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 2013

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 2013 together with the comparative figures for the previous year as follows:

Consolidated Income Statement

for the year ended 30 June 2013

	Note	2013 HK$'000	2012 HK$'000
Turnover	*4*	**297,446**	213,791
Cost of sales		**(327,392)**	(209,361)
Gross (loss)/profit		**(29,946)**	4,430
Other income	*5*	**29,618**	20,417
Selling and distribution costs		**(9,884)**	(10,438)
Administrative expenses		**(114,487)**	(128,331)
Other operating expenses		**(198,625)**	(327,011)
Loss from operations		**(323,324)**	(440,933)
Finance costs	*7*	**(14,309)**	(7,841)
Loss before tax		**(337,633)**	(448,774)
Income tax credit	*8*	**12,736**	42,610
Loss for the year	*9*	**(324,897)**	(406,164)
Attributable to:			
Owners of the Company		**(310,652)**	(390,112)
Non-controlling interests		**(14,245)**	(16,052)
		(324,897)	(406,164)
			(Restated)
Loss per share			
– Basic	*11*	**(HK14.33 cents)**	(HK52.09 cents)
– Diluted		**N/A**	N/A

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2013

	2013 HK$'000	2012 HK$'000
Loss for the year	**(324,897)**	(406,164)
Other comprehensive income after tax:		
Item that will not be reclassified to profit or loss:		
Gains/(deficits) on property revaluation	**18,567**	(27,908)
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**78,578**	33,961
Other comprehensive income for the year, net of tax	**97,145**	6,053
Total comprehensive income for the year	**(227,752)**	(400,111)
Attributable to:		
Owners of the Company	**(228,905)**	(389,591)
Non-controlling interests	**1,153**	(10,520)
	(227,752)	(400,111)

Consolidated Statement of Financial Position

at 30 June 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Fixed assets		**3,232,205**	3,100,635
Land held under finance leases		**67,814**	68,495
Prepaid land lease payments		**464,756**	468,208
Goodwill		**37,904**	37,904
Other intangible assets		**5,410**	7,123
Deferred tax assets		**–**	4,497
		3,808,089	3,686,862
Current assets			
Inventories		**34,046**	56,171
Trade receivables	*12*	**96,385**	155,957
Other loan receivables		**31,773**	500
Prepayments, deposits and other receivables		**84,804**	54,966
Financial assets at fair value through profit or loss		**4,707**	21,744
Bank and cash balances		**17,039**	5,333
		268,754	294,671
TOTAL ASSETS		**4,076,843**	3,981,533
Capital and reserves			
Share capital		**232,490**	74,563
Reserves		**2,639,443**	2,784,009
Equity attributable to owners of the Company		**2,871,933**	2,858,572
Non-controlling interests		**240,433**	239,280
Total equity		**3,112,366**	3,097,852

	Note	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Bank loans		**36,504**	38,806
Deferred tax liabilities		**116,782**	125,343
		153,286	164,149
Current liabilities			
Trade payables	*13*	**63,076**	48,121
Other payables and accruals		**436,045**	258,262
Other loans		**25,051**	74,414
Due to a non-controlling shareholder of a subsidiary		**43,453**	58,764
Bank loans		**243,566**	279,961
Current tax liabilities		**–**	10
		811,191	719,532
Total liabilities		**964,477**	883,681
TOTAL EQUITY AND LIABILITIES		**4,076,843**	3,981,533
Net current liabilities		**(542,437)**	(424,861)
Total assets less current liabilities		**3,265,652**	3,262,001

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$324,897,000 for the year ended 30 June 2013 and as at 30 June 2013 the Group had net current liabilities of approximately HK$542,437,000. 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 11 September 2013, the Company entered into a placing agreement with a placing agent to issue bonds in an aggregate principal amount of up to HK$400,000,000.

In addition, the Group has bank loans of approximately HK$241,267,000 which are subject to a repayment on demand clause and therefore are classified as current liabilities as at 30 June 2013. According to the scheduled repayments, an amount of approximately HK$216,135,000 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 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 and amounts reported for the current year 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 and use titles for the statements other than in HKAS 1.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income 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.

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	
	2013	2012
	HK$'000	HK$'000
Dividend income from listed investments	**553**	3,324
Gain on disposal of a subsidiary	**–**	45
Gain on disposal of fixed assets	**–**	150
Sales of scrap materials	**505**	2,206
Fair value gain on financial assets at fair value through profit or loss	**508**	–
Gain on disposal of financial assets at fair value through profit or loss	**2,565**	1,950
Government grants (note)	**17,105**	3,178
Bank interest income	**26**	50
Other interest income	**1,815**	342
Rental income	**–**	3,314
Consultancy service income	**–**	1,500
Reversal of revaluation deficit on buildings	**5,047**	–
Construction income of installation of pipe	**–**	3,186
Sundry income	**1,494**	1,172
	29,618	20,417

Note: Government grants for the year ended 30 June 2013 and 2012 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 impairment of goodwill, gain on disposal of a subsidiary, fair value gain/(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 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 (credit)/expense	**4,512**	**1,251**	**(4,717)**	**(7,340)**	**(6,442)**	**(12,736)**
Other material non-cash items:						
(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**

	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

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

	2013 HK$'000	2012 HK$'000
Profit or loss		
Total profit or loss of reportable segments	**(304,512)**	(322,271)
Impairment of goodwill	**–**	(64,203)
Gain on disposal of a subsidiary	**–**	45
Fair value gain/(loss) on financial assets at fair value through profit or loss	**508**	(9,334)
Gain on disposal of financial assets at fair value through profit or loss	**2,565**	1,950
Dividend income from listed investments	**553**	3,324
Corporate administrative expenses	**(24,011)**	(15,675)
Consolidated loss for the year	**(324,897)**	(406,164)
Assets		
Total assets of reportable segments	**3,934,591**	3,838,976
Goodwill	**37,904**	37,904
Bank and cash balances	**17,039**	5,333
Financial assets at fair value through profit or loss	**4,707**	21,744
Other loan receivables	**31,773**	500
Other assets	**50,829**	77,076
Consolidated total assets	**4,076,843**	3,981,533
Liabilities		
Total liabilities of reportable segments	**612,950**	427,617
Bank loans	**280,070**	318,767
Other loans	**25,051**	74,414
Due to a non-controlling shareholder of a subsidiary	**43,453**	58,764
Other payables and accruals for general administrative use	**2,953**	4,119
Consolidated total liabilities	**964,477**	883,681

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$108,080,000 (2012: HK$1,317,000) of the Group's total revenue.

7. FINANCE COSTS

	Group	
	2013	2012
	HK$'000	HK$'000
Interest on bank loans	**18,901**	21,141
Interest on other loans - wholly repayable within five years	**3,252**	3,174
Interest on discounted bills	**–**	355
Total borrowing costs	**22,153**	24,670
Amount capitalised	**(7,844)**	(16,829)
	14,309	7,841

8. INCOME TAX CREDIT

	Group	
	2013	2012
	HK$'000	HK$'000
Current tax – Overseas		
Tax credit for the year	**–**	(8,712)
Deferred tax	**(12,736)**	(33,898)
	(12,736)	(42,610)

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 (2012: 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"), a subsidiary of the Company, is subject to PRC enterprise income tax at the rate of 25% (2012: 25%). No provision for PRC enterprise income tax has been made as Mudanjiang Dongbei Gaoxin has no assessable profit for the year (2012: Nil).

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 2013 (2012: Nil).

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 2013 (2012: 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 (2012: 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% (2012: 25%). No provision for PRC enterprise income tax has been made as Mudanjiang Dongbei Chemical has no assessable profit for the year (2012: Nil).

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% (2012: 25%). No provision for PRC enterprise income tax has been made as Heihe LongJiang Chemical has no assessable profit for the year (2012: 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 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)**

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)

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$54,096,000 (2012: HK$59,611,000). 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:

	2013	2012
	HK$'000	HK$'000
Auditor's remuneration	**1,270**	1,125
Allowance for inventories (included in other operating expenses)	**–**	2,393
Allowance for receivables		
– trade receivables	**71,481**	32,679
– other receivables	**482**	9,904
Write off of fixed assets	**25,021**	16
Amortisation of other intangible assets (included in administrative expenses)	**1,923**	6,103
Cost of inventories sold	**327,392**	209,361
Depreciation	**118,809**	97,645
Minimum lease payments under operating leases for land and buildings	**13,705**	12,629
Factory overhead incurred during suspension of production (note)	**52,158**	106,249
Fair value (gain)/loss on financial assets at fair value through profit or loss (held for trading)	**(508)**	9,334
Impairment of goodwill (included in other operating expenses)	**–**	64,203
Impairment of other intangible assets (included in other operating expenses)	**–**	82,530
(Reversal of revaluation deficits)/revaluation deficits on buildings	**(5,047)**	9,077
Staff costs (excluding directors' emoluments):		
Wages, salaries and benefits in kind	**43,802**	42,406
Employee share option benefits	**1,906**	–
Retirement benefits scheme contributions	**5,869**	6,737

Cost of inventories sold includes staff costs and depreciation of approximately HK$15,240,000 (2012: HK$11,818,000) and HK$27,973,000 (2012: HK$10,497,000), respectively, which are included in the amounts disclosed separately above.

Note: During the year ended 30 June 2013, factory overhead incurred during suspension of production was resulted from temporary suspension of the production line of coal-related division and bio-chem division due to a substantial decrease in profit margin. During the year ended 30 June 2012, factory overhead incurred during suspension of production was resulted from an accident which occurred in the calcium carbide production facilities of Mudanjiang Daytech Chemical.

10. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2013 (2012: 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$310,652,000 (2012: HK$390,112,000) and the weighted average number of ordinary shares of 2,167,581,273 (2012: 748,939,750, as adjusted to reflect the open offer on 20 July 2012) 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 2012 and 2013, therefore no diluted loss per share information is presented for the years ended 30 June 2012 and 2013.

12. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (2012: 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	
	2013	2012
	HK$'000	HK$'000
Within 30 days	**3,381**	42,708
31 to 60 days	**18,013**	35,028
61 to 90 days	**19,565**	1,498
91 to 120 days	**231**	1,732
121 to 150 days	**308**	2,982
151 to 180 days	**7,166**	149
181 to 240 days	**23,446**	1,991
241 to 330 days	**21,505**	14,090
331 to 365 days	**2,770**	18,561
Over 365 days	**–**	37,218
	96,385	155,957

As at 30 June 2013, an allowance of approximately HK$109,452,000 (2012: HK$36,896,000) was made for estimated irrecoverable trade receivables.

The reconciliation of allowance for trade receivables is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
At beginning of year	**36,896**	6,847
Allowance made for the year	**71,481**	32,679
Amounts written off	**–**	(2,661)
Exchange differences	**1,075**	31
At end of year	**109,452**	36,896

As of 30 June 2013, trade receivables of approximately HK$56,200,000 (2012: HK$74,799,000) 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	
	2013	2012
	HK$'000	HK$'000
Up to 90 days	**773**	654
91 to 180 days	**7,706**	2,285
181 to 365 days	**47,721**	34,642
Over 365 days	**–**	37,218
	56,200	74,799

The Group's trade receivables are denominated in RMB.

13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (2012: 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	
	2013	2012
	HK$'000	HK$'000
Within 30 days	**19,443**	6,397
31 to 60 days	**1,530**	1,382
61 to 90 days	**1,018**	1,054
91 to 120 days	**3,027**	540
121 to 365 days	**6,974**	4,091
Over 365 days	**31,084**	34,657
	63,076	48,121

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.

An independent investigation committee (the "Committee") of the Company was formed on 11 July 2013 to investigate this possible dispute between Mr. Ko Kin Hang and the Company. The Committee members include Mr. Wong Sin Lai, an independent non-executive Director, and Mr. Chiau Che Kong, an executive Director.

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.

15. EVENTS AFTER THE REPORTING PERIOD

On 11 September 2013, the Company entered into a placing agreement with a placing agent to issue bonds in an aggregate principal amount of up to HK$400,000,000. The bonds will be unsecured, interest bearing at 7.5% p.a. and will mature on 10 September 2021. The net proceeds from the issue of the Bonds will be utilised as general working capital.

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 2013 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$324,897,000 for the year ended 30 June 2013 and as at 30 June 2013 the Group had net current liabilities of approximately HK$542,437,000. 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

With the global economic downturn and the property market 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 year under review, the Group faced a very fierce market competition as a result 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 year ended 30 June 2013 decreased for all of our coal-related chemical products in Mudanjiang, the PRC when compared with those of the last financial year.

On the other hand, starting near the end of October 2012, approximately eight months of operations of calcium carbide in Heihe, the PRC was recorded in the current financial year. The calcium carbide business started to make contribution to the Group.

Business Review

For the year ended 30 June 2013, turnover of the Group amounted to approximately HK$297,446,000, representing an increase of 39.1% compared with that of the financial year ended 30 June 2012. Loss attributable to owners of the Company amounted to approximately HK$310,652,000, representing a decrease of 20.4% compared with that of last financial year.

The substantial loss attributable to shareholders was mainly due to (i) the inability of the Group's calcium carbide production facilities in Heihe to reflect the potential profitability due to the inadequacy of utilities and facilities during the facilities' preliminary operating stage; (ii) the lowered profit margins of several coal-related chemical products due to an increase in the manufacturing cost of the production and operation in Mudanjiang, most of which could not be transferred to the downstream customers, and the idle operating cost as a result of the temporary suspension of the production of several coal-related chemical divisions and the bio-chemical division in Mudanjiang; and (iii) the impairment of long-outstanding trade receivables.

Coal related chemical production division

During the financial year under review, the PVC segment recorded a turnover of approximately HK$121.5 million from external customers, representing an increase of 65.6% over that of the last financial year. Segment loss of approximately HK$76.8 million was attained, representing an increase of 102.9% compared with that of the last financial year.

During the financial year 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 year.

During the financial year 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 year ended 30 June 2013.

During the current financial year, the calcium carbide segment recorded a turnover of approximately HK$116.5 million from external customers representing an increase of 4,496.4% over that of the last financial year. Segment loss of approximately HK$42.4 million was attained, representing a decrease of 31.8% compared with that of the last financial year.

The cost advantage is apparent in Heihe when comparing with that in Mudanjiang. However, due to the inadequacy of utilities and facilities during the facilities, preliminary operating stage, the potential profitability of calcium carbide production in Heihe had not been fully revealed during the year under review.

Bio-chemical products division

During the financial year under review, the market selling price of vitamin C remained at low level and was not able to cover the cost of production. Our vitamin C production had not been resumed. No production and sales of vitamin C was recorded during the financial year.

Heat and power division

During the year under review, the heat and power segment recorded a turnover of HK$59.5 million from external customers, representing a decrease of 23.0% over that of last year. Segment loss of approximately HK$104.3 million was recorded during the year under review being a decrease of 7.0% over that of last 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 in the financial year under review.

During the financial year 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 and adequate accrued liabilities for such project should be made prudently. During the financial year under review, 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 an impairment. The accrued liabilities for the compensation from the claim amounting to HK$16.3 million was charged as other operating expenses. In addition, the under estimation of construction progress payment of HK$17.6 million was recorded as accrued liabilities and increase in construction in progress.

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 16). 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 2013.

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 near the end of 2013 or at the early of year 2014.

The management is assessing the logistics and costs of relocation of the production base from Mudanjiang, where the cost of production and operation remains relatively high, to Heihe.

The management would like to make a simple analysis on the profit or loss by Heihe and Mudanjiang as recorded in the financial year ended 30 June 2013.

	Mudanjiang HK$'000	**Heihe HK$'000**	**Total HK$'000**
Year ended 30 June 2013			
Revenue from external customers	**195,545**	**101,901**	**297,446**
Intersegment revenue	**60,159**	**–**	**60,159**
Segment loss	**(292,433)**	**(12,079)**	**(304,512)**
Interest expense	**5,466**	**7,844**	**13,310**
Depreciation and amortisation	**106,477**	**23,302**	**129,779**

	Mudanjiang HK$'000	Heihe HK$'000	Total HK$'000
Year ended 30 June 2012			
Revenue from external customers	213,791	–	213,791
Intersegment revenue	41,029	–	41,029
Segment loss	(315,956)	(6,315)	(322,271)
Interest expense	5,361	–	5,361
Depreciation and amortisation	108,241	4,236	112,477

Please note that the Group has calcium carbide production in Heihe whereas Mudanjiang's base has production facilities for calcium carbide products and other coal related chemical products, heat and power, and bio-chemical products.

The Heihe segmental result before interest expense, depreciation and amortisation was a profit of approximately HK$19.1 million (2012: loss of HK$2.1 million).

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 local management has performed feasibility study on relocating the calcium carbide production facilities in Mudanjiang to Heihe. The management is assessing the logistics and costs of relocation of the main production facilities, and the redundancy cost on machinery considered to be disposed off.

Most of the calcium carbide machinery was tailor-made and equipped with specialized parts. The Company has employed professional valuer to ascertain or estimate the valuation of those portion of machineries not to be relocated at the moment. After that the management would then draw a practical conclusion on whether the relocation plan should be carried out or not.

The local management in Heihe is confident that the production will gradually be operating smoothly in the future. The designed annual production capacity of 100,000 tonnes of calcium carbide will gradually be attained when the auxiliary production facilities, such as gas fired kiln (氣燒窯) for production of calcium carbonate are installed in place as planned in the next year. Thereafter, the calcium carbide production will not be seriously affected by the quality of calcium carbonate, the major raw material which was sourced outside Heihe.

Heat and Power division

The local management has successfully applied for supplying heat to the new residential area and re-possessed some of the residential market previously lost to other heat supply competitor in the coming winter. Moreover, the management has also considered the possibility to dispose part of the interest of the heat and power division to an independent third party of the Company whom could liaise closely with the local government to obtain preferential policy on grant and subsidy for public utility companies.

Bio-chemical products division

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. The professional valuation on all the specialized machineries of the bio-chemical products division has been performed. Such valuation will be used as a reference or guideline for sale or disposal.

Capital Structure, Liquidity and Financial Resources

Capital structure

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$219.1 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$89.1 million was applied to enhance working capital of the Group.

Liquidity and Financial Ratios

As at 30 June 2013, the Group had total assets of approximately HK$4,076.8 million (2012: HK$3,981.5 million) which were financed by current liabilities of approximately HK$811.2 million (2012: HK$719.5 million), non-current liabilities of approximately HK$153.3 million (2012: HK$164.1 million), non-controlling interests of approximately HK$240.4 million (2012: HK$239.3 million) and shareholders' equity of approximately HK$2,871.9 million (2012: HK$2,858.6 million).

As at 30 June 2013, the current assets of the Group amounted to approximately HK$268.8 million (2012: HK$294.7 million) comprising inventories of approximately HK$34.0 million (2012: HK$56.2 million), trade receivables of approximately HK$96.4 million (2012: HK$156.0 million), prepayments, deposits and other receivables of approximately HK$84.8 million (2012: HK$55.0 million), other loan receivables of approximately HK$31.8 million (2012: HK$0.5 million), financial assets at fair value through profit or loss of approximately HK$4.7 million (2012: HK$21.7 million), cash and cash equivalents of approximately HK$17.0 million (2012: HK$5.3 million). As at 30 June 2013, 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 0.3 (2012: 0.4), 0.3 (2012: 0.3), 23.7% (2012: 22.2%) and 33.6% (2012: 30.9%), respectively.

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

Financing activity after 30 June 2013 or the balance sheet date

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 placing agreement of the same date. Such placing agreement was entered into between the Company and Anglo Chinese Securities, Limited aiming at improving the working capital of the Group.

Significant investment held by the Company

As at 30 June 2013, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK$4.7 million. The Company had recorded a fair value gain on financial assets at fair value through profit or loss of approximately HK$0.5 million for the financial year.

Charges on the Group's assets

As at 30 June 2013, bank loans and other loan of approximately HK$280.1 million and HK$25.0 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 2013, 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 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 2013.

Number and Remuneration of Employees

As at 30 June 2013, the Group had 866 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 2013, 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 2013.

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 2013.

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 2013 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 2013. 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 ended 30 June 2013, complied with the Corporate Governance Code and Corporate Governance Report (the "Code"), except for a certain 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 financial year under review, 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 ended 30 June 2013.

By Order of the Board
China Zenith Chemical Group Limited
Peng Zhanrong
Executive Director

Hong Kong, 30 September 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.