中國天
China Zenith

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)

Interim Report 2012/2013

Contents

2	Corporate Information
3	Financial Highlights
4	Condensed Consolidated Income Statement
5	Condensed Consolidated Statement of Comprehensive Income
6	Condensed Consolidated Statement of Financial Position
8	Condensed Consolidated Statement of Changes in Equity
9	Condensed Consolidated Statement of Cash Flows
10	Notes to Condensed Consolidated Financial Statements
24	Interim Dividend
24	Management Discussion and Analysis
32	Disclosure of Additional Information

Corporate Information

Board of Directors

Executive Directors

Ms. Chan Yuk Foebe
Mr. Peng Zhanrong
Mr. Chiau Che Kong
Mr. Wu Jianwei

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan
Mr. Tam Ching Ho
Dato' Wong Sin Just
Mr. Wong Sin Lai

Company Secretary

Mr. Tsang Chiu Hung

Registered Office

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Cayman Islands

Head Office and Principal Place of Business in Hong Kong

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Wanchai
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Authorised Representatives

Ms. Chan Yuk Foebe
Mr. Chiau Che Kong

Auditor

RSM Nelson Wheeler
Certified Public Accountants
29/F., Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

Legal Advisor to the Company

(as to Hong Kong law)
Jones Day
29/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Principal Bankers

Hang Seng Bank Limited
83 Des Voeux Road Central
Central
Hong Kong

Standard Chartered Bank
Shop A25–A27, Ground Floor
Kwai Chung Plaza
Hong Kong

Agricultural Bank of China
No. 462 Zhong Yang Road
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Heilongjiang Province
PRC

Principal Share Registrar and Transfer Office

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Hong Kong Branch Share Registrar and Transfer Office

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28 Queen's Road East
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Financial Year End Date

30 June

Company Website

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Telephone Number

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Stock Code

00362

Financial Highlights

	Six months ended 31 December		
	2012 *HK$'000*	2011 *HK$'000*	Change
TURNOVER	**183,276**	98,489	86.1%
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(110,203)**	(184,308)	(40.2%)
BASIC LOSS PER SHARE	**HK(5.37) cents**	HK(24.61) cents	(78.2%)
INTERIM DIVIDEND PER SHARE	**–**	–	–

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

Condensed Consolidated Income Statement

For the six months ended 31 December 2012

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2012

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

Condensed Consolidated Statement of Financial Position

At 31 December 2012

	Note	(Unaudited) 31 December 2012 HK$'000	(Audited) 30 June 2012 HK$'000
Non-current assets			
Fixed assets	9	**3,131,017**	3,100,635
Land held under finance leases		**68,154**	68,495
Prepaid land lease payments		**457,401**	468,208
Goodwill		**37,904**	37,904
Other intangible assets		**6,956**	7,123
Deferred tax assets		**4,408**	4,497
		3,705,840	3,686,862
Current assets			
Inventories		**57,027**	56,171
Trade receivables	10	**148,695**	155,957
Other loan receivable		**500**	500
Prepayments, deposits and other receivables		**69,590**	54,966
Financial assets at fair value through profit or loss		**10,369**	21,744
Current tax assets		**39**	–
Bank and cash balances		**17,730**	5,333
		303,950	294,671
TOTAL ASSETS		**4,009,790**	3,981,533
Capital and reserves			
Share capital	11	**223,690**	74,563
Retained profits		**760,149**	870,352
Other reserves		**1,965,698**	1,913,657
Equity attributable to owners of the Company		**2,949,537**	2,858,572
Non-controlling interests		**226,820**	239,280
Total equity		**3,176,357**	3,097,852
Non-current liabilities			
Bank loans	12	**37,710**	38,806
Deferred tax liabilities		**124,607**	125,343
		162,317	164,149

Condensed Consolidated Statement of Financial Position

At 31 December 2012

	Note	(Unaudited) 31 December 2012 HK$'000	(Audited) 30 June 2012 HK$'000
Current liabilities			
Trade payables	13	**52,191**	48,121
Other payables and accruals		**343,507**	258,262
Other loans		**23,885**	74,414
Due to a non-controlling shareholder of a subsidiary		**43,453**	58,764
Bank loans	12	**208,080**	279,961
Current tax liabilities		**–**	10
		671,116	719,532
Total liabilities		**833,433**	883,681
TOTAL EQUITY AND LIABILITIES		**4,009,790**	3,981,533
Net current liabilities		**(367,166)**	(424,861)
Total assets less current liabilities		**3,338,674**	3,262,001

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2012

	(Unaudited) For the six months ended 31 December 2012								
	Attributable to owners of the Company								
	Share capital HK$'000	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2012	**74,563**	**1,620,847**	**27,779**	**5,461**	**259,570**	**870,352**	**2,858,572**	**239,280**	**3,097,852**
Total comprehensive income for the Period	**–**	**–**	**–**	**–**	**(18,381)**	**(110,203)**	**(128,584)**	**(12,460)**	**(141,044)**
Issue of shares	**149,127**	**70,422**	**–**	**–**	**–**	**–**	**219,549**	**–**	**219,549**
Changes in equity for the Period	**149,127**	**70,422**	**–**	**–**	**(18,381)**	**(110,203)**	**90,965**	**(12,460)**	**78,505**
At 31 December 2012	**223,690**	**1,691,269**	**27,779**	**5,461**	**241,189**	**760,149**	**2,949,537**	**226,820**	**3,176,357**

	(Unaudited) For the six months ended 31 December 2011								
	Attributable to owners of the Company								
	Share capital HK$'000	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2011	74,563	1,620,847	55,687	5,461	231,141	1,287,048	3,274,747	262,546	3,537,293
Total comprehensive income for the Period	–	–	–	–	54,733	(184,308)	(129,575)	(1,221)	(130,796)
Purchase of non-controlling interests	–	–	–	–	–	(26,584)	(26,584)	(12,746)	(39,330)
Changes in equity for the period	–	–	–	–	54,733	(210,892)	(156,159)	(13,967)	(170,126)
At 31 December 2011	74,563	1,620,847	55,687	5,461	285,874	1,076,156	3,118,588	248,579	3,367,167

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2012

	(Unaudited) Six months ended 31 December 2012 HK$'000	2011 HK$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**6,594**	126,261
NET CASH USED IN INVESTING ACTIVITIES	**(75,194)**	(219,844)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**80,733**	44,063
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**12,133**	(49,520)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**264**	(1,237)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**5,333**	74,909
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**17,730**	24,152
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**17,730**	24,152

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2012

1. Basis of Preparation and Accounting Policies

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

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

In preparing the Interim Financial Statements, the directors have given careful consideration to the future liquidity and financial position of the Group in light of the conditions described in the preceding paragraph. These conditions indicate the existence of uncertainty that may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors are currently implementing stringent cost control measures over administrative and other operating expenses to improve the results of operation and financial position of the Group.

The Group had been undergoing negotiation with various banks for refinancing exercise and new funds to strengthen the Group's financial position. The Group will have sufficient cash resources to satisfy its future working capital and other financial commitments. The directors are of the opinion that the above measures will be successfully implemented. Accordingly, the directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

These condensed consolidated financial statements should be read in conjunction with the 2012 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the 2012 annual financial statements except as stated in note 2 below.

2. Adoption of New and Revised HKFRSs

In the current Period, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting period beginning on 1 July 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current Period and prior years except as stated below.

2. Adoption of New and Revised HKFRSs (Continued)

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

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

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

3. Turnover

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

4. Segment Information

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

(i) manufacture and sale of polyvinyl-chloride ("**Polyvinyl-chloride**");

(ii) manufacture and sale of vinyl acetate ("**Vinyl acetate**");

4. Segment Information (Continued)

(iii) generation and supply of heat and power ("**Heat and power**");

(iv) manufacture and sale of vitamin C, glucose and starch ("**Vitamin C, glucose and starch**"); and

(v) manufacture and sale of calcium carbide ("**Calcium carbide**").

The accounting policies of the operating segments are the same as those described in the Group's 2012 annual financial statements. Segment profits or losses do not include dividend income from listed investments, impairment of goodwill, fair value gains or losses on financial assets at fair value through profit or loss, gain or loss on disposal of financial assets at fair value through profit or loss and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, other loan receivable, financial assets at fair value through profit or loss and corporate assets.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about reportable segment profit or loss:

	(Unaudited)					
	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*
Six months ended 31 December 2012						
Revenue from external customers	117,311	–	23,486	–	42,479	183,276
Intersegment revenue	–	–	12,743	–	50,349	63,092
Segment loss	(29,057)	(7,777)	(8,421)	(47,009)	(16,525)	(108,789)
As at 31 December 2012						
Segment assets	453,142	311,358	318,757	605,783	2,172,875	3,861,915

4. Segment Information (Continued)

	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*
			(Unaudited)			
Six months ended 31 December 2011						
Revenue from external customers	12,517	20,470	44,391	21,111	–	98,489
Intersegment revenue	–	–	1,903	–	–	1,903
Segment loss	(24,298)	(16,871)	(14,276)	(23,805)	(32,324)	(111,574)
			(Audited)			
As at 30 June 2012						
Segment assets	470,907	334,367	321,410	653,637	2,058,655	3,838,976

Reconciliation of reportable segment profit or loss:

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

5. Other Income

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

6. Income Tax Credit

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

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

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

7. Loss for the Period

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

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

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

8. Loss Per Share

Basic loss per share

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

Diluted loss per share

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

9. Capital Expenditure

During the Period, the additions to fixed assets including the construction in progress in the PRC were approximately HK$75.2 million (2011: HK$220.0 million) of which an aggregate amount of approximately HK$19.3 million (2011: HK$29.8 million) was transferred from deposits paid in prior years.

10. Trade Receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	(Unaudited) 31 December 2012 *HK$'000*	(Audited) 30 June 2012 *HK$'000*
Within 30 days	**17,730**	42,708
31 to 60 days	**42,131**	35,028
61 to 90 days	**33,285**	1,498
91 to 120 days	**33,995**	1,732
121 to 150 days	**4,483**	2,982
151 to 180 days	**2,487**	149
181 to 240 days	**12,664**	1,991
241 to 330 days	**1,920**	14,090
331 to 365 days	**–**	18,561
Over 365 days	**–**	37,218
	148,695	155,957

11. Share Capital

	(Unaudited) 31 December 2012 *HK$'000*	(Audited) 30 June 2012 *HK$'000*
Authorised: 5,000,000,000 (30 June 2012: 5,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid: 2,236,899,519 (30 June 2012: 745,633,173) ordinary shares of HK$0.10 each	**223,690**	74,563

A summary of the movements in the issued share capital of the Company during the Period is as follows:

	Number of ordinary shares issued *'000*	**Par value** *HK$'000*
At 1 July 2011, 30 June 2012 and 1 July 2012	745,633	74,563
Issue of shares on open offer *(note (a))*	1,491,267	149,127
At 31 December 2012	2,236,900	223,690

Notes:

(a) On 20 July 2012, 1,491,266,346 ordinary shares of HK$0.1 each were issued at HK$0.15 per share by way of an open offer on the basis of two offer shares for every one share held. The net proceed of approximately HK$219,549,000 are used to finance the acquisition of fixed assets, reduce current debts and as general working capital for the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on that date.

12. Bank Loans

The Group's bank loans are repayable as follows:

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

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

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

Bank loans are arranged at floating rate of 2.10% to 7.57% (30 June 2012: 2.10% to 7.57%) per annum, thus exposing the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets, land held under finance leases and prepaid land lease payments.

13. Trade Payables

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

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

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

14. Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted on 20 December 2002 for a period of 10 years. Under the Scheme, the Directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company. The exercise period of the share options granted is determinable by the Directors and in any event not later than 10 years from the date of grant of share options, subject to the provisions for early termination thereof.

14. Share Option Scheme (Continued)

Details of the specific categories of options are as follows:

Grant date	21 August 2009	4 April 2011	12 May 2011
Vesting period *(note (a))*	21 August 2009	4 April 2011	12 May 2011
Exercise period	21 August 2009 to 20 August 2012	4 April 2011 to 3 April 2013	12 May 2011 to 11 May 2013
Exercise price			
– at date of grant *(note (b))*	0.164	0.153	0.154
– adjusted upon the completion of the share consolidation on 20 June 2011	N/A	1.530	1.540
– adjusted upon the completion of the open offer on 20 July 2012	N/A	1.510	1.520
Price of the Company's shares at the date of grant *(note (c))*	0.164	0.153	0.153

Notes:

(a) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issue, or other similar changes in the Company's share capital.

(c) The price of the Company's shares disclosed as at the date of the grant of the share options is the higher of the closing price of the shares of the Company on the date of grant of share options and the average closing price of The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of the grant of the share options.

14. Share Option Scheme (Continued)

Details of the share options granted to employees outstanding during the Period are as follows:

	(Unaudited) Six months ended 31 December			
	2012		2011	
	Number of share options	**Weighted average exercise price** *HK$*	Number of share options	Weighted average exercise price *HK$*
Outstanding at beginning of Period	**18,750,000**	**1.533**	18,750,000	1.533
Adjustment upon the completion of open offer	**248,343**	**–**	–	–
Outstanding at end of Period	**18,998,343**	**1.513**	18,750,000	1.533
Exercisable at end of Period	**18,998,343**	**1.513**	18,750,000	1.533

The options outstanding at 31 December 2012 have a weighted average remaining contractual life of 0.3 (2011: 1.3) years and the exercise prices range from HK$1.510 to HK$1.520 (2011: HK$1.530 to HK$1.540).

15. Related Party Transactions

Other than Directors' remuneration disclosed in note 7 to the financial statements, there is no other significant related party transaction during the Period (2011: Nil).

16. 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.

16. Contingent Liabilities (Continued)

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

The Company has been seeking legal advice in respect of the Writ on the dispute in the payment for the Contract since last December. Per management of MDJ Better Day, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since year 2009. To handle the claim from the Plaintiff, the local management will appoint an independent professional valuer to ascertain both the percentage of completion of the subject construction project and the quality of the construction work done in respect of the subject Contract at the moment.

Thereafter, the management is expected to have sufficient information to deal with the claims from the Plaintiff and will not rule out the possibility of filing a counterclaim. The management believes that provision for this legal claim is yet to be ascertained because the litigation is still at an early stage.

17. Capital Commitments

The Group's capital commitments at the end of the reporting Period are as follows:

	(Unaudited) 31 December 2012 *HK$'000*	(Audited) 30 June 2012 *HK$'000*
Contracted, but not provided for:		
Buildings and construction in progress	**316,575**	799,906

18. Lease Commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are repayable as follows:

	(Unaudited) 31 December 2012 *HK$'000*	(Audited) 30 June 2012 *HK$'000*
Within one year	**3,042**	3,042
In the second to fifth years inclusive	**507**	2,028
	3,549	5,070

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for lease terms ranging from 2 to 3 years and rentals are fixed over the lease terms and do not include contingent rentals.

Interim Dividend

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

Management Discussion and Analysis

Business Environment

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

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

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

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

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

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

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

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

Management Discussion and Analysis (Continued)

Business Environment (Continued)

The significant loss was mainly derived from (i) the challenging operating environment of the chemical manufacturing industry segments and further increase in the cost of production which resulted in lower profit margins for all of our coal-related chemical products and bio-chemical products in Mudanjiang, the PRC; (ii) the idle operating cost and labour layoff cost resulted from the temporary suspension of the production of all coal-related chemical divisions and the bio-chemical division in Mudanjiang; and (iii) impairment of fixed assets of the heat and power generating facilities due to termination of the construction and installation work for the expansion of production capacities of the production facilities in Mudanjiang; and (iv) impairment of long-outstanding receivables.

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

The Group's selling and distribution costs for the Period was approximately HK$5.9 million, representing an increase of 6.2% when compared with that of the last corresponding period. The increase in selling and distribution costs was resulted from the increase in turnover during the period.

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

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

Business Review

Coal-related chemical production division

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

Management Discussion and Analysis (Continued)

Business Review (Continued)

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

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

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

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

Bio-chemical products division

During the financial period under review, the production of vitamin C was suspended because the market selling price of vitamin C was not able to cover its cost of production. No production and sales of vitamin C was recorded during the Period.

Heat and power division

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

The heat and power generating facilities were temporarily shut down in July 2012 and were then resumed to operate again from October 2012 to meet the targeted demand of heat supplied to residential areas. The local management had closely monitored the operation to reduce coal or energy consumption and avoid wastage so as to minimize the loss from operating our heat and power generating facilities. Approximately four months of operation and sales of electricity and heat was recorded in the current financial period.

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

Management Discussion and Analysis (Continued)

Business Review (Continued)

The management considered that impairment of the construction in progress for such project should be made prudently. During the financial period under review, only the auxiliary contract sum for construction of coal-powered electricity generating facilities amounting to approximately HK$2.4 million included in the construction in progress are fully written down. No provision on the main contract sum for construction of coal-powered electricity generating facilities was made as the contract sum was in dispute and is the subject of an ongoing litigation (For details, please refer to the "Legal contingencies" section on page 29). The book carrying value of such coal-powered electricity generating facilities included in construction in progress was approximately HK$130.8 million as at 31 December 2012. Further provision on such construction in progress may be required subject to impairment, if necessary, after the valuation assessment to be performed in the second half of the financial year.

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Equity funding

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

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

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

Management Discussion and Analysis (Continued)

Capital Structure, Liquidity and Financial Resources (Continued)

Non-equity funding

As at 31 December 2012, the bank loans of the Group amounted to approximately HK$245.8 million (30 June 2012: HK$318.8 million). According to the loan repayment schedules agreed between the banks and the Group (without considering the clauses of repayment of loan on demand), of approximately HK$208.1 million (30 June 2012: HK$280.0 million) which was repayable with 12 months, HK$2.2 million was denominated in Hong Kong Dollar and HK$205.9 million was denominated in Renminbi (30 June 2012: HK$2.3 million was denominated in Hong Kong Dollar and HK$277.7 million was denominated in Renminbi). Of the loan amount of HK$208.1 million, approximately HK$38.2 million will fall due during year 2013 and approximately HK$169.9 million, among other things, will fall due after year 2013.

As at 31 December 2012, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets – inventories)/(current liabilities)), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/owners' equity) of the Group were approximately 0.5 (30 June 2012: 0.4), 0.4 (30 June 2012: 0.3), 20.8% (30 June 2012: 22.2%) and 28.3% (30 June 2012: 30.9%), respectively.

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

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

Significant investment held by the Company

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

Charges on the Group's assets

As at 31 December 2012, bank loans of approximately HK$245.8 million were secured by charges over the Group's certain fixed assets, land held under finance leases and prepaid land lease payments.

Management Discussion and Analysis (Continued)

Contingencies

The board has reviewed and considered the contingent liabilities of the Company and disclosed information concerning such contingent liabilities in note 16 to the condensed consolidated financial statements.

Contingent liabilities

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

Legal contingencies

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

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

MDJ Better Day had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of MDJ Better Day (the "**Contract**"). Owing to the alleged delay in the progress of the construction, the Plaintiff claimed (i) the payment of the contract sum in the amount of RMB42.7 million and the interest thereof; (ii) the grant of the first priority right to receive payment from MDJ Better Day in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13.3 million for alleged termination of the Contract; and (iv) the legal fees arising from this legal case.

The Company has been seeking legal advice in respect of the Writ on the dispute in the payment for the Contract since last December. Per management of MDJ Better Day, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since year 2009. To handle the claim from the Plaintiff, the local management will appoint an independent professional valuer to ascertain both the percentage of completion of the subject construction project and the quality of the construction work done in respect of the subject Contract at the moment.

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

Management Discussion and Analysis (Continued)

Contingencies (Continued)

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

Thereafter, the management is expected to have sufficient information to deal with the claims from the Plaintiff and will not rule out the possibility of filing a counterclaim. The management believes that provision for this legal claim is yet to be ascertained because the litigation is still at an early stage.

Foreign exchange exposure

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi, which are the functional currencies of the principal operating entities of the Group. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2012.

Number and remuneration of employees

As at 31 December 2012, the Group had 995 full time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance-related commissions.

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

PROSPECT

Coal-related chemical production division

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

PROSPECT (Continued)

Coal-related chemical production division (Continued)

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

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

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

Heat and power division

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

Bio-chemical products division

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

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

Future development

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

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

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

Disclosure of Additional Information

Directors' Interests or Short Positions in Shares and Underlying Shares

As at 31 December 2012, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"), were as follows:

Name of Director	Name of company	Type of interest	Number of ordinary shares held (long position) (% of issued share capital of the Company)		Share options held
Ms. Chan Yuk Foebe	The Company	Beneficial Interest	141,977,500(L)	6.35%	Nil
Mr. Chiau Che Kong	The Company	Beneficial Interest	40,593,000(L)	1.81%	Nil
Mr. Tam Ching Ho	The Company	Beneficial Interest	300,000(L)	0.01%	Nil

(L) *long position*

Interests in the Shares and Underlying Shares

Save as disclosed above, so far as the Directors are aware, as at 31 December 2012, none of the Directors and chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which was required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Disclosure of Additional Information

Substantial shareholders' interests and short positions in the Company

As far as the Directors of the Company are aware, as at 31 December 2012, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholders	Number of ordinary shares	Capacity (subject to the notes below)	Approximate percentage of issued share capital of the Company
Chen Yuen Tung	573,337,629 (L)	Beneficial owner	25.63%
Heng Tai Consumables Group Limited	336,309,991 (L)	Interest of controlled corporation	15.03% (note 1)
Master Oriental Limited	336,309,991 (L)	Beneficial owner	15.03% (note 1)
Chung Oi Ling Stella	158,250,000 (L) (note 2)	Interest of controlled corporation	7.07% (note 2)
Flame Capital Limited	155,820,000 (L) (note 2)	Beneficial owner	6.97% (note 2)

(L) long position

Notes:

1. Heng Tai Consumables Group Limited is deemed to be interested in the shares of the Company through its controlled corporation, Master Oriental Limited. In accordance with the SFO, the interests of Master Oriental Limited are deemed to be, and have therefore been included in the interests of Heng Tai Consumables Group Limited.

2. Ms. Chung Oi Ling, Stella is a controlling shareholder of Flame Capital Limited. In accordance with the SFO, the interests of Flame Capital Limited are deemed to be, and have therefore been included in the interests of Ms. Chung Oi Ling, Stella.

Save as disclosed above, as far as the Directors are aware, as at 31 December 2012, no other persons (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, there is sufficient public float of more than 25% of the Company's shares in the market as required under the Listing Rules.

Disclosure of Additional Information

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.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities trading. Having made specific enquiry of all Directors of the Company, all of them confirmed that they had complied with the required standard of dealings as set out in the Model Code during the Period.

Corporate Governance

Corporate Governance Code

The Directors are of the view that the Company has complied with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules during the Period, except for a certain deviation which is summarised below:

Distinctive Roles of Chairman and Chief Executive Officer

Code Provision A.2.1

Paragraph A.2.1 of the Corporate Governance Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

After Mr. Chan Yuen Tung, the former Chairman of the board of directors (the "**Board**"), resigned on 2 February 2012, the roles of Chairman and Chief Executive Officer have been 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.

Disclosure of Additional Information

Audit Committee

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

Remuneration Committee

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

Nomination Committee

The Nomination Committee was established on 2 November 2007 with specific written terms of reference. The Nomination Committee currently comprises two executive directors, namely Ms. Chan Yuk Foebe and Mr. Chiau Che Kong, and three independent non-executive directors, namely Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Wong Sin Lai. The Board as a whole, with the Nomination Committee, is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession plan of directors and assessing the independence of independent non-executive directors.

Disclosure of Additional Information

Corporate Governance Functions

The Board determines the policy for the corporate governance of the Company and is responsible for performing, inter alia, the following corporate governance duties:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct applicable to employees and directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

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

Hong Kong, 28 February 2013