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China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 362)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

HIGHLIGHTS

Loss attributable to owners of the Company amounted to approximately HK\$110.2 million.

Turnover of the Group amounted to approximately HK\$183.3 million, representing an increase of 86.1% when compared with that of the last corresponding period.

The Board of Directors (the “**Board**” or “**Directors**”) of China Zenith Chemical Group Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim financial statements (“**Interim Financial Statements**”) of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 31 December 2012 (the “**Period**”). The results had been reviewed by the Company’s audit committee (“**Audit Committee**”).

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		Six months ended	
		31 December	
		2012	2011
	Note	HK\$'000	HK\$'000
Turnover	3	183,276	98,489
Cost of sales		<u>(167,438)</u>	<u>(93,938)</u>
Gross profit		15,838	4,551
Other income	5	8,044	6,556
Selling and distribution costs		(5,895)	(5,551)
Administrative expenses		(54,637)	(49,288)
Other operating expenses		<u>(76,094)</u>	<u>(148,377)</u>
Loss from operations		(112,744)	(192,109)
Finance costs		<u>(3,623)</u>	<u>(1,908)</u>
Loss before tax		(116,367)	(194,017)
Income tax credit	6	<u>237</u>	<u>1,576</u>
Loss for the Period	7	<u>(116,130)</u>	<u>(192,441)</u>
Attributable to:			
Owners of the Company		(110,203)	(184,308)
Non-controlling interests		<u>(5,927)</u>	<u>(8,133)</u>
		<u>(116,130)</u>	<u>(192,441)</u>
			(Restated)
LOSS PER SHARE	8		
– Basic		<u>HK(5.37) cents</u>	<u>HK(24.61) cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	Six months ended	
	31 December	
	2012	2011
	HK\$'000	HK\$'000
Loss for the Period	<u>(116,130)</u>	<u>(192,441)</u>
Other comprehensive income:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	<u>(24,914)</u>	<u>61,645</u>
Other comprehensive income for the Period, net of tax	<u>(24,914)</u>	<u>61,645</u>
Total comprehensive income for the Period	<u>(141,044)</u>	<u>(130,796)</u>
Attributable to:		
Owners of the Company	(128,584)	(129,575)
Non-controlling interests	<u>(12,460)</u>	<u>(1,221)</u>
	<u>(141,044)</u>	<u>(130,796)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
	Note		
Non-current assets			
Fixed assets		3,131,017	3,100,635
Land held under finance leases		68,154	68,495
Prepaid land lease payments		457,401	468,208
Goodwill		37,904	37,904
Other intangible assets		6,956	7,123
Deferred tax assets		4,408	4,497
		<u>3,705,840</u>	<u>3,686,862</u>
Current assets			
Inventories		57,027	56,171
Trade receivables	9	148,695	155,957
Other loan receivable		500	500
Prepayments, deposits and other receivables		69,590	54,966
Financial assets at fair value through profit or loss		10,369	21,744
Current tax assets		39	–
Bank and cash balances		17,730	5,333
		<u>303,950</u>	<u>294,671</u>
TOTAL ASSETS		<u>4,009,790</u>	<u>3,981,533</u>
Capital and reserves			
Share capital		223,690	74,563
Retained profits		760,149	870,352
Other reserves		1,965,698	1,913,657
Equity attributable to owners of the Company		<u>2,949,537</u>	<u>2,858,572</u>
Non-controlling interests		<u>226,820</u>	<u>239,280</u>
Total equity		<u>3,176,357</u>	<u>3,097,852</u>
Non-current liabilities			
Bank loans	10	37,710	38,806
Deferred tax liabilities		124,607	125,343
		<u>162,317</u>	<u>164,149</u>

		(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
	Note		
Current liabilities			
Trade payables	11	52,191	48,121
Other payables and accruals		343,507	258,262
Other loans		23,885	74,414
Due to a non-controlling shareholder of a subsidiary		43,453	58,764
Bank loans	10	208,080	279,961
Current tax liabilities		–	10
		<u>671,116</u>	<u>719,532</u>
Total liabilities		<u>833,433</u>	<u>883,681</u>
TOTAL EQUITY AND LIABILITIES		<u>4,009,790</u>	<u>3,981,533</u>
Net current liabilities		<u>(367,166)</u>	<u>(424,861)</u>
Total assets less current liabilities		<u>3,338,674</u>	<u>3,262,001</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 31 December 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements (the “**Interim Financial Statements**”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” which is one of the Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the Period, the Group incurred a loss of approximately HK\$116,130,000 and had net current liabilities of approximately HK\$367,166,000 as at 31 December 2012.

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 2012 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 2012 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 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards (“**HKAS**”); 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 except as stated below.

Amendments to HKAS 1 “Presentation of Financial Statements”

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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.

3. 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.

4. 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 2012 annual financial statements. Segment profits or losses do not include dividend income from listed investments, impairment of goodwill, fair value gains or losses on financial assets at fair value through profit or loss, gain or loss on disposal of financial assets at fair value through profit or loss and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, other loan receivable, financial assets at fair value through profit or loss and corporate assets.

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:

	Polyvinyl- chloride HK\$'000	Vinyl acetate HK\$'000	Heat and power HK\$'000	(Unaudited) Vitamin C, glucose and starch HK\$'000	Calcium carbide HK\$'000	Total HK\$'000
Six months ended 31 December 2012						
Revenue from external customers	117,311	–	23,486	–	42,479	183,276
Intersegment revenue	–	–	12,743	–	50,349	63,092
Segment loss	(29,057)	(7,777)	(8,421)	(47,009)	(16,525)	(108,789)
As at 31 December 2012						
Segment assets	<u>453,142</u>	<u>311,358</u>	<u>318,757</u>	<u>605,783</u>	<u>2,172,875</u>	<u>3,861,915</u>

	(Unaudited)					
	Polyvinyl- chloride <i>HK\$'000</i>	Vinyl acetate <i>HK\$'000</i>	Heat and power <i>HK\$'000</i>	Vitamin C, glucose and starch <i>HK\$'000</i>	Calcium carbide <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 31 December 2011						
Revenue from external customers	12,517	20,470	44,391	21,111	–	98,489
Intersegment revenue	–	–	1,903	–	–	1,903
Segment loss	(24,298)	(16,871)	(14,276)	(23,805)	(32,324)	(111,574)
As at 30 June 2012						
Segment assets	<u>470,907</u>	<u>334,367</u>	<u>321,410</u>	<u>653,637</u>	<u>2,058,655</u>	<u>3,838,976</u>

Reconciliation of reportable segment profit or loss:

	(Unaudited)	
	Six months ended	
	31 December	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit or loss		
Total profit or loss of reportable segments	(108,789)	(111,574)
Impairment of goodwill	–	(64,203)
Dividend income from listed investments	539	720
Gain/(loss) on disposal of financial assets at fair value through profit or loss	2,159	(195)
Fair value gain/(loss) on financial assets at fair value through profit or loss	1,129	(9,791)
Corporate administrative expenses	<u>(11,168)</u>	<u>(7,398)</u>
Consolidated loss for the Period	<u>(116,130)</u>	<u>(192,441)</u>

5. OTHER INCOME

	(Unaudited)	
	Six months ended	
	31 December	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income from listed investments	539	720
Gain on disposal of financial assets at fair value through profit or loss	2,159	–
Fair value gain on financial assets at fair value through profit or loss	1,129	–
Gain on disposal of fixed assets	–	150
Interest income	24	214
Sundry income	<u>4,193</u>	<u>5,472</u>
	<u>8,044</u>	<u>6,556</u>

6. INCOME TAX CREDIT

	(Unaudited) Six months ended 31 December	
	2012	2011
	HK\$'000	HK\$'000
Deferred tax	237	1,576

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits in Hong Kong during the Period (2011: Nil).

Tax charges on profits assessable elsewhere have 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.

7. LOSS FOR THE PERIOD

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

	(Unaudited) Six months ended 31 December	
	2012	2011
	HK\$'000	HK\$'000
Depreciation	44,812	52,976
Amortisation of other intangible assets	199	3,373
Factory overhead incurred during suspension of production (<i>note</i>)	28,684	73,103
Impairment of goodwill	–	64,203
Impairment of fixed assets	2,393	–
Interest income	(24)	(214)
Gain on disposal of fixed assets	–	(150)
Allowance for receivables		
– Trade receivables	42,988	2,652
Fair value (gain)/loss on financial assets at fair value through profit or loss	(1,129)	9,791
(Gain)/loss on disposal of financial assets at fair value through profit or loss	(2,159)	195
Operating lease rental expenses	1,759	1,094
Staff costs (including Directors' remuneration):		
Wages, salaries and benefits in kind	10,524	12,309
Retirement benefits scheme contributions	2,476	3,009
Directors' remuneration	1,204	1,199

Note: For the period ended 31 December 2012, factory overhead incurred during the suspension of production (including depreciation of plant and machinery and direct labour cost) was resulted from the temporary suspension of the production of all coal-related chemical divisions and the bio-chemical division in Mudanjiang, the People's Republic of China (the "PRC"). For the period ended 31 December 2011, factory overhead incurred during the suspension of production (including depreciation of plant and machinery, direct labour cost and repair and maintenance of plant and machinery) was resulted from an industrial accident which occurred in the calcium carbide production facilities of Mudanjiang Daytech Chemical Limited.

8. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the Period attributable to owners of the Company of approximately HK\$110,203,000 (2011: HK\$184,308,000) and the weighted average number of ordinary shares of 2,050,904,548 (2011: 748,939,750, as adjusted to reflect the open offer on 24 July 2012) in issue during the Period.

Diluted loss per share

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary shares during the six months ended 31 December 2012 and 2011.

9. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 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) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
Within 30 days	17,730	42,708
31 to 60 days	42,131	35,028
61 to 90 days	33,285	1,498
91 to 120 days	33,995	1,732
121 to 150 days	4,483	2,982
151 to 180 days	2,487	149
181 to 240 days	12,664	1,991
241 to 330 days	1,920	14,090
331 to 365 days	–	18,561
Over 365 days	–	37,218
	<u>148,695</u>	<u>155,957</u>

10. BANK LOANS

The Group's bank loans are repayable as follows:

	(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
Term loans subject to a repayment on demand clause	205,850	277,709
Within one year	2,231	2,252
In the second year	2,231	2,299
In the third to fifth years inclusive	6,693	7,192
After five years	28,785	29,315
	<u>245,790</u>	<u>318,767</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(208,080)</u>	<u>(279,961)</u>
	<u>37,710</u>	<u>38,806</u>

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

	(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
Hong Kong dollars	39,940	41,058
Renminbi	205,850	277,709
	<u>245,790</u>	<u>318,767</u>

Bank loans are arranged at floating rate of 2.10% to 7.57% (30 June 2012: 2.10% to 7.57%) 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.

11. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

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

	(Unaudited) 31 December 2012 HK\$'000	(Audited) 30 June 2012 HK\$'000
Within 30 days	10,065	6,397
31 to 60 days	9,189	1,382
61 to 90 days	961	1,054
91 to 120 days	237	540
121 to 365 days	4,067	4,091
Over 365 days	27,672	34,657
	52,191	48,121

12. CONTINGENT LIABILITIES

On 19 November 2012, China Electricity Construction Consultant Group Dongbei Electricity Design College (translated from the Chinese name of 中國電力工程顧問集團東北電力設計院) (the “**Plaintiff**”) filed a writ (the “**Writ**”) at the high court of Heilongjiang Province in the PRC against Mudanjiang Better Day Power Limited (牡丹江佳日熱電有限公司) (“**MDJ Better Day**”), an indirect wholly-owned subsidiary of the Company.

MDJ Better Day had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of MDJ Better Day (the “**Contract**”). Owing to the alleged delay in the progress of the construction, the Plaintiff claimed (i) the payment of the contract sum in the amount of approximately RMB42,700,000 and the interest thereof; (ii) the grant of the first priority right to receive payment from MDJ Better Day in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13,300,000 for alleged termination of the Contract; and (iv) the legal fees arising from this legal case.

The Company has been seeking legal advice in respect of the Writ on the dispute in the payment for the Contract since last December. Per management of MDJ Better Day, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since year 2009. To handle the claim from the Plaintiff, the local management will appoint 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 provision for this legal claim is yet to be ascertained because the litigation is still at an early stage.

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

With the global economic downturn and the property cooling policy on the overheated real estate market in the People's Republic of China (the "PRC"), national economic growth of the PRC in year 2012 had slipped to the lowest level in more than a decade.

In particular, the central government of the PRC had imposed very stringent control over the banking finance granted to both land and property developers and home owners. This certainly affected the demand of our downstream customers, including the construction and building material industries, decorative coating industries and paper-making for packing materials industries.

During the financial period under review (the "Period"), the Group faced a very fierce market competition in the face of a shrink in demand from our downstream customers.

Moreover, the increase in the cost of production of the Group could hardly be passed on to the downstream customers, and therefore, profit margins for the six months ended 31 December 2012 decreased for all of our coal-related chemical products in Mudanjiang, the PRC when compared with those of the last financial period.

Nevertheless, starting from November 2012, production and sales of calcium carbide in Heihe, the PRC was recorded and commenced to make positive contribution to the Group. The overall gross profit margin of the Group was improved as compared with that of the last financial year.

For the six months ended 31 December 2012, turnover of the Group amounted to approximately HK\$183.3 million, representing an increase of 86.1% when compared with that of the last corresponding period.

Loss attributable to owners of the Company amounted to approximately HK\$110.2 million, representing a decrease of 40.2% when compared with that of the last corresponding period.

During the financial period under review, the increase in the Group's turnover was primarily attributed by the increase in the sales volume of our coal-related chemical products. In addition, no production activities for the Group's coal-related chemical products were recorded in the last corresponding period.

The significant loss was mainly derived from (i) the challenging operating environment of the chemical manufacturing industry segments and further increase in the cost of production which resulted in lower profit margins for all of our coal-related chemical products and biochemical products in Mudanjiang, the PRC; (ii) the idle operating cost and labour layoff

cost resulted from the temporary suspension of the production of all coal-related chemical divisions and the bio-chemical division in Mudanjiang; and (iii) impairment of fixed assets of the heat and power generating facilities due to termination of the construction and installation work for the expansion of production capacities of the production facilities in Mudanjiang; and (iv) impairment of long-outstanding receivables.

The segment loss of approximately HK\$108.8 million (2011: HK\$111.6 million) of the Group was attained during the financial period under review.

The Group's selling and distribution costs for the Period was approximately HK\$5.9 million, representing an increase of 6.2% 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\$54.6 million, representing an increase of 10.9% when compared with that of the last corresponding period. The increase was mainly due to the commencement of production of calcium carbide in Heihe.

Excluding the effect of impairment of receivables of approximately HK\$43.0 million, factory overhead during the suspension of the production of coal-related chemical products which amounted to approximately HK\$28.7 million and impairment of fixed assets which amounted to approximately HK\$2.4 million, the Group's other operating expenses for the six months ended 31 December 2012 was approximately HK\$2.0 million, representing an increase of HK\$0.6 million when compared with that of the last corresponding period. (Excluding the effect of impairment of goodwill of approximately HK\$64.2 million, factory overhead during the suspension of the production of coal-related chemical products which amounted to approximately HK\$73.1 million and the fair value loss on financial assets at fair value through profit or loss of approximately HK\$9.8 million, the Group's other operating expenses for the six months ended 31 December 2011 was approximately HK\$1.3 million.) The increase was principally due to the one-off expenditure incurred during the Period as a result of the suspension of the production of the coal-related chemical products.

Business Review

Coal-related chemical production division

During the Period, the PVC segment recorded a turnover of approximately HK\$117.3 million from external customers, representing an increase of 837.2% over that of the corresponding period of the previous year. Segment loss of approximately HK\$29.1 million was attained, representing an increase of 19.6% compared with that of the last corresponding period.

During the financial period under review, the cost of electricity and other cost of conversion of certain raw materials in Mudanjiang were relatively high when compared with those in Heihe, the PRC. Therefore, the management decided on 28 November 2012 to temporarily shut down the vertically integrated product chain from calcium carbide to polyvinyl-chloride ("PVC"). Approximately five months of production and sales of calcium carbide and PVC was recorded in the current financial period.

During the financial period under review, the production of vinyl acetate was suspended since all the calcium carbide produced was used to further produce PVC. No production and sales of vinyl acetate was recorded for the six months ended 31 December 2012.

During the Period, the calcium carbide segment recorded a turnover of approximately HK\$42.5 million from external customers. Segment loss of approximately HK\$16.5 million was attained, representing a decrease of 48.9% compared with that of the last corresponding period.

The trial run production of calcium carbide at the calcium carbide production facilities in Heihe had started near the end of October 2012. Only two months of operation was recorded in the financial period under review. The local management is confident that the production will gradually be running smoothly in three to four months and the designed annual production capacity of 100,000 tonnes of calcium carbide will be attained during the second quarter of 2013.

Bio-chemical products division

During the financial period under review, the production of 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 Period.

Heat and power division

During the Period, the heat and power segment recorded a turnover of approximately HK\$23.5 million from external customers, representing a decrease of 47.1% over that of the corresponding period of the previous year. Segment loss of approximately HK\$8.4 million was attained, representing a decrease of 41.0% compared with that of the last corresponding period.

The heat and power generating facilities were temporarily shut down in July 2012 and were then resumed to operate again from October 2012 to meet the targeted demand of heat supplied to residential areas. 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 four months of operation and sales of electricity and heat was recorded in the current financial period.

During the financial period under review, the local management also reviewed the progress of constructing the first new coal-powered electricity generating facilities which had started in 2007. The management had decided to suspend the expansion project due to (i) the continuous increase in the prices of coal and other raw materials for production and (ii) the lack of supportive government policy.

The management considered that impairment of the construction in progress for such project should be made prudently. During the financial period under review, only the auxiliary contract sum for construction of coal-powered electricity generating facilities amounting to approximately HK\$2.4 million included in the construction in progress are fully written down. No provision on the main contract sum for construction of coal-powered electricity generating facilities was made as the contract sum was in dispute and is the subject of an ongoing

litigation (For details, please refer to the “Legal contingencies” section on page 18). The book carrying value of such coal-powered electricity generating facilities included in construction in progress was approximately HK\$130.8 million as at 31 December 2012. Further provision on such construction in progress may be required subject to impairment, if necessary, after the valuation assessment to be performed in the second half of the financial year.

Capital Structure, Liquidity and Financial Resources

Capital structure

The Group maintained a tight financial position during the Period. The Group financed its operations and business development with internally generated resources, equity funding and non-equity funding.

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 of the net proceeds was applied for finalising the construction of calcium carbide production facilities in Heihe; approximately HK\$60.0 million was used to reduce the current debts of the Group and approximately HK\$89.7 million was applied to enhance the working capital of the Group.

As at 31 December 2012, the Group had total assets of approximately HK\$4,009.8 million (30 June 2012: HK\$3,981.5 million) which were financed by current liabilities of approximately HK\$671.1 million (30 June 2012: HK\$719.5 million), non-current liabilities of approximately HK\$162.3 million (30 June 2012: HK\$164.1 million), non-controlling interests of approximately HK\$226.8 million (30 June 2012: HK\$239.3 million) and owners' equity of approximately HK\$2,949.6 million (30 June 2012: HK\$2,858.6 million).

As at 31 December 2012, the current assets of the Group amounted to approximately HK\$304.0 million (30 June 2012: HK\$294.7 million) mainly comprising inventories of approximately HK\$57.0 million (30 June 2012: HK\$56.2 million), trade receivables of approximately HK\$148.7 million (30 June 2012: HK\$156.0 million), other loan receivable and current tax assets of approximately HK\$0.5 million (30 June 2012: HK\$0.5 million), prepayments, deposits and other receivables of approximately HK\$69.6 million (30 June 2012: HK\$55.0 million), financial assets at fair value through profit and loss of approximately HK\$10.4 million (30 June 2012: HK\$21.7 million), cash and cash equivalents of approximately HK\$17.8 million (30 June 2012: HK\$5.3 million).

Non-equity funding

As at 31 December 2012, the bank loans of the Group amounted to approximately HK\$245.8 million (30 June 2012: HK\$318.8 million). According to the loan repayment schedules agreed between the banks and the Group (without considering the clauses of repayment of loan on demand), of approximately HK\$208.1 million (30 June 2012: HK\$280.0 million) which was repayable with 12 months, HK\$2.2 million was denominated in Hong Kong Dollar and HK\$205.9 million was denominated in Renminbi (30 June 2012: HK\$2.3 million was

denominated in Hong Kong Dollar and HK\$277.7 million was denominated in Renminbi). Of the loan amount of HK\$208.1 million, approximately HK\$38.2 million will fall due during year 2013 and approximately HK\$169.9 million, among other things, will fall due after year 2013.

As at 31 December 2012, 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 0.5 (30 June 2012: 0.4), 0.4 (30 June 2012: 0.3), 20.8% (30 June 2012: 22.2%) and 28.3% (30 June 2012: 30.9%), respectively.

The management had tried their very best to reduce the cash outflows for the suspended coal-related chemical and bio-chemical operations in Mudanjiang. Cost-saving plans had been carried out and the non-productive cash flow had reached an acceptable level. Only key factory managers and superiors of the workers are retained in our workforce to maintain the suspended production facilities.

The bank loans from Agricultural Bank of China, Heihe branch ("ABC Heihe") granted to Heihe Longjiang Chemical Co., Ltd., an indirect non-wholly owned subsidiary, had been extended for two years and was scheduled to be repaid throughout the period from 2013 to 2016. As at 31 December 2012, such bank loans were approximately HK\$205.9 million. As part of the terms of ABC Heihe's loan to Heihe Longjiang Chemical Co., Ltd., the Company had given a corporate guarantee to ABC Heihe.

Significant investment held by the Company

As at 31 December 2012, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK\$10.4 million. The Company had recorded a fair value gain on financial assets at fair value through profit or loss of approximately HK\$1.1 million for the Period.

Charges on the Group's assets

As at 31 December 2012, bank loans of approximately HK\$245.8 million 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 12 to the condensed consolidated financial statements.

Contingent liabilities

As at 31 December 2012, save as disclosed below, the Group did not have any significant contingent liabilities.

Legal contingencies

The Group's business activities may expose it to a variety of lawsuits and claims, which, if required, are monitored, assessed and contested on an ongoing basis.

On 19 November 2012, China Electricity Construction Consultant Group Dongbei Electricity Design College (translated from the Chinese name of 中國電力工程顧問集團東北電力設計院) (the “**Plaintiff**”) filed a writ (the “**Writ**”) at the high court of Heilongjiang Province in the PRC against Mudanjiang Better Day Power Limited (牡丹江佳日熱電有限公司) (“**MDJ Better Day**”), an indirect wholly-owned subsidiary of the Company.

MDJ Better Day had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of MDJ Better Day (the “**Contract**”). Owing to the alleged delay in the progress of the construction, the Plaintiff claimed (i) the payment of the contract sum in the amount of RMB42.7 million and the interest thereof; (ii) the grant of the first priority right to receive payment from MDJ Better Day in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13.3 million 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 last December. Per management of MDJ Better Day, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since year 2009. To handle the claim from the Plaintiff, the local management will appoint 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.

At the first hearing dated 25 January 2013, the judge of the high court of Heilongjiang Province ordered that such independent professional valuer must be recognized by the court where the case is to be heard and that there should not be any dispute over the choice of the valuer between the Plaintiff and MDJ Better Day. Both parties should be better prepared before the next hearing.

The second hearing was originally scheduled for 28 February 2013 to continue with the selection of valuer and discussion of other evidence to be submitted. The court informed MDJ Better Day on 25 February 2013 that the hearing would be postponed for one to two weeks. The revised date for the second hearing will be advised in early March 2013. The local management is cautiously selecting a suitable qualified valuer to handle the attestation of the subject construction work in dispute.

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 provision for this legal claim is yet to be ascertained because the litigation is still at an early stage.

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 and future dividends. 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 2012.

Number and remuneration of employees

As at 31 December 2012, the Group had 995 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 under review, no share options were granted to senior management of the Hong Kong and PRC subsidiaries of the Company. As at 31 December 2012, there were approximately 19.0 million share options outstanding. This comprises approximately 12.7 million share options with an exercisable period up to 3 April 2013 at the exercise price of HK\$1.51 per share and 6.3 million share options with an exercisable period up to 11 May 2013 at the exercise price of HK\$1.52 per share.

PROSPECT

Coal-related chemical production division

The management will focus on the operation of Heihe Longjiang Chemical Co., Ltd. Moreover, more resources will be pooled and devoted to the calcium carbide operation in Heihe. The aim is to operate the calcium carbide operating facilities at its designed capacities in the second quarter of 2013.

In addition, a feasibility study on relocating the calcium carbide production facilities from Mudanjiang to Heihe has been conducted. The estimated cost for the relocation and re-installation is substantial. Nevertheless, the land originally occupied by the Mudanjiang calcium carbide operation could be sold or re-developed. The intrinsic value of the subject land resource will be released and compensated for the cost of relocation.

The local management will closely monitor the operating cost and the cost of conversion for the vertically integrated production chain from calcium carbide to PVC in Mudanjiang. The resumption of production will be considered when the findings of the cost analysis of such operations show that such resumption of production can provide positive contribution to the Group.

The production of vinyl acetate is still hindered by the suspension of production of calcium carbide in Mudanjiang. Local management is actively looking for suitable business partner to explore other means to make use of the idle production facilities for vinyl acetate.

Heat and power division

The local management will closely monitor the operating cost of the coal-powered electricity and heat production in Mudanjiang. MDJ Better Day is a responsible enterprise and will always ensure sufficient steam or heat supplied to residential areas. However, the price of coal was relatively high in the last two years. MDJ Better Day has formulated a plan to increase the supply of heat to new residential areas and a preliminary application has been submitted to the local government. The local management believes that the Company will have the support from the local government and its financial performance will become better as higher and more stable income from new residential customers is to be recorded in the next winter.

Bio-chemical products division

The management will cautiously monitor the market price of vitamin C and capture the best time for the resumption of the production of vitamin C. Moreover, more feasibility studies on making use of the idle production facilities have been performed.

However, the management does not rule out the option of selling the whole or part of the assets of bio-chemical products division.

Future development

To cope with the fast changing and challenging business environment, the Group will strive to maintain its competitiveness through exercising effective cost controls, maintaining an efficient production system and exploring to develop new chemical products.

The management will conduct business analysis for all the operations in Mudanjiang on a long-term basis. The management does not rule out the possibility of carrying out business restructuring on the Group's Mudanjiang operation.

To sum up, the Group will focus on developing the production of calcium carbide in Heihe. The management will act cautiously and still be optimistic that Heihe operation will contribute a steady and better return to the shareholders of the Company as a whole.

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 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. Wong Sin Lai. 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. Peng Zhanrong (executive Director), Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Wong Sin Lai (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 two executive directors, namely Ms. Chan Yuk Foebe and Mr. Chiau Che Kong, and three independent non-executive directors, namely Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Wong Sin Lai. 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.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON COMPANY WEBSITE

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on our website at <http://www.irasia.com/listco/hk/chinazenith> in due course.

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

Hong Kong, 28 February 2013

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.