XINYANG MAOJIAN GROUP LIMITED
信 陽 毛 尖 集 團 有 限 公 司

(formerly known as China Zenith Chemical Group Limited 中國天化工集團有限公司)

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 362)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

The board of directors (the "**Board**" or "**Directors**") of Xinyang Maojian Group Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim financial statements (the "**Interim Financial Statements**") of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 31 December 2019 (the "**Period**"). The results for the Period have not been reviewed by external auditor but have been reviewed by the Company's audit committee (the "**Audit Committee**").

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) Six months ended 31 December	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Revenue	3	**149,647**	195,168
Cost of sales		**(81,684)**	(134,467)
Gross profit		**67,963**	60,701
Other income	5	**4,503**	14,963
Gain on fair value of financial assets at fair value through profit or loss, net		**—**	4,904
Selling and distribution costs		**(10,932)**	(9,629)
Administrative expenses		**(38,752)**	(48,775)
Other operating expenses		**(23,795)**	(30,827)
Loss from operations		**(1,013)**	(8,663)
Finance costs		**(48,086)**	(47,755)
Share of results of joint ventures		**(2,349)**	(423)
Loss before tax		**(51,448)**	(56,841)
Income tax	6	**—**	—
Loss for the period	7	**(51,448)**	(56,841)
Attributable to:			
Owners of the Company		**(46,768)**	(57,394)
Non-controlling interests		**(4,680)**	553
Loss for the period		**(51,448)**	(56,841)
Loss per share			
— Basic	8(a)	**HK(3.51) cents**	HK(5.05) cents
— Diluted	8(b)	**HK(3.51) cents**	HK(5.05) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Six months ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Loss for the period	**(51,448)**	(56,841)
Other comprehensive income after tax:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(47,483)**	(43,449)
Other comprehensive income for the period, net of tax	**(47,483)**	(43,449)
Total comprehensive income for the period	**(98,931)**	(100,290)
Attributable to:		
Owners of the Company	**(89,418)**	(97,203)
Non-controlling interests	**(9,513)**	(3,087)
	(98,931)	(100,290)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 31 December 2019	(Audited) 30 June 2019
	Note	***HK$'000***	*HK$'000*
Non-current assets			
Fixed assets		**1,618,648**	1,699,586
Prepaid land lease payments		**301,449**	308,288
Investment in joint ventures		**12,186**	2,787
Other intangible assets		**3,810**	3,868
		1,936,093	2,014,529
Current assets			
Inventories		**54,155**	40,485
Trade receivables	*9*	**47,262**	42,862
Prepayments, deposits and other receivables		**166,067**	161,038
Financial assets at fair value through profit or loss		**618**	743
Bank and cash balances		**7,639**	7,185
		275,741	252,313
TOTAL ASSETS		**2,211,834**	2,266,842
Capital and reserves			
Share capital		**133,543**	133,243
Reserves		**579,136**	667,879
Equity attributable to owners of the Company		**712,679**	801,122
Non-controlling interests		**54,274**	63,787
Total equity		**766,953**	864,909

	Note	(Unaudited) 31 December 2019 HK$'000	(Audited) 30 June 2019 HK$'000
Non-current liabilities			
Bank loans	*10*	**20,001**	21,403
Bonds payable		**937,460**	895,111
Other payables		**236,185**	208,799
Deferred tax liabilities		**102**	102
		1,193,748	1,125,415
Current liabilities			
Trade payables	*11*	**46,058**	58,555
Other payables and accruals		**125,589**	126,010
Other loans		**27,964**	28,263
Bank loans	*10*	**49,522**	52,440
Bonds payable		**2,000**	11,250
		251,133	276,518
Total liabilities		**1,444,881**	1,401,933
TOTAL EQUITY AND LIABILITIES		**2,211,834**	2,266,842
Net current assets/(liabilities)		**24,608**	(24,205)
Total assets less current liabilities		**1,960,701**	1,990,324

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 31 December 2019 (“**Period**”)*

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 (“**HKAS**”) 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.

These condensed consolidated financial statements should be read in conjunction with the 2019 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 2019 annual financial statements except as stated in note 2 below.

2. ADOPTION OF NEW AND REVISED HKFRSS

The unaudited condensed consolidated interim financial information has been prepared in consistent with those principal accounting policies followed in the 2019 annual financial statements except the adoption of the following new/revised HKFRSs, HKAS and Interpretations (hereinafter collectively referred to as “**new HKFRSs**”) which are effective for accounting periods commencing on or after 1 July 2019.

New and amended standards adopted by the Group

The following new and revised standards and a new interpretation were required to be adopted by the Group effective from 1 July 2019:

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2015–2017 Cycle
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures

The application of the new and amended standards did not have any material impact on the Group’s accounting policies and did not require retrospective adjustments.

3. REVENUE

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

	2019	2018
	HK$'000	*HK$'000*
Continuing operations:		
Heat supplying services	**135,843**	124,392
Electricity supplying services	**4,809**	2,521
Sales of calcium carbide	**—**	66,594
Sales of lime powder	**8,471**	—
Facilities of construction services	**524**	1,661
	149,647	195,168

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:

Heat and power — generation and supply of heat and power;

Calcium carbide — manufacture and sale of calcium carbide and lime powder;

Construction services — construction and monitor of public facilities construction;

Polyvinyl-chloride — manufacture and sale of polyvinyl-chloride; and

Vinyl acetate — manufacture and sale of vinyl acetate.

The accounting policies of the operating segments are the same as those described in the 2019 annual financial statements. Segment profits or losses do not include fair value gain on financial assets at fair value through profit or loss and corporate administrative expenses. Segment assets do not include bank and cash balances, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, bonds payable, bond interest payable, other loans 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:

	Heat and power *HK$'000*	**Calcium carbide** *HK$'000*	**Construction services** *HK$'000*	**(Unaudited) Polyvinyl-chloride** *HK$'000*	**Vinyl acetate** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Six months ended 31 December 2019							
Revenue from external customers	**140,652**	**8,471**	**524**	**—**	**—**	**—**	**149,647**
Segment profit/(loss)	**51,839**	**(24,678)**	**(687)**	**(6,237)**	**(5,996)**	**(65,689)**	**(51,448)**
As at 31 December 2019							
Segment assets	**704,691**	**1,124,185**	**120,281**	**50,405**	**38,414**	**173,858**	**2,211,834**
Segment liabilities	**145,092**	**202,484**	**4,260**	**12,386**	**25,547**	**1,055,112**	**1,444,881**

	Heat and power *HK$'000*	Calcium carbide *HK$'000*	Construction services *HK$'000*	(Unaudited) Polyvinyl-chloride *HK$'000*	Vinyl acetate *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Six months ended 31 December 2018							
Revenue from external customers	126,913	66,594	1,661	—	—	—	195,168
Segment profit/(loss)	41,889	(12,590)	(1,550)	(8,685)	(10,126)	(65,779)	(56,841)
				(Audited)			
As at 30 June 2019							
Segment assets	662,121	1,171,049	121,606	57,685	40,889	213,492	2,266,842
Segment liabilities	142,951	208,206	2,589	12,707	21,691	1,013,789	1,401,933

5. OTHER INCOME

	(Unaudited) Six months ended 31 December 2019 *HK$'000*	2018 *HK$'000*
Bank interest income	**92**	84
Other interest income	**1,168**	—
Gain on settlement of other loan payables	**—**	13,748
Construction income of installation of pipe	**1,017**	943
Property management service income	**1,814**	—
Sundry income	**412**	188
	4,503	14,963

6. INCOME TAX

	(Unaudited) Six months ended 31 December 2019 *HK$'000*	2018 *HK$'000*
Current tax	**—**	—

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 (2018: 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.

7. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

The Group's loss for the Period from continuing operations is stated after charging the following:

	(Unaudited) Six months ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Depreciation	**44,891**	53,014
Allowance for receivables		
— trade receivables	**4,289**	5,131
— other receivables	**3,036**	3,326
Factory overhead incurred during suspension of production *(note)*	**20,642**	23,314
Fair value loss on financial assets at fair value through profit or loss	**125**	638
Operating lease rental expenses	**1,448**	1,448
Staff costs (excluding Directors' emoluments):		
Wages, salaries and benefits in kind	**17,177**	17,083
Employee share option benefits	**—**	3,454
Retirement benefits scheme contributions	**3,951**	3,830
Directors' emoluments	**671**	684

Note: For the Period and the six months ended 31 December 2018, factory overhead was incurred during the temporary suspension of production line of polyvinyl-chloride segment, vinyl acetate segment and calcium carbide segment.

8. LOSS PER SHARE

(a) Basic loss per share

Calculation of basic loss per share attributable to the owners of the Company is based on the loss for the Period attributable to the owners of the Company of approximately HK$46,768,000 (2018: HK$57,394,000) and the weighted average number of ordinary shares of 1,332,968,303 (2018: 1,136,731,667) in issue during the Period.

(b) Diluted loss per share

For the Period and the six months ended 31 December 2018, the diluted loss per share was the same as the basic loss per share as the computation of the diluted loss does not assume the exercise of the Company's share options because assumption of exercise of the share options would result in a decrease in loss per share.

9. 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 2019: 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)	(Audited)
	31 December	30 June
	2019	2019
	HK$'000	*HK$'000*
Within 30 days	**9,092**	17,239
31 to 60 days	**1,166**	393
61 to 90 days	**7**	1,630
91 to 120 days	**6,480**	1,006
121 to 150 days	**16,601**	934
151 to 180 days	**10,907**	21,359
181 to 365 days	**3,009**	301
	47,262	42,862

10. BANK LOANS

The Group's bank loans are repayable as follows:

	(Unaudited)	(Audited)
	31 December	30 June
	2019	2019
	HK$'000	*HK$'000*
Term loans subject to a repayment on demand clause	**16,171**	18,670
Within one year	**33,351**	33,770
In the second year	**2,663**	2,663
In the third to fifth years inclusive	**8,330**	8,330
After five years	**9,008**	10,410
	69,523	73,843
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(49,522)**	(52,440)
	20,001	21,403

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

	(Unaudited) **31 December** **2019** ***HK$'000***	(Audited) 30 June 2019 *HK$'000*
Hong Kong dollars	**22,608**	24,009
Renminbi	**46,915**	49,834
	69,523	73,843

As of 31 December 2019, bank loans were arranged at floating rates ranging from 2.10% to 8.50% (30 June 2019: 2.10% to 8.50%) per annum, thus exposing the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets, land held under finance leases and prepaid land lease payments.

11. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (30 June 2019: 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** **2019** ***HK$'000***	(Audited) 30 June 2019 *HK$'000*
Within 30 days	**18,462**	8,437
31 to 60 days	**8,785**	7,178
61 to 90 days	**3,363**	2,486
91 to 120 days	**4,318**	5,910
121 to 365 days	**7,850**	26,091
Over 365 days	**3,280**	8,453
	46,058	58,555

12. CONTINGENT LIABILITIES

On 19 November 2012, China Electricity Construction Consultant Group Dongbei Electricity Design College (translated from the Chinese name of 中國電力工程顧問集團東北電力設計院) (the "**Plaintiff**") filed a writ (the "**Writ**") with the high court of Heilongjiang Province in the People's Republic of China (the "**Heilongjiang High Court**") against Mudanjiang Better Day Power Limited ("**Mudanjiang BD Power**"), an indirect wholly-owned subsidiary of the Company.

Mudanjiang BD Power had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of Mudanjiang BD Power (the "**Contract**"). Owing to the alleged delay in the progress of construction, the Plaintiff claimed (i) the payment of the contract sum in the amount of approximately RMB42,700,000 and the interest thereon; (ii) the grant of the first priority right to receive payment from Mudanjiang BD Power in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13,300,000 for alleged termination of the Contract; and (iv) the legal fees arising from the action. 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 the management of Mudanjiang BD Power, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since 2009.

On 25 October 2018, the Heilongjiang High Court had adjudged that Mudanjiang BD Power was liable to compensate the Plaintiff for approximately RMB36,700,000 with interest. Upon the end of the Period, Mudanjiang BD Power was negotiating with the Plaintiff to continue the construction of the coal-powered electricity generating facilities. Once the performance of the Contract is resumed under the mutual agreement between Mudanjiang BD Power and the Plaintiff, part of the damages granted may be absorbed in the cost of construction.

The management has made sufficient provision for the legal action and believes that a favorable settlement could be reached with the Plaintiff.

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The local management of each business segment of the Group had closely monitored the business operations to reduce coal or energy consumption and avoid wastage so as to enhance the profit from the heat and power division. Although the turnover was downscaled due to the suspension of the calcium carbide production line, the heat and power generating division had an organic growth. Thus, the Group recorded an improvement in the profit margin.

During the Period, loss attributable to owners mainly came from the idle operating costs incurred, which mainly comprised of depreciation and amortisation during the suspension of the coal-related operation.

For the Period, revenue of the Group amounted to approximately HK$150 million, representing a decrease of 23% when compared with that of the last corresponding period.

Loss attributable to the owners of the Company for the Period amounted to approximately HK$47 million, representing a decrease of 19% when compared with that of the last corresponding period.

During the Period, the decrease in the Group's turnover was attributable to the decrease in sales volume of calcium carbide.

The Group's selling and distribution costs for the Period was approximately HK$11 million, representing an increase of approximately 14% when compared with that of the last corresponding period. The increase in selling and distribution costs resulted from the expansion of heat supplying area during the Period.

The Group's administrative expenses for the Period was approximately HK$39 million, representing a decrease of approximately 21% when compared with that of the last corresponding period. The decrease in administrative expenses was due to the suspension of the calcium carbide production line in Heihe.

The Group's other operating expenses for the Period was approximately HK$24 million, representing a decrease of approximately 23% when compared with that of the last corresponding period. The decrease in other operating expenses mainly represented (i) lower factory overhead incurred due to lower depreciation cost as a result of the suspension of the Mudanjiang factories; and (ii) general maintenance costs of the Mudanjiang factories had been expensed during the last corresponding period.

The Group's finance costs for the Period was approximately HK$48 million, representing an increase of approximately 1% when compared with that of the last corresponding period. There were no material changes in the Group's finance costs during the Period.

Heat and power division

During the Period, the heat and power division recorded a revenue of approximately HK$141 million from external customers (2018: HK$127 million). Income from supplying heat to residential users for the Period was approximately HK$131 million, representing an increase of approximately 14% compared with that of the last corresponding period. The increase was due to the increase in heat supplying area for the Group during the Period. Segment profit of approximately HK$52 million was achieved, representing an increase of approximately 24% compared with that of the last corresponding period.

Chemical production division

Calcium carbide

During the Period, the calcium carbide segment of the chemical production division recorded a revenue of approximately HK$8 million from external customers (2018: HK$67 million). Segment loss of approximately HK$25 million was recorded, representing an increase of approximately 96% compared with that of the last corresponding period. During the Period, despite the suspension of the production line for the production of calcium carbide, revenue was generated as the production line for the production of lime powder, a semi-final production of calcium carbide, remained in operation.

Polyvinyl-chloride and vinyl acetate

During the Period, each of the polyvinyl-chloride segment and the vinyl acetate segment of the chemical production division recorded no revenue from external customers, respectively (2018: Nil and nil, respectively), due to the suspension of the Mudanjiang factories.

Construction services division

During the Period, the construction services division recorded a revenue and a segment loss of approximately HK$1 million (2018: HK$2 million) and HK$1 million (2018: HK$2 million), respectively. Due to the seasonal suspension of construction activities during winter in the North East of the People's Republic of China (the "**PRC**"), minimal revenue was recognised during the Period.

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Liquidity and financial ratio

As at 31 December 2019, the Group had total assets of approximately HK$2,212 million (30 June 2019: HK$2,267 million), which were financed by current liabilities of approximately HK$251 million (30 June 2019: HK$277 million), non-current liabilities of approximately HK$1,194 million (30 June 2019: HK$1,125 million), non-controlling interests of approximately HK$54 million (30 June 2019: HK$64 million) and owners' equity of approximately HK$713 million (30 June 2019: HK$801 million).

As at 31 December 2019, the current assets of the Group amounted to approximately HK$276 million (30 June 2019: HK$252 million), mainly comprising inventories of approximately HK$54 million (30 June 2019: HK$40 million), trade receivables of approximately HK$47 million (30 June 2019: HK$43 million), prepayments, deposits and other receivables of approximately HK$166 million (30 June 2019: HK$161 million), financial assets at fair value through profit or loss of approximately HK$1 million (30 June 2019: HK$1 million) and cash and cash equivalents of approximately HK$8 million (30 June 2019: HK$7 million).

As at 31 December 2019, 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 1.1 (30 June 2019: 0.9), 0.9 (30 June 2019: 0.8), 65.3% (30 June 2019: 61.8%) and 202.7% (30 June 2019: 175.0%), respectively. The higher gearing ratio was mainly attributable to the one-off written-off on the idle production lines in Mudanjiang in the year 2019, whilst the total debts of the Group remained stable.

The Group maintained a stable financial position throughout the Period. The management has closely monitored the Group's liquidity and has taken appropriate measures to ensure it has sufficient financial resources to meet its financial obligations.

Non-equity funding

Bank loans

As at 31 December 2019, the bank loans of the Group amounted to approximately HK$70 million (30 June 2019: HK$74 million), of which approximately HK$23 million was denominated in Hong Kong dollars and approximately HK$47 million was denominated in Renminbi (30 June 2019: HK$24 million was denominated in Hong Kong dollars and HK$50 million was denominated in Renminbi). Based on agreed scheduled repayments set out in the loan agreements, bank loans of approximately HK$50 million (30 June 2019: HK$52 million) were repayable within 12 months.

Bonds and other non-equity financing

As at 31 December 2019, the aggregate bonds payable were approximately HK$939 million (30 June 2019: HK$906 million) which were issued for improving the working capital of the Group during the Period.

Significant investments held by the Company

As at 31 December 2019, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK$1 million (30 June 2019: HK$0.1 million).

Charges on the Group's assets

As at 31 December 2019, bank loans and other loans of approximately HK$70 million (30 June 2019: HK$73.8 million) and HK$28 million (30 June 2019: HK$23.8 million), respectively, were secured by charges over the Group's certain fixed assets and prepaid land lease payments.

Contingencies

The Board has reviewed and considered the contingent liabilities of the Company and disclosed information concerning such contingent liabilities in note 12 to the Interim Financial Statements.

Contingent liabilities

As at 31 December 2019, except for as disclosed in note 12 to the Interim Financial Statements, 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 2019.

In face of currency market instability, the Group will make use of hedging instruments to mitigate the exchange rate risk, as and when appropriate.

Number and remuneration of employees

As at 31 December 2019, the Group had 682 full time employees in the PRC and Hong Kong (30 June 2019: 678). 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.

Details of the movement in the share options (the "**Options**") granted under the share option scheme of the Company during the Period are set out below:

Number of category of participants	Options held at 30 June 2019	Options granted during the Period	Options exercised during the Period	Options cancelled during the Period	Options lapsed during the Period	Options held at 31 December 2019
Directors						
Chan Yuk Foebe	10,780,000	—	—	—	—	10,780,000
Law Tze Ping Eric	10,780,000	—	—	—	—	10,780,000
Other Employees	151,120,000	—	(3,000,000)	—	—	148,120,000
Total	172,680,000	—	(3,000,000)	—	—	169,680,000

Note: All the Options were vested immediately on the date of grant and there is no vesting period.

PROSPECT

Apart from improving the existing business of the Group, the management continues to explore various potential projects to improve the income source and profitability of the Group.

The Group is actively exploring business opportunities and is keen on exploring businesses in the **new and emerging industrial sector**. The Group will not rule out the possibility of further acquisition and disposal of non-core assets so as to create value to the shareholders of the Company.

Heat and power division

During the Period, turnover of the heat and power division increased by approximately 10.8% (six months ended 31 December 2018: decreased by 3.8%) and the gross profit increased by approximately 25.0% (six months ended 31 December 2018: decreased by 4.6%). This was because of the increase in the residential heat supplying areas for the Group during the Period (2019: 4.8 million square meters; and 2018 4.1 million square meters).

Further, during the Period, there was a slight decrease in the market price of raw coal of about 5–7%, and therefore, there was a remarkable improvement in the profit margin from the heat and power division.

Given the combination of (i) the increase in the residential heat supplying areas for the Group; and (ii) the slight decrease in the market price of raw coal, the management foresees that this business segment will begin to trend upwards.

Chemical production division

Heihe

During the Period, turnover of the calcium carbide segment of the chemical production division significantly decreased by approximately 87.3% (2018: increase by 88.8%) and recorded a gross loss of approximately HK$1.9 million (2018: gross profit of HK$5 million). During the Period, the market selling price of calcium carbide remained low which led to a gross loss for the production of calcium carbide.

The Group had suspended the production line for the production of calcium carbide, but the production line for the production of lime powder remained in operations. The management believes that the production of lime powder will still provide an optimistic return to the Group in the foreseeable future, and the management therefore intends to concentrate on the expansion of the Group's production capacity of lime powder, while continuing to seek for opportunities to transform the production in Heihe factory in order to maximise the return to the Company.

Mudanjiang

Due to the current market environment, the management is not optimistic in resuming the operations of the plant and equipment in Mudanjiang for the foreseeable future. Nevertheless, the Group will explore various opportunities and measures to reactivate the production plants.

Construction service division

As influenced by the new virus, COVID-19, it is expected construction contracts in the year 2020 would be decreased significantly as most of the construction projects have been suspended. Despite this, Mudanjiang Jinyang Municipal Engineering Company Limited, an indirect wholly-owned subsidiary of the Company, will continue providing support to the Group to help expand its heat supply network, including the construction of heat exchange stations and facilities and pipeline networks.

Agreement in relation to possible acquisition in November 2019

On 18 November 2019, the Company entered into an agreement (the "**Xinyang Maojian Agreement**") with Xinyang Maojian Holdings Co. Ltd.* (信陽毛尖控股有限公司) (the "**Xinyang Maojian Vendor**") pursuant to which the parties agreed to enter into a further agreement (the "**Definitive Agreement**") under which the Company would acquire, and the Xinyang Maojian Vendor would sell, some or all of its assets as set out in the Xinyang Maojian Agreement (the "**November Possible Acquisition**"). The parties agreed that the consideration will be paid by way of a combination of cash consideration, bills payable, convertible bonds and/or consideration shares. The amount and method of payment of the consideration shall be determined after arm's length negotiation between the Company and the Xinyang Maojian Vendor, subject to the terms and conditions to be set out in the Definitive Agreement.

Details of the November Possible Acquisition was disclosed in the announcement of the Company dated 18 November 2019.

EVENTS AFTER THE REPORTING PERIOD

Memorandum of understanding in relation to possible acquisition in January 2020

On 23 January 2020, the Company entered into the MOU with two vendors (the "**MOU Vendors**"), pursuant to which the Company would acquire, and the MOU Vendors would sell, the entire equity interest (the "**January Possible Acquisition**") of My Cloud Technology (Shenzhen) Co. Ltd (the "**MOU Target Company**"). The MOU Target Company is principally engaged in the development of mobile internet integrated platform and it offers concessionary prices and quality services to attract users to use the platform for consumption on the one hand, and allows the merchants to make better offers with higher users' access on the other hand, thereby enhancing the platform value with the match of supply and demand. The management considered that the January Possible Acquisition, if materialised, would enable the Group to leverage on the MOU Target Company's background and expertise to further explore favourable businesses and new development opportunities in the area of software and information technology and would enable the Group to benefit from the competitive advantages of the MOU Target Company.

Details of the January Possible Acquisition were disclosed in the announcements of the Company dated 23 January 2020 and 24 January 2020, respectively.

Connected transaction in relation to the exercise of the put option and termination of the share transfer agreement and the supplemental agreement

On 5 January 2018, Prosper Path Limited (a wholly-owned subsidiary of the Company) (the "**Purchaser**") entered into a share transfer agreement (the "**Share Agreement**") with Dragon Wise Group Limited (an indirect non wholly-owned company of Mr. Sha Tao ("**Mr. Sha**")) (the "**Vendor**") to acquire 100% of the entire issued share capital (the "**Sale Shares**") of Xinyang Maojian International Holding Limited (the "**Target Company**", and together with its subsidiaries, the "**Target Group**") at a total consideration (the "**Consideration**") of HK$85,800,000 (the "**Acquisition**"). On 11 June 2018, the Purchaser and the Vendor entered into a supplemental agreement (the "**Supplemental Agreement**", together with the Share Agreement, the "**Existing Agreements**"), pursuant to which the Purchaser and the Vendor agreed to amend certain terms of the Share Agreement. The Consideration will be satisfied by way of allotment and issue of 220,000,000 new shares of the Company (the "**Consideration Shares**" and each a "**Consideration Share**") to the Vendor or its nominee(s) at an issue price of HK$0.39 per Consideration Share. Pursuant to the Existing Agreements, the Consideration Shares will not be allotted and issued to the Vendor unless and until the guaranteed financial performance (the "**Guaranteed Financial Performance**") is met by the Target Group and the Purchaser shall in accordance with the Existing Agreements, procure the Company to allot and issue the Consideration Shares to the Vendor. The Acquisition was completed on 4 October 2018. Pursuant to the Existing Agreements, in the event that any of the Guaranteed Financial Performance is not met after completion of the Acquisition, the Purchaser shall exercise an irrevocable and unconditional put option (the "**Put Option**") in relation to the Sale Shares within seven Business Days after the provision of the Target Company's audited accounts to the Vendor at an exercise price of HK$1.

As the accumulated audited loss after tax of the Target Group for the year ended 30 June 2019 (the "**Relevant Period**") was approximately RMB4,165,000, the Guaranteed Financial Performance for the Relevant Period (i.e. not less than profit of RMB8,500,000) could not be met.

On 12 February 2020, the Purchaser and the Vendor entered into a termination agreement (the "**Termination Agreement**"), pursuant to which the parties had agreed, among others, (i) to terminate the Existing Agreements and the transactions contemplated thereunder; (ii) to waive the term which required the Put Option be exercised by the Purchaser within seven Business Days after the provision of the relevant audited accounts to the Vendor (the "**Waiver**"); and (iii) that the Purchaser shall exercise the Put Option to dispose of the Target Company to the Vendor.

Details of the Acquisition (including the Termination Agreement and the Waiver) were disclosed in the circular of the Company dated 23 July 2018 and the announcements of the Company dated 5 January 2018, 11 June 2018, 15 August 2018 and 12 February 2020, respectively.

As of the date of this announcement, the management has decided to cease the tea division business.

Disposal of shares by the single largest shareholder and the subsequent lapse of sale and purchase agreement

The Company was informed by Mr. Chan Yuen Tung ("**Mr. Chan**"), the then single largest shareholder of the Company and Mr. Sha, the then second single largest shareholder of the Company, that on 16 April 2019, Mr. Chan and Mr. Sha entered into a conditional sale and purchase agreement (the "**SPA**") pursuant to which Mr. Chan agreed to sell and Mr. Sha agreed to purchase 146,000,000 shares of the Company, representing approximately 10.97% of the total issued shares of the Company as at the date of the announcement of the Company dated 16 April 2019 (the "**Disposal Announcement**"), at a price of HK$0.915 per Share (the "**Disposal**").

The Company was further informed that the closing of the SPA would be conditional upon the fulfillment of certain conditions precedent on or before 15 December 2019 (or such other date agreed by the parties to the SPA), including in particular, the entering into of a placing agreement by Mr. Chan to appoint a securities broker licensed to carry out Type 1 (dealing in securities) activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as placing agent, to place on a fully underwritten basis to placees independent of and not parties acting in concert with Mr. Sha, the remaining 200,479,861 shares of the Company held by Mr. Chan (the "**Placing**") other than the shares of the Company to be disposed of under the SPA. Pursuant to the SPA, completion of the Disposal and the Placing shall take place simultaneously.

On or around 12 February 2020, the Company was informed by Mr. Chan that as the conditions precedent of the SPA have not been satisfied, pursuant to the terms of the SPA, the SPA has lapsed and is of no further effect and neither party to the SPA shall have any claim against each other save for any rights or obligations which may accrue prior to the lapse of the SPA.

Details of the Disposal (including the subsequent lapse of the SPA) was disclosed in the Disposal Announcement and the announcement of the Company dated 12 February 2020.

Strategic investment framework agreement

On 13 February 2020, the Company entered into a strategic investment framework agreement (the "**Framework Agreement**") with SB Green Investment Fund Limited (an indirect non wholly-owned company of Mr. Sha ("**SB Green**").

Pursuant to the Framework Agreement, SB Green agreed to cooperate with the Company and commit to make strategic investments in the Company to support the Company's development of new economic businesses that meet the requirements of green sustainable development, subject to compliance with the Hong Kong capital market regulations and certain conditions. Based on the different stages of cooperation, it is expected that SB Green will make strategic investment of not less than US$50,000,000 to the Company based on the market situation and use of capital at the relevant time, including but not limited to debt and equity investments, such as subscription and issuance of notes, bonds, convertible bonds, and/or share placements.

The management was of the view that both parties would leverage on their respective advantages, resources and expertise to build a stable and mutually-beneficial strategic cooperation relationship. The entering into of the Framework Agreement is in line with the development strategies of the Company as a whole, which will enable the Company to seize any potential business and investment opportunities, and is in the interests of the Company and its Shareholders.

Details of the Framework Agreement was set out in the announcement of the Company dated 13 February 2020.

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

The Directors are of the view that the Company has complied with the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to 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 of the Code

The roles of Chairman and Chief Executive Officer of the Company 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 pursuant to Rules 3.21 and 3.22 of the Listing Rules, 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, namely, Mr. Ma Wing Yun Bryan (Chairman), 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 Interim Financial Statements and there was no disagreement from the Audit Committee with the accounting treatment adopted by the Company.

REMUNERATION COMMITTEE

A remuneration committee was established by the Company (the "**Remuneration Committee**") on 1 July 2005, with specific written terms of reference which set out clearly its authority and duties pursuant to Rules 3.25 and 3.26 of the Listing Rules. The Remuneration Committee currently comprises three independent non-executive Directors, namely, Mr. Ma Wing Yun Bryan (Chairman), Mr. Tam Ching Ho and Mr. Hau Chi Kit, 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 by the Company (the "**Nomination Committee**") on 2 November 2007, with specific written terms of reference pursuant to provisions A.5.1 and A.5.2 of the Code. The Nomination Committee currently comprises one executive Director, namely Ms. Chan Yuk Foebe (Chairman), 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 2019/20 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.xinyangmaojian.com.hk, and dispatched to the shareholders of the Company before the end of March 2020.

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

Hong Kong, 28 February 2020

As at the date of this announcement, the executive Directors are Ms. Chan Yuk Foebe, Mr. Law Tze Ping Eric, Mr. Yu Defa and Mr. Chen Lei and the independent non-executive Directors are Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit.

* *For identification only*