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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 2013

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 2013 (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	
		2013	2012
	Note	HK\$'000	HK\$'000
Turnover	4	113,095	183,276
Cost of sales		<u>(108,918)</u>	<u>(167,438)</u>
Gross profit		4,177	15,838
Other income	6	7,165	8,044
Selling and distribution costs		(3,533)	(5,895)
Administrative expenses		(30,107)	(54,637)
Other operating expenses		<u>(50,397)</u>	<u>(76,094)</u>
Loss from operations		(72,695)	(112,744)
Finance costs		<u>(11,361)</u>	<u>(3,623)</u>
Loss before tax		(84,056)	(116,367)
Income tax credit	7	<u>449</u>	<u>237</u>
Loss for the Period	8	<u>(83,607)</u>	<u>(116,130)</u>
Attributable to:			
Owners of the Company		(76,398)	(110,203)
Non-controlling interests		<u>(7,209)</u>	<u>(5,927)</u>
		<u>(83,607)</u>	<u>(116,130)</u>
LOSS PER SHARE	9		
– Basic		<u>HK(3.29) cents</u>	<u>HK(5.37) cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	Six months ended	
	31 December	
	2013	2012
	HK\$'000	HK\$'000
Loss for the Period	<u>(83,607)</u>	<u>(116,130)</u>
Other comprehensive income after tax:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	<u>87,861</u>	<u>(24,914)</u>
Other comprehensive income for the Period, net of tax	<u>87,861</u>	<u>(24,914)</u>
Total comprehensive income for the Period	<u>4,254</u>	<u>(141,044)</u>
Attributable to:		
Owners of the Company	3,090	(128,584)
Non-controlling interests	<u>1,164</u>	<u>(12,460)</u>
	<u>4,254</u>	<u>(141,044)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 31 December 2013 HK\$'000	(Audited) 30 June 2013 HK\$'000
	<i>Note</i>		
Non-current assets			
Fixed assets		3,282,354	3,232,205
Land held under finance leases		67,472	67,814
Prepaid land lease payments		465,484	464,756
Goodwill		37,904	37,904
Other intangible assets		4,559	5,410
		<u>3,857,773</u>	<u>3,808,089</u>
Current assets			
Inventories		38,024	34,046
Trade receivables	10	121,994	96,385
Other loan receivables		–	31,773
Prepayments, deposits and other receivables		126,584	84,804
Financial assets at fair value through profit or loss		2,736	4,707
Bank and cash balances		14,376	17,039
		<u>303,714</u>	<u>268,754</u>
TOTAL ASSETS		<u>4,161,487</u>	<u>4,076,843</u>
Capital and reserves			
Share capital		232,490	232,490
Retained profits		483,302	559,700
Other reserves		2,159,231	2,079,743
Equity attributable to owners of the Company		<u>2,875,023</u>	<u>2,871,933</u>
Non-controlling interests		<u>241,597</u>	<u>240,433</u>
Total equity		<u>3,116,620</u>	<u>3,112,366</u>
Non-current liabilities			
Bonds payable		70,000	–
Bank loans	11	35,338	36,504
Deferred tax liabilities		116,743	116,782
		<u>222,081</u>	<u>153,286</u>

		(Unaudited) 31 December 2013 HK\$'000	(Audited) 30 June 2013 HK\$'000
	Note		
Current liabilities			
Trade payables	12	43,953	63,076
Other payables and accruals		469,146	436,045
Other loans		25,631	25,051
Due to a non-controlling shareholder of a subsidiary		43,453	43,453
Bank loans	11	229,122	243,566
Current tax liabilities		11,481	–
		<u>822,786</u>	<u>811,191</u>
Total liabilities		<u>1,044,867</u>	<u>964,477</u>
TOTAL EQUITY AND LIABILITIES		<u>4,161,487</u>	<u>4,076,843</u>
Net current liabilities		<u>(519,072)</u>	<u>(542,437)</u>
Total assets less current liabilities		<u>3,338,701</u>	<u>3,265,652</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 31 December 2013

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\$83,607,000 and had net current liabilities of approximately HK\$519,072,000 as at 31 December 2013.

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 2013 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 2013 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 2013. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current Period and prior years except as stated below.

HKFRS 13 “Fair Value Measurement”

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

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

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Company's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The recurring fair value measurement of the financial assets at fair value through profit or loss was using Level 1 as at 30 June 2013 and 31 December 2013.

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after eliminations of all significant intra-group transactions during the Period.

5. SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies. The Group has five reportable segments as follows:

- (i) manufacture and sale of polyvinyl-chloride ("**Polyvinyl-chloride**");
- (ii) manufacture and sale of vinyl acetate ("**Vinyl acetate**");
- (iii) generation and supply of heat and power ("**Heat and power**");
- (iv) manufacture and sale of vitamin C, glucose and starch ("**Vitamin C, glucose and starch**"); and
- (v) manufacture and sale of calcium carbide ("**Calcium carbide**").

The accounting policies of the operating segments are the same as those described in the Group's 2013 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 receivables, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, other loans, bonds payable, 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:

	(Unaudited)					
	Polyvinyl- chloride	Vinyl acetate	Heat and power	Vitamin C, glucose and starch	Calcium carbide	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 31 December 2013						
Revenue from external customers	–	–	49,218	–	63,877	113,095
Intersegment revenue	–	–	–	–	–	–
Segment loss	(7,725)	(9,775)	(5,751)	(18,149)	(26,622)	(68,022)
As at 31 December 2013						
Segment assets	377,600	307,618	286,799	591,602	2,373,118	3,936,737
Segment liabilities	14,480	60,489	109,432	120,862	243,751	549,014

	(Unaudited)					
	Polyvinyl- chloride	Vinyl acetate	Heat and power	Vitamin C, glucose and starch	Calcium carbide	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Six months ended 31 December 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)

	(Audited)					
As at 30 June 2013						
Segment assets	387,518	309,241	316,624	604,429	2,316,779	3,934,591
Segment liabilities	17,936	34,413	101,407	177,360	281,834	612,950

Reconciliation of reportable segment profit or loss:

	(Unaudited)	
	Six months ended	
	31 December	
	2013	2012
	HK\$'000	HK\$'000
Profit or loss		
Total profit or loss of reportable segments	(68,022)	(108,789)
Dividend income from listed investments	62	539
Gain on disposal of financial assets at fair value through profit or loss	9	2,159
Fair value gain on financial assets at fair value through profit or loss	104	1,129
Corporate administrative expenses	(15,760)	(11,168)
Consolidated loss for the Period	(83,607)	(116,130)

6. OTHER INCOME

	(Unaudited)	
	Six months ended	
	31 December	
	2013	2012
	HK\$'000	HK\$'000
Dividend income from listed investments	62	539
Gain on disposal of financial assets at fair value through profit or loss	9	2,159
Fair value gain on financial assets at fair value through profit or loss	104	1,129
Government grants	3,308	–
Interest income	4	24
Sundry income	3,678	4,193
	<u>7,165</u>	<u>8,044</u>

7. INCOME TAX CREDIT

	(Unaudited)	
	Six months ended	
	31 December	
	2013	2012
	HK\$'000	HK\$'000
Deferred tax	<u>449</u>	<u>237</u>

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

8. LOSS FOR THE PERIOD

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

	(Unaudited)	
	Six months ended	
	31 December	
	2013	2012
	HK\$'000	HK\$'000
Depreciation	67,869	44,812
Amortisation of other intangible assets	1,044	1,009
Factory overhead incurred during suspension of production (<i>note</i>)	47,698	28,684
Impairment of fixed assets	–	2,393
Interest income	(4)	(24)
Allowance for receivables		
– Trade receivables	–	42,988
Fair value gain on financial assets at fair value through profit or loss	(104)	(1,129)
Gain on disposal of financial assets at fair value through profit or loss	(9)	(2,159)
Operating lease rental expenses	1,910	1,759
Staff costs (including Directors' emoluments):		
– Wages, salaries and benefits in kind	7,606	10,524
– Retirement benefits scheme contributions	1,796	2,476
Directors' emoluments	750	1,204

Note: For the periods ended 31 December 2013 and 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 biochemical division in Mudanjiang, the People's Republic of China (the "PRC").

9. 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\$76,398,000 (2012: HK\$110,203,000) and the weighted average number of ordinary shares of 2,324,899,519 (2012: 2,050,904,548) in issue during the Period.

Diluted loss per share

The exercise of the Company's outstanding warrants and share options during the six months ended 31 December 2013 would be anti-dilutive and the Company did not have any dilutive potential ordinary shares during the six months ended 31 December 2012, therefore no diluted loss per share information is presented for the six months ended 31 December 2012 and 2013.

10. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (30 June 2013: 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 2013 HK\$'000	(Audited) 30 June 2013 HK\$'000
Within 30 days	17,791	3,381
31 to 60 days	14,351	18,013
61 to 90 days	14,413	19,565
91 to 120 days	13,863	231
121 to 150 days	209	308
151 to 180 days	160	7,166
181 to 240 days	13,477	23,446
241 to 330 days	870	21,505
331 to 365 days	93	2,770
Over 365 days	46,767	–
	121,994	96,385

11. BANK LOANS

The Group's bank loans are repayable as follows:

	(Unaudited) 31 December 2013 HK\$'000	(Audited) 30 June 2013 HK\$'000
Term loans subject to a repayment on demand clause	226,799	241,267
Within one year	2,323	2,299
In the second year	2,323	2,347
In the third to fifth years inclusive	6,969	7,345
After five years	26,046	26,812
	264,460	280,070
Less: Amount due for settlement within 12 months (shown under current liabilities)	(229,122)	(243,566)
	35,338	36,504

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

	(Unaudited) 31 December 2013 HK\$'000	(Audited) 30 June 2013 HK\$'000
Hong Kong dollars	37,661	38,803
Renminbi	226,799	241,267
	<u>264,460</u>	<u>280,070</u>

At 31 December 2013, bank loans were arranged at floating rates ranging from 2.10% to 7.57% (30 June 2013: 2.10% to 7.21%) per annum, thus exposing the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets, land held under finance leases and prepaid land lease payments.

12. TRADE PAYABLES

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

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

	(Unaudited) 31 December 2013 HK\$'000	(Audited) 30 June 2013 HK\$'000
Within 30 days	7,384	19,443
31 to 60 days	549	1,530
61 to 90 days	801	1,018
91 to 120 days	4,991	3,027
121 to 365 days	14,415	6,974
Over 365 days	15,813	31,084
	<u>43,953</u>	<u>63,076</u>

13. 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 December 2012.

According to 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 2009. To handle the claim from the Plaintiff, the local management has preliminarily 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. At the date of this announcement, the high court of Heilongjiang Province in the PRC has not yet confirmed the final appointment of independent professional valuer because the professional valuers suggested by the Plaintiff or MDJ Better Day are not welcomed and accepted by its counterparty.

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 (2012: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

During year 2013, the recovery of business market economy was slow in PRC. This had affected the timing of resumption of operation and production of our coal related chemical business in Mudanjiang.

Nevertheless, the management believed the worst situation in our coal related chemical business had been past and the business environment we stayed in had started to turn around during the year.

Business Review

During the financial period under review (the “**Period**”), less sales order was received from our downstream customers. 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 2013 further decreased for all of our coal-related chemical products in Mudanjiang, the PRC when compared with those of the last financial period.

The production and sale of calcium carbide in Heihe, the PRC, became more stable and commenced to make positive contribution to the Group.

For the six months ended 31 December 2013, turnover of the Group amounted to approximately HK\$113.1 million, representing a decrease of 38.3% when compared with that of the last corresponding period.

Loss attributable to owners of the Company amounted to approximately HK\$76.4 million, representing a decrease of 30.7% when compared with that of the last corresponding period.

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

The loss is mainly derived from idle operating cost and assets restructuring expenditure incurred during the temporary suspension of the production of the coal-related chemical division and the bio-chemical division in Mudanjiang.

The segment loss of approximately HK\$68.0 million (2012: HK\$108.8 million) of the Group was attained during the Period.

The Group's selling and distribution costs for the Period was approximately HK\$3.5 million, representing a decrease of 40% when compared with that of the last corresponding period. The decrease in selling and distribution costs was resulted from the decrease in turnover during the period.

The Group's administrative expenses for the Period was approximately HK\$30.0 million, representing a decrease of 45.0% when compared with that of the last corresponding period. The decrease was resulted from effective administrative cost control of the Group.

Excluding the effect of factory overhead during the suspension of the production of coal-related chemical products which amounted to approximately HK\$47.4 million, the Group's other operating expenses for the six months ended 31 December 2013 was approximately HK\$3.0 million, representing an increase of HK\$1.0 million when compared with that of the last corresponding period. (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.) 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.

Coal-related chemical production division

PVC and vinyl acetate

During the Period, no turnover was recorded for the PVC and vinyl acetate segments. Segment loss of approximately HK\$7.7 million and HK\$9.8 million were recorded, representing a decrease of 73.4% and an increase of 25.7% compared with that of the last corresponding period respectively.

During the Period, the production of both PVC and vinyl acetate was suspended since the products selling price could not cover the cost of production in Mudanjiang, the PRC. No production of both PVC and vinyl acetate was recorded for the six months ended 31 December 2013 (No production of vinyl acetate for the last corresponding period).

Calcium carbide

During the Period, the calcium carbide segment recorded a turnover of approximately HK\$63.9 million from external customers. Segment loss of approximately HK\$26.7 million was attained, representing an increase of 61.1% compared with that of the last corresponding period.

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

However, the production of calcium carbide in Heihe was maintained at the annual capacities of 50,000 tones. Only four months of operation was recorded in the Period.

Bio-chemical products division

During the Period, 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\$49.2 million from external customers, representing an increase of 109.6% over that of the corresponding period of the previous year. Segment loss of approximately HK\$5.8 million was attained, representing a decrease of 31.7% compared with that of the last corresponding period.

The heat and power generating facilities operated throughout the Period whereas approximately four months of operation and sales of electricity and heat was recorded in the last corresponding period.

Construction in progress of new coal-powered electricity generating facilities

The management considered that impairment of the construction in progress for such project should be made prudently. During the Period, no further 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 “Contingent liabilities” section on page 18). The book carrying value of such coal powered electricity generating facilities included in construction in progress was approximately HK\$101.2 million as at 31 December 2013. Further provision on such construction in progress may be required subject to impairment, if necessary, after the valuation assessment to be performed in accordance with the requirement accepted by the high court of Heilongjiang Province.

Analysis on calcium carbide segment by location

The management would like to make a simple analysis on the profit or loss of calcium carbide segment by Heihe and Mudanjiang as recorded in the financial period ended 31 December 2013.

	Mudanjiang <i>HK\$'000</i>	Heihe <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 31 December 2013			
Revenue from external customers	–	63,877	63,877
Intersegment revenue	–	–	–
Segment loss	(15,704)	(10,918)	(26,622)
Interest expense	–	7,541	7,541
Depreciation and amortisation	16,285	10,396	26,681
	Mudanjiang <i>HK\$'000</i>	Heihe <i>HK\$'000</i>	Total <i>HK\$'000</i>

Six months ended 31 December 2012

Revenue from external customers	14,177	28,302	42,479
Intersegment revenue	50,349	–	50,349
Segment loss	(7,258)	(9,267)	(16,525)
Interest expense	–	–	–
Depreciation and amortisation	14,076	2,119	16,195

The Heihe segmental result for the six months ended 31 December 2013 before interest expense, depreciation and amortisation was a profit of approximately HK\$7.0 million (2012: loss of HK\$7.1 million).

Capital Structure, Liquidity and Financial Resources

Capital structure

During the Period, the Group financed its operations with internally generated resources and non-equity funding.

Liquidity and Financial Ratio

As at 31 December 2013, the Group had total assets of approximately HK\$4,161.5 million (30 June 2013: HK\$4,076.8 million) which were financed by current liabilities of approximately HK\$822.8 million (30 June 2013: HK\$811.2 million), non-current liabilities of approximately HK\$222.1 million (30 June 2013: HK\$153.3 million), non-controlling interests of approximately HK\$241.6 million (30 June 2013: HK\$240.4 million) and owners' equity of approximately HK\$2,875.0 million (30 June 2013: HK\$2,871.9 million).

As at 31 December 2013, the current assets of the Group amounted to approximately HK\$303.7 million (30 June 2013: HK\$268.8 million) mainly comprising inventories of approximately HK\$38.0 million (30 June 2013: HK\$34.0 million), trade receivables of approximately HK\$122.0 million (30 June 2013: HK\$96.4 million), other loan receivables and current tax assets of approximately HK\$Nil million (30 June 2013: HK\$31.8 million), prepayments, deposits and other receivables of approximately HK\$126.6 million (30 June 2013: HK\$84.8 million), financial assets at fair value through profit and loss of approximately HK\$2.7 million (30 June 2013: HK\$4.7 million), cash and cash equivalents of approximately HK\$14.4 million (30 June 2013: HK\$17.0 million).

As at 31 December 2013, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets – inventories)/(current liabilities)), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/owners' equity) of the Group were approximately 0.4 (30 June 2013: 0.3), 0.3 (30 June 2013: 0.3), 25.1% (30 June 2013: 23.7%) and 36.3% (30 June 2013: 33.6%), respectively.

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

Non-equity funding

Bank loans

As at 31 December 2013, the bank loans of the Group amounted to approximately HK\$264.5 million (30 June 2013: HK\$280.1 million). Considering the bank loans subject to repayment on demand clauses which can be exercised at the banks' sole discretion, bank loans of approximately HK\$229.1 million (30 June 2013: HK\$243.6 million) were repayable within 12 months, of which HK\$2.3 million was denominated in Hong Kong Dollar and HK\$226.8 million was denominated in Renminbi (30 June 2013: HK\$2.3 million was denominated in Hong Kong dollar and HK\$241.3 million was denominated in Renminbi). Without considering the repayment on demand clauses and based on agreed scheduled repayments set out in the loan agreements, out of the loan amount of HK\$229.1 million, approximately HK\$79.6 million will fall due during year 2014 and approximately HK\$149.5 million, among other things, will fall due after year 2014.

Bonds and other non-equity financing

Bonds

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

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

As at 31 December 2013, the accumulated principal amount of HK\$40,000,000 from the placing of bonds was raised.

Other non-equity financing

During the Period, the Company had issued other bonds to independent third parties in an aggregate amount of HK\$30,000,000, to increase the working capital of the Group.

Significant investments held by the Company

As at 31 December 2013, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK\$2.7 million. The Company had recorded a fair value gain on financial assets at fair value through profit or loss of approximately HK\$0.1 million during the Period.

Charges on the Group's assets

As at 31 December 2013, bank loans of approximately HK\$264.5 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 13 to the condensed consolidated financial statements.

Contingent liabilities

As at 31 December 2013, save as disclosed below, the Group did not have any significant 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 December 2012.

According to 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 2009. To handle the claim from the Plaintiff, the local management has preliminarily 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. At the date of this announcement, the high court of Heilongjiang Province in the PRC has not yet confirmed the final appointment of independent professional valuer because the professional valuers suggested by the Plaintiff or MDJ Better Day are not welcomed and accepted by its counterparty.

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. 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 2013.

Number and remuneration of employees

As at 31 December 2013, the Group had 681 full time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance-related commissions.

During the Period, no share options were granted to senior management of Hong Kong and PRC subsidiaries of the Company. As at 31 December 2013, there were approximately 22.0 million share options outstanding with exercisable period up to 17 April 2016 at the exercise price of HK\$0.204 per share.

PROSPECT

Coal-related chemical production division

Heihe Longjiang Chemical Company Limited, our 67% owned subsidiary in Heihe, enjoys preferential electricity tariff offered by Heihe City Local Government. It will be more cost effective for the Group to produce calcium carbide in Heihe since calcium carbide production consumes a large amount of electricity.

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 full designed capacities in year 2014 to capture its comparative advantage.

The Board is confident that the calcium carbide business in Heihe will be improved. The profitability potential of the calcium carbide business in Heihe will be appropriately revealed in 2014.

In addition, the management has formulated plans to revalue and restructure the idle assets of the Group in Mudanjiang so as to improve the cash flow of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE GROUP

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

CORPORATE GOVERNANCE

Corporate Governance Code

The Directors are of the view that the Company has complied with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) during the Period, except for a certain deviation which is summarised below:

Code Provision A.2.1

The roles of Chairman and Chief Executive Officer are performed by the same individual, Ms. Chan Yuk Foebe, and are not separated. The Board meets regularly to consider issues related to corporate matters affecting operations of the Group. The Board considers the structure will not impair the balance of power and authority of the Board and the Company's management and thus, the Board believes this structure will enable effective planning and implementation of corporate strategies and decisions.

AUDIT COMMITTEE

The Company set up the Audit Committee on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision on the Group's financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive Directors of the Company, namely, Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal control and financial reporting aspects of the Company including the review of the unaudited interim results of the Company for the Period and there was no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

REMUNERATION COMMITTEE

A remuneration committee was established by the Company on 1 July 2005 with specific written terms of reference which set out clearly its authority and duties. The Remuneration Committee currently comprises Mr. Peng Zhanrong (executive Director), Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit (all being independent non-executive Directors), who are responsible for advising the Board on the remuneration policy and framework for all the remuneration of the Directors and senior management of the Company, as well as reviewing and determining the remuneration packages of Directors and senior management with reference to the Company's objectives from time to time.

NOMINATION COMMITTEE

The Nomination Committee was established on 2 November 2007 with specific written terms of reference. The Nomination Committee currently comprises 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. Hau Chi Kit. The Board as a whole, with the Nomination Committee, is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession plan of Directors and assessing the independence of independent non-executive Directors.

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 2014

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 and Mr. Hau Chi Kit.