facilities for the Bio-chemical products of the Group.

On the other hand, since the land resources occupied by the Bio-chemical products division is over 300,000 square meters, the management does not rule out the option to change the usage of land from industrial to business and residential. Feasibility studies had been made for re-development of the land into business and residential area.

**Capital Structure, Liquidity and Financial Resources**

*Capital structure*

The Group maintained a stable financial position throughout the financial year. The Group financed its operations and business development with internally generated resources, debt and equity fundings.

*Equity funding*

On 20 July 2012, the net proceeds raised from the open offer by issuing 1,491,266,346 offer shares at HK$0.150 on the basis of two offer shares for every one existing share held were HK$219.7 million. As at the date of this announcement, approximately HK$70.0 million was applied for finalising the construction of calcium carbide production facilities in Heihe; approximately HK$60.0 million was used to reduce current debts of the Group and approximately HK$89.7 million was applied to enhance working capital of the Group.

*Liquidity and Financial Ratios*

As at 30 June 2012, the Group had total assets of approximately HK$3,981.5 million (2011: HK$4,451.2 million) which were financed by current liabilities of approximately HK$719.5 million (2011: HK$710.1 million), non-current liabilities of approximately HK$164.1 million (2011: HK$203.8 million), non-controlling interests of approximately HK$239.2 million (2011: HK$262.6 million) and shareholders' equity of approximately HK$2,858.5 million (2011: HK$3,274.7 million).

As at 30 June 2012, the current assets of the Group amounted to approximately HK$294.7 million (2011: HK$826.5 million) comprising inventories of approximately HK$56.2 million (2011: HK$111.0 million), trade receivables of approximately HK$156.0 million (2011: HK$438.6 million), prepayments, deposits and other receivables of approximately HK$55.0 million (2011: HK$141.1 million), other loan receivables of approximately HK$0.5 million (2011: HK$10.0 million), financial assets at fair value through profit or loss of approximately HK$21.7 million (2011: HK$49.9 million), current tax assets of approximately HK$Nil (2011: HK$1.0 million), cash and cash equivalents of approximately HK$5.3 million (2011: HK$74.9 million). As at 30 June 2012, 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 (2011: 1.2), 0.3 (2011: 1.0), 22.2% (2011: 20.5%) and 31.7% (2011: 27.9%), respectively.

The financial position of the Group was satisfactory throughout the year as indicated by the above figures.

*Significant investment held by the Company*

As at 30 June 2012, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK$21.7 million, the Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$9.3 million for the financial year.

*Charges on the Group's assets*

As at 30 June 2012, bank loans of approximately HK$318.8 million 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 2012, 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 under review, 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 2012.

**Number and Remuneration of Employees**

As at 30 June 2012, the Group had 1,808 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.

As at 30 June 2012, there were approximately 18.8 million share options outstanding. These comprise approximately 12.6 million share options with exercisable period up to 3 April 2013 at the exercise price of HK$1.53 per share and 6.3 million share options with exercisable period up to 11 May 2013 at the exercise price of HK$1.54 per share.

## DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2012.

## 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 under review.

## AUDIT COMMITTEE REVIEW

The Audit Committee of the Company had reviewed the audited consolidated results of the Group for the year ended 30 June 2012.

## THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the "Former CG Code") as set out in Appendix 14 of the Listing Rules was amended and replaced by the Corporate Governance Code and Corporate Governance Report (the "New CG Code") effective 1 April 2012 and has been applicable to financial reports covering the period after 1 April 2012. For corporate governance purposes, the Company has adopted the Former CG Code up to 1 March 2012 and the New CG Code since 1 April 2012.

The Company has applied the principles and has complied with the code provisions of the Former CG Code during the period from 1 July 2011 to 31 March 2012 and has applied the principles and has complied with the code provisions of the New CG Code during the period from 1 April 2012 to 30 June 2012, except for a certain deviation which is summarised below:

**Code Provision A.2.1**

After Mr. Chan Yuen Tung, the former Chairman of the board of directors, resigned on 2 February 2012, 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.

## 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.

By Order of the Board
**China Zenith Chemical Group Limited**
**Chan Yuk Foebe**
*Chairman and Chief Executive Officer*

Hong Kong, 28 September 2012

*As at the date of this announcement, the executive directors of the Company are Ms. Chan Yuk Foebe, Mr. Peng Zhanrong, Mr. Chiau Che Kong and Mr. Wu Jianwei and the independent non-executive directors of the Company are Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho, Dato' Wong Sin Just and Mr. Wong Sin Lai.*