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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 2014

HIGHLIGHTS

- Recorded positive operating cash flow.
- Resumption of production in Heihe in second quarter in 2015 will enhance performance of the Group in second half year of 2015.

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 2014 (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	
		2014	2013
	Note	HK\$'000	HK\$'000
Turnover	4	49,096	113,095
Cost of sales		<u>(41,940)</u>	<u>(108,918)</u>
Gross profit		7,156	4,177
Other income	6	40,073	7,165
Selling and distribution costs		(2,233)	(3,533)
Administrative expenses		(16,863)	(30,107)
Other operating expenses		<u>(66,451)</u>	<u>(50,397)</u>
Loss from operations		(38,318)	(72,695)
Finance costs		<u>(21,447)</u>	<u>(11,361)</u>
Loss before tax		(59,765)	(84,056)
Income tax credit	7	<u>5,369</u>	<u>449</u>
Loss for the Period	8	<u>(54,396)</u>	<u>(83,607)</u>
Attributable to:			
Owners of the Company		(41,924)	(76,398)
Non-controlling interests		<u>(12,472)</u>	<u>(7,209)</u>
		<u>(54,396)</u>	<u>(83,607)</u>
LOSS PER SHARE	9		
– Basic		<u>HK(1.80) cents</u>	<u>HK(3.29) cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	Six months ended	
	31 December	
	2014	2013
	HK\$'000	HK\$'000
Loss for the Period	<u>(54,396)</u>	<u>(83,607)</u>
Other comprehensive income after tax:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	<u>22,867</u>	<u>87,861</u>
Other comprehensive income for the Period, net of tax	<u>22,867</u>	<u>87,861</u>
Total comprehensive income for the Period	<u>(31,529)</u>	<u>4,254</u>
Attributable to:		
Owners of the Company	<u>(22,807)</u>	<u>3,090</u>
Non-controlling interests	<u>(8,722)</u>	<u>1,164</u>
	<u>(31,529)</u>	<u>4,254</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 31 December 2014 HK\$'000	(Audited) 30 June 2014 HK\$'000
	Note		
Non-current assets			
Fixed assets		2,892,674	2,845,458
Land held under finance leases		66,791	67,132
Prepaid land lease payments		408,514	410,589
Goodwill		37,904	37,904
Other intangible assets		2,539	3,463
		<u>3,408,422</u>	<u>3,364,546</u>
Current assets			
Inventories		53,440	40,490
Trade receivables	10	86,837	76,114
Other loan receivables		700	700
Prepayments, deposits and other receivables		152,453	97,357
Financial assets at fair value through profit or loss		2,597	2,721
Bank and cash balances		27,967	85,579
		<u>323,994</u>	<u>302,961</u>
TOTAL ASSETS		<u>3,732,416</u>	<u>3,667,507</u>
Capital and reserves			
Share capital		232,490	232,490
(Accumulated losses)/Retained profits		(40,474)	1,450
Other reserves		2,083,071	2,063,954
Equity attributable to owners of the Company		<u>2,275,087</u>	<u>2,297,894</u>
Non-controlling interests		<u>200,128</u>	<u>208,850</u>
Total equity		<u>2,475,215</u>	<u>2,506,744</u>
Non-current liabilities			
Bank loans	11	32,965	34,157
Bonds payable		242,145	224,000
Deferred tax liabilities		35,999	41,132
		<u>311,109</u>	<u>299,289</u>

		(Unaudited) 31 December 2014 HK\$'000	(Audited) 30 June 2014 HK\$'000
	Note		
Current liabilities			
Trade payables	12	96,456	85,531
Bond interest payable		5,536	2,612
Other payables and accruals		606,423	512,998
Other loan		25,135	24,837
Due to a non-controlling shareholder of a subsidiary		43,453	43,453
Bank loans	11	169,089	192,043
		<u>946,092</u>	<u>861,474</u>
Total liabilities		<u>1,257,201</u>	<u>1,160,763</u>
TOTAL EQUITY AND LIABILITIES		<u>3,732,416</u>	<u>3,667,507</u>
Net current liabilities		<u>(622,098)</u>	<u>(558,513)</u>
Total assets less current liabilities		<u>2,786,324</u>	<u>2,806,033</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 31 December 2014

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\$54,396,000 and had net current liabilities of approximately HK\$622,098,000 as at 31 December 2014.

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 2014 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 2014 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 2014. 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.

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

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 Group'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 2014 and 31 December 2014.

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 2014 annual financial statements. Segment profits or losses do not include fair value (loss)/gain on financial assets at fair value through profit or loss, gain on disposal of financial assets at fair value through profit or loss, dividend income from listed investments and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, other loan receivables, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, other loan, bonds payable, bond interest 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 2014						
Revenue from external customers	–	–	49,096	–	–	49,096
Segment profit/(loss)	(9,321)	(7,879)	35,346	(7,126)	(45,381)	(34,361)
As at 31 December 2014						
Segment assets	304,641	282,291	518,765	213,933	2,249,408	3,569,038
Segment liabilities	16,276	37,117	178,300	119,002	372,865	723,560

	(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
Segment loss	(7,725)	(9,775)	(5,751)	(18,149)	(26,622)	(68,022)

	(Audited)					
As at 30 June 2014						
Segment assets	310,288	285,858	394,829	219,411	2,238,773	3,449,159
Segment liabilities	17,873	36,035	130,078	118,523	318,912	621,421

Reconciliation of reportable segment profit or loss:

	(Unaudited)	
	Six months ended	
	31 December	
	2014	2013
	HK\$'000	HK\$'000
Profit or loss		
Total profit or loss of reportable segments	(34,361)	(68,022)
Dividend income from listed investments	–	62
Gain on disposal of financial assets at fair value through profit or loss	–	9
Fair value (loss)/gain on financial assets at fair value through profit or loss	(124)	104
Corporate administrative expenses	(19,911)	(15,760)
Consolidated loss for the Period	(54,396)	(83,607)

6. OTHER INCOME

	(Unaudited)	
	Six months ended	
	31 December	
	2014	2013
	HK\$'000	HK\$'000
Bank interest income	5	4
Dividend income from listed investments	–	62
Fair value gain on financial assets at fair value through profit or loss	–	104
Gain on disposal of financial assets at fair value through profit or loss	–	9
Government grants (<i>note</i>)	35,575	3,308
Other interest income	415	–
Rental income	91	–
Reversal of allowance for other receivables	973	–
Sundry income	3,014	3,678
	<u>40,073</u>	<u>7,165</u>

Note: Government grants for the six months ended 31 December 2014 and 2013 were received as incentive for capital expenditure and subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.

7. INCOME TAX CREDIT

	(Unaudited)	
	Six months ended	
	31 December	
	2014	2013
	HK\$'000	HK\$'000
Deferred tax	<u>5,369</u>	<u>449</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 (2013: Nil).

Tax charge on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

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	
	2014	2013
	HK\$'000	HK\$'000
Depreciation	60,090	67,869
Loss on disposal of fixed assets	88	–
Amortisation of other intangible assets	965	1,044
Factory overhead incurred during suspension of production (<i>note</i>)	55,378	47,698
Fair value loss/(gain) on financial assets at fair value through profit or loss	124	(104)
Operating lease rental expenses	1,034	1,910
Staff costs (including Directors' emoluments):		
Wages, salaries and benefits in kind	5,800	7,606
Retirement benefits scheme contributions	2,076	1,796
Directors' emoluments	474	750

Note: For the six months ended 31 December 2014 and 2013, factory overhead was incurred during the temporary suspension of production line (including depreciation of plant and machinery and direct labour cost) of all coal-related chemical divisions and bio-chemical division in Mudanjiang and Heihe, the People's Republic of China (the "PRC") (2013: in Mudanjiang, 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\$41,924,000 (2013: HK\$76,398,000) and the weighted average number of ordinary shares of 2,324,899,519 (2013: 2,324,899,519) in issue during the Period.

Diluted loss per share

The exercise of the Company's outstanding warrants during the six months ended 31 December 2013 would be anti-dilutive and there were no dilutive potential ordinary shares for the Company's share options during the six months ended 31 December 2013 and 2014, therefore no diluted loss per share information is presented for the six months ended 31 December 2013 and 2014.

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 2014: 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 2014 HK\$'000	(Audited) 30 June 2014 HK\$'000
Within 30 days	17,047	46
31 to 60 days	–	–
61 to 90 days	–	300
91 to 120 days	–	10,610
121 to 150 days	–	10,456
151 to 180 days	–	9,947
181 to 240 days	–	23,435
241 to 330 days	21,125	21,302
331 to 365 days	10,067	18
Over 365 days	38,598	–
	<u>86,837</u>	<u>76,114</u>

11. BANK LOANS

The Group's bank loans are repayable as follows:

	(Unaudited) 31 December 2014 HK\$'000	(Audited) 30 June 2014 HK\$'000
Term loans subject to a repayment on demand clause	166,717	189,696
Within one year	2,372	2,347
In the second year	2,422	2,396
In the third to fifth years inclusive	7,580	7,502
After five years	22,963	24,259
	<u>202,054</u>	<u>226,200</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(169,089)</u>	<u>(192,043)</u>
	<u>32,965</u>	<u>34,157</u>

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

	(Unaudited) 31 December 2014 HK\$'000	(Audited) 30 June 2014 HK\$'000
Hong Kong dollars	35,338	36,504
Renminbi	166,716	189,696
	<u>202,054</u>	<u>226,200</u>

At 31 December 2014, bank loans were arranged at floating rates ranging from 2.10% to 10.80% (30 June 2014: 2.10% to 10.80%) 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.

During the year ended 30 June 2014, the Group received a verdict from the Intermediate People's Court of Heilongjiang Province in the PRC in the relation to the repayment of a bank loan amounting approximately HK\$25,261,000. According to the verdict, the bank loan should be repaid before 8 May 2014. As at 31 December 2014, the bank loan was still outstanding.

12. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (30 June 2014: 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 2014 HK\$'000	(Audited) 30 June 2014 HK\$'000
Within 30 days	15,564	5,150
31 to 60 days	4,177	6,545
61 to 90 days	11,250	5,991
91 to 120 days	544	17,088
121 to 365 days	28,738	12,879
Over 365 days	36,183	37,878
	<u>96,456</u>	<u>85,531</u>

13. 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 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 appointed an independent professional valuer to ascertain both the percentage of completion of the subject construction project and the quality of the construction work done in respect of the subject Contract at the moment. Thereafter, the management is expected to have sufficient information to deal with the claims from the Plaintiff and will not rule out the possibility of filing a counterclaim. The management believes that sufficient provision for this legal claim was made at this stage.

- (b) On 19 July 2013, the Company received a writ of summons in relation to an alleged exercise of unlisted warrants related to issuing of 20,000,000 shares of the Company by Mr. Ko Kin Hang (the “Claims”), a subscriber and holder of the unlisted warrants. The exercise money of the subject unlisted warrants amounted to approximately HK\$3,800,000. By a consent order dated 7 April 2014, the proceeding was stayed and the Company is entitled to withhold the issue and allotment of shares until for further order.

The Company is currently seeking legal advice in relation thereto. Further announcement will be made by the Company in compliance with the Listing Rules as and when appropriate. The directors consider that the Claims do not have any material adverse effect on the operation or financial position of the Group.

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The loss attributable to owners was mainly derived from the idle operating cost incurred during the suspension of coal-related operation because of the high electricity cost in Mudanjiang and the cost for lay-off the coal-related division in Mudanjiang.

For the six months ended 31 December 2014, turnover of the Group amounted to approximately HK\$49.1 million, representing a decrease of 57% when compared with that of the last corresponding period.

Loss attributable to owners of the Company amounted to approximately HK\$41.9 million, representing a decrease of approximately 45% when compared with that of the last corresponding period.

During the financial period under review (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 both in Mudanjiang and Heihe, the PRC, were recorded in the Period.

The Group's selling and distribution costs for the Period was approximately HK\$2.2 million, representing a decrease of approximately 37% 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\$16.9 million, representing a decrease of approximately 44% 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 and bio-chemical products which amounted to approximately HK\$55.4 million, the Group's other operating expenses for the six months ended 31 December 2014 was approximately HK\$11.1 million, representing an increase of HK\$8.4 million when compared with that of the last corresponding period. (Excluding the effect of factory overhead during the suspension of the production of coal-related chemical and bio-chemical products which amounted to approximately HK\$47.7 million, the Group's other operating expenses for the six months ended 31 December 2013 was approximately HK\$2.7 million.)

Coal related chemical production division

Calcium carbide

During the Period, no turnover was recorded for the calcium carbide segment from external customers, representing a decrease of approximately 100% over that of the last corresponding period. Segment loss of approximately HK\$45.4 million was attained, representing an increase of approximately 70% compared with that of the last corresponding period.

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

Heat and power division

During the Period, the heat and power segment recorded a turnover of HK\$49.1 million from external customers, representing a slight decrease of approximately 0.2% over that of the last corresponding period. Segment profit of approximately HK\$35.3 million was attained during the Period while segment loss of approximately HK\$5.8 million was attained in last corresponding period.

The local management had closely monitored the operation to reduce coal or energy consumption and avoid wastage so as to minimise the loss from operating our heat and power generating facilities. The heat and power generating facilities operated throughout the Period as well as last corresponding period.

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 2014, the Group had total assets of approximately HK\$3,732.4 million (30 June 2014: HK\$3,667.5 million) which were financed by current liabilities of approximately HK\$946.1 million (30 June 2014: HK\$861.5 million), non-current liabilities of approximately HK\$311.1 million (30 June 2014: HK\$299.3 million), non-controlling interests of approximately HK\$200.1 million (30 June 2014: HK\$208.9 million) and owners' equity of approximately HK\$2,275.1 million (30 June 2014: HK\$2,297.8 million).

As at 31 December 2014, the current assets of the Group amounted to approximately HK\$324.0 million (30 June 2014: HK\$303.0 million) mainly comprising inventories of approximately HK\$53.4 million (30 June 2014: HK\$40.5 million), trade receivables of approximately HK\$86.8 million (30 June 2014: HK\$76.1 million), other loan receivables of approximately HK\$0.7 million (30 June 2014: HK\$0.7 million), prepayments, deposits and other receivables of approximately HK\$152.5 million (30 June 2014: HK\$97.4 million), financial assets at fair value through profit and loss of approximately HK\$2.6 million (30 June 2014: HK\$2.7 million), cash and cash equivalents of approximately HK\$28.0 million (30 June 2014: HK\$85.6 million).

As at 31 December 2014, 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 0.3 (30 June 2014: 0.4), 0.3 (30 June 2014: 0.3), 33.7% (30 June 2014: 31.6%) and 55.3% (30 June 2014: 50.5%), 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 2014, the bank loans of the Group amounted to approximately HK\$202.1 million (30 June 2014: HK\$226.2 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\$169.1 million (30 June 2014: HK\$192.0 million) were repayable within 12 months, of which HK\$2.4 million was denominated in Hong Kong Dollar and HK\$166.7 million was denominated in Renminbi (30 June 2014: HK\$2.3 million was denominated in Hong Kong dollar and HK\$189.7 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\$169.1 million, approximately HK\$27.6 million will fall due during year 2015 and approximately HK\$141.5 million, among other things, will fall due after year 2015.

Bonds and other non-equity financing

Bonds

On 11 December 2014, the Company and Pico Zeman Securities (HK) Limited (the “**Placing Agent**”) entered into the placing agreements pursuant to which the Placing Agent has agreed to procure, on a best endeavor basis, independent placees (which may include the Placing Agent and its associates), to subscribe in cash for one or multiple tranches of 6%, 4-year terms bonds and the 6%, 8-year terms bonds, respectively, each in an aggregate principal amount of up to HK\$100,000,000 within 90 days starting from the date of the placing agreements.

As at 31 December 2014, the aggregate bonds payable was HK\$242.1 million aiming at improving the working capital of the Group during the Period.

Significant investments held by the Company

As at 31 December 2014, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK\$2.6 million. The Company had recorded a fair value loss 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 2014, bank loans and other loan of approximately HK\$202.1 million and HK\$25.1 million respectively 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 2014, except for disclosed in note 13, the Group did not have any significant contingent liabilities.

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 2014.

Number and remuneration of employees

As at 31 December 2014, the Group had 368 full time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance-related commissions.

During the Period, no share options were granted to senior management of Hong Kong and PRC subsidiaries of the Company. As at 31 December 2014, 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

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

Heat and power division

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

Coal-related chemical production division

Heihe

HLCC has filed a writ against both the Heihe City Local Government and the State Grid Heilongjiang Electric Power Company Limited. HLCC has received a settlement offer from the Defendants. As a result, the management foresees that the electricity cost for calcium carbide production will be substantially reduced in a short period of time.

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

After resumption of production in Heihe in second quarter in 2015, it is expected that the performance of the Group will be positively enhanced. Therefore, it is no doubt that HLCC will become our main source of profit and growth driver of the Group.

Mudanjiang

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

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

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

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. 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.

INTERIM REPORT

The 2014/15 interim report containing all the financial and other related information of the Company required by the Listing Rules will be available on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.chinazenith.com.hk and dispatched to Shareholders before the end of March 2015.

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

Hong Kong, 27 February 2015

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