



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)

2016

Annual Report



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Ms. Chan Yuk Foebe
Mr. Law Tze Ping Eric
Mr. Yu Defa

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan
Mr. Tam Ching Ho
Mr. Hau Chi Kit

Company Secretary

Mr. Ma Kin Ling

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Room 4007, 40/F.
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Authorised Representatives

Ms. Chan Yuk Foebe
Mr. Law Tze Ping Eric

Auditor

Elite Partners CPA Limited
10/F, 8 Observatory Road
Tsim Sha Tsui
Kowloon
Hong Kong

Legal Adviser to the Company

(as to Hong Kong law)
Cheung & Liu, Solicitors
Units 1602-06, 16/F, FWD Financial Center,
308 Des Voeux Road Central,
Sheung Wan, Hong Kong

Principal Bankers

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

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

Principal Share Registrar and Transfer Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Tengis Limited
22/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Financial Year End Date

30 June

Company Website:

www.chinazenith.com.hk

Telephone Number:

2845 3131

Facsimile Number:

2845 3535

Stock Code

00362

CHAIRMAN'S STATEMENT

To Shareholders,

On behalf of China Zenith Chemical Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2016 (the "Year").

Financial Results

For the Year, the Group recorded a revenue of approximately HK\$68 million, representing an increase of 9% compared with that of previous financial year. The increase in revenue mainly resulted from the increase in the residential heat supply areas during the Year.

The loss attributable to owners of the Company was approximately HK\$421 million, representing an increase of 70% compared with that of previous financial year.

The Group implemented a one-off impairment for the Group's Goodwill and Fixed Assets of HK\$38 million and HK\$222 million respectively. Excluding the effect of the impairments, the underlying loss for the Year was HK\$248 million, representing a decrease of 17% as compared with the loss of HK\$298 million for the previous financial year.

Business Review

Over the last few years, the global economic downturn caused the depression in many industries, which influenced the demand on our coal-related products, as the upstream products. To overcome these adverse circumstances, the Group reorganised and concentrated its resources on developing the heat and power division.

During the Year, the Group increased its heat supplying areas from 1,300,000 square meters to 1,400,000 square meters which resulted in the increase in turnover. In addition, the Group strengthened the internal policies to reduce energy consumption and avoid wastage, which resulted in the improvement in gross profit margin. Our management will closely monitor the market conditions and consider resuming the production once the coal-related market become profitable.

Prospects

Looking forward, with continuous investment in the heat and power division, Mudanjiang Better Day Power Limited is expected to be the driver of the Group which will contribute a substantial growth in the turnover and gradual improvement in gross profit margin in the coming year. Our management is seeking for opportunity to carry out new projects and transactions which could bring economic value and benefit to our shareholders.

Gratitude

On behalf of the Company, I would like to express my sincere gratitude to our shareholders, the business partners and the management and staff for their unreserved support and continuing trust to the Group.

By order of the Board

Chan Yuk, Foebe

Chairman and Chief Executive Officer

Hong Kong, 30 September 2016

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The loss attributable to shareholders was mainly derived from the costs incurred in maintaining idle plants and equipment which mainly comprised of depreciation and amortisation during the suspension of coal-related operation.

For the year ended 30 June 2016, revenue of the Group amounted to approximately HK\$68 million, representing an increase of 9% compared with that of the financial year ended 30 June 2015. Loss attributable to owners of the Company amounted to approximately HK\$422 million, representing an increase of approximately 70% compared with that of the last financial year.

During the financial year under review (the "Year"), the increase in the Group's revenue was primarily attributed by the increase in sales volume of our heat and power products.

The Group's selling and distribution costs for the Year was approximately HK\$13 million, representing an increase of approximately 39% when compared with that of the last financial year. The increase in selling and distribution costs was resulted from the increase in the heat supplying areas during the Year.

The Group's administrative expenses for the Year was approximately HK\$92 million, representing a decrease of approximately 16% when compared with that of the last financial year. The decrease resulted from effective administrative cost control of the Group.

Excluding the effect of factory overhead during the suspension of the production of coal-related chemical and bio-chemical products which amounted to approximately HK\$107 million, the Group's other operating expenses for the year ended 30 June 2016 was approximately HK\$41 million, representing an decrease of HK\$40 million when compared with that of the last financial year. (Excluding the effect of factory overhead during the suspension of the production of coal-related chemical and bio-chemical products which amounted to approximately HK\$107 million, the Group's other operating expenses for the year ended 30 June 2015 was approximately HK\$81 million.)

Due to the continuous downcast of the coal-related business, the Group appointed an independent professional valuer to assess the market value of the Group's fixed assets. During the year, the Group recorded an impairment of goodwill and an impairment of fixed assets of HK\$38 million and HK\$222 million respectively, which was derived from the difference between the carrying amount less fair value of the assets.

Heat and power division

During the Year, the heat and power segment recorded a revenue of HK\$68 million from external customers. The residential income for the Year was approximately HK\$48 million, representing an increase of approximately 11% when compared with that of the last financial year. The increase was resulted from the increase of the supplying heat residential areas from 1,300,000 square meters to 1,400,000 square meters. Segment profit of approximately HK\$4 million was attained compared with a segment loss of HK\$20 million for the last financial year.

The local management had closely monitored the operation to reduce coal or energy consumption and avoid wastage so as to increase the profit from our heat and power generating facilities. Approximately ten months of operation and sales of electricity and heat was recorded during the Year.

Coal-related chemical production division

Coal related chemical production division included the polyvinyl-chloride segment (the "PVC"), the vinyl acetate segment (the "VA") and the calcium carbide segment (the "CC"). During the Year, no revenue was recorded for these segments from external customers. The segment loss of PVC, VA and CC were HK\$66 million, HK\$118 million and HK\$225 million respectively, of which the segment loss was mainly derived from the impairment of fixed assets of HK\$222 million. Excluding the effect of impairment of fixed assets, the segment loss of PVC, VA and CC were HK\$19 million, HK\$19 million and HK\$149 million, represented a decrease of 17%, 5% and 9%, respectively, compared with that of the last financial year.

Management Discussion and Analysis

Prospect

The management believes that worst moment of the Group had passed and foresees a promising future in the coming years when the industry environment improves.

Heat and power division

During the Year, the Company had nearly completed the construction of 25 kilometers pipelines which has a capacity to supply heat for approximately 1,400,000 square meters of residential areas. It is expected, by year 2017, the heat supplying area will increase by approximately 2,100,000 square meters. The increase in residential heat supplying areas will much enhance the profit margin in higher level. Hence, it is strongly believed that the heat and power division will be the growth driver of the Group provided that the coal price remains stable.

Coal-related chemical production division

Heihe

Heihe Longjiang Chemical Co. Ltd. (“HLCCL”), the Group’s coal related chemical production in Heihe, the PRC was still incurring operating loss because of the suspension of calcium carbide production operation and HLCCL filed a writ against both the Heihe City Local Government and the State Grid Heilongjiang Electric Power Company Limited (the “Defendants”) in relation to the electric supply for calcium carbide production. Calcium carbide production is highly sensitive to two factors — electricity and raw material (i.e. coal). However, having considered (i) the current downward trend of coal price; (ii) the tentative settlement offer from the Defendants which will supply electricity to HLCCL at a lower cost; and (iii) completion of the installation of gas fired kiln system for production of calcium carbide in the third quarter of 2015 which will further lower the production cost by 20%, the Directors are of the view that the profitability of HLCCL will improve. During the past few months HLCCL put in considerable efforts in achieving earlier stage for the resumption of production to bring the plant and equipment up and running. To resume full commercial production, numerous trial runs are needed to attain and maintain the stability of quality required for marketable products, and also the production logistics, including ordering and delivering of raw materials, need to be dealt with. HLCCL is currently on trial run and fine-tuning the plant and machinery with an aim to resume full production as soon as possible.

Mudanjiang

Although government policy on grant of preferential tariff was promulgated in recent years, the current low market prices of calcium carbide with an average of RMB2,200 per ton made production of the product unprofitable even with government tariff. The management estimates production of coal-related products in the Mudanjiang plant would only break even if calcium carbide price increases to not less than RMB2,850 per ton. The management will closely monitor the market conditions and resumption of full production will be initiated only after the market price of calcium carbide recovers and remains stable above the breakeven level.

Appointment as window company of Mudanjiang City Government

On 25 August 2015, the Mudanjiang City Government appointed the Company as its Hong Kong based agent and foreign window company representing it in the negotiation of matters concerning the city government’s listing of domestic enterprises and projects, fund raising exercise and transfer of equity interest. The Company was honored the appointment due to its contribution to the local economy and good relationship with Mudanjiang City Government. The appointment has no fixed term and is intended to be high level initiative for promotion of commercial and capital market activities. The duty was not set out in the appointment letter, nor has the Company performed any particular task, function or role as the local government’s agent and window company since being appointed.

Acquisition of Logistics Centres Project

On 26 August 2015, the Company entered into a share acquisition framework agreement (“Framework Agreement”) with Mudanjiang Transportation Group Investment Limited (“Mudanjiang Transportation Group”), a PRC state-owned enterprise which is controlled by the Transport Department of the People’s Government of Mudanjiang City, Heilongjiang Province, the PRC in relation to the construction and operation of the international and domestic logistics centres in Mudanjiang City. The Framework Agreement has a term of 45 days from the date of execution and takes effect immediately upon signing. Pursuant to the Framework Agreement, the Company is going to acquire 70% equity interest of Mudanjiang Transportation Group which is undertaking the following projects:

Management Discussion and Analysis

Prospect (Continued)

Acquisition of Logistics Centres Project (Continued)

- (a) Phase 1 of the Mudanjiang International Transportation and Logistics Centre (“Logistic Centre”) which was still under construction;
- (b) Phase 2 of the Logistics Centre;
- (c) the drop and pull transportation project; and
- (d) the state-owned interest in the general commercial complex developed by the Mudanjiang Transportation Group.

The Company has been making progress and in-depth discussion with Mudanjiang Transportation Group and Government of Mudanjiang City for the cooperation of the logistic centres mentioned above. The negotiation of the acquisition is now entering into the final stage. The management understands that Phase 1 of the Logistic Centre has not commenced operation and Mudanjiang Transportation Group is in the course of applying various consents, licences and approvals from relevant government departments for commencement of operation of Phase 1 of the Logistics Centre. It is the intention of the parties that if those consents, licences and approvals for the operation of Phase 1 of the Logistics Centre are not obtained on or before 31 October 2016, the Framework Agreement will be terminated and no definitive agreements will be entered into by the parties.

Capital Structure, Liquidity and Financial Resources

Capital structure

The Group financed its operations and business development with internally generated resources and non-equity funding.

Liquidity and Financial Ratios

As at 30 June 2016, the Group had total assets of approximately HK\$3,295.5 million (2015: HK\$3,514.6 million) which were financed by current liabilities of approximately HK\$1,010.9 million (2015: HK\$883.0 million), non-current liabilities of approximately HK\$461.3 million (2015: HK\$340.7 million), non-controlling interests of approximately HK\$129.9 million (2015: HK\$164.0 million) and shareholders' equity of approximately HK\$1,693.4 million (2015: HK\$2,126.9 million).

As at 30 June 2016, the current assets of the Group amounted to approximately HK\$171.6 million (2015: HK\$161.4 million) comprising inventories of approximately HK\$48.9 million (2015: HK\$33.6 million), trade receivables of approximately HK\$8.4 million (2015: HK\$5.9 million), prepayments, deposits and other receivables of approximately HK\$74.8 million (2015: HK\$79.4 million), other loan receivables of approximately HK\$Nil (2015: HK\$0.7 million), financial assets at fair value through profit or loss of approximately HK\$0.2 million (2015: HK\$0.4 million), cash and cash equivalents of approximately HK\$39.3 million (2015: HK\$41.4 million). As at 30 June 2016, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets – inventory)/current liabilities), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/shareholders' equity) of the Group were approximately 0.2 (2015: 0.2), 0.1 (2015: 0.1), 44.7% (2015: 34.8%) and 86.9% (2015: 57.5%), respectively.

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

Non-equity funding

Bank loans

As at 30 June 2016, the bank loans of the Group amounted to approximately HK\$83.1 million (2015: HK\$149.1 million). Based on agreed scheduled repayments set out in the loan agreements, bank loans of approximately HK\$53.8 million (2015: HK\$117.3 million) were repayable within 12 months, of which HK\$31.8 million was denominated in Hong Kong Dollar and HK\$51.4 million was denominated in Renminbi (2015: HK\$34.2 million was denominated in Hong Kong dollar and HK\$114.9 million was denominated in Renminbi).

Management Discussion and Analysis

Prospect (Continued)

Capital Structure, Liquidity and Financial Resources

(Continued)

Non-equity funding (Continued)

Bonds

On 16 September 2015, the Company and Pico Zeman Securities (HK) Limited ("Pico Zeman") entered into the placing agreements pursuant to which Pico Zeman had agreed to procure, on a best endeavor basis, independent placees (which may include Pico Zeman and its associates) to subscribe in cash for one or multiple tranches of 5% to 12%, 4 to 10 years term bonds in an aggregated principal amount of up to HK\$100,000,000 within 120 days starting from the date of the placing agreements or such later date to be mutually agreed between the Company and Pico Zeman.

On 18 January 2016, the Company and Pico Zeman entered into the placing agreement pursuant to which Pico Zeman has conditionally agreed to procure, on a best endeavour basis, independent placees (which may include Pico Zeman and its associates) to subscribe in cash for one or multiple tranches of the 5% to 12%, 4 to 10 years term bonds for an aggregate principal amount of up to HK\$200,000,000 within 180 days from the date of the placing agreement or such later day to be mutually agreed between the Company and Pico Zeman.

As at 30 June 2016, the aggregate amount of bonds payable was HK\$416,960,000.

Significant investment held by the Company

As at 30 June 2016, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK\$0.2 million. The Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK\$0.2 million during the Year.

Charges on the Group's assets

As at 30 June 2016, bank loans and other loans of approximately HK\$83 million and HK\$46 million respectively were secured by charges over the Group's certain fixed assets, land held under finance leases and prepaid land lease payments.

Event after reporting period

1. On 15 July 2016, the Company entered into a sale and purchase agreement with an independent third party to dispose of the entire equity interests of Better Day Bio-Chem Technology Limited, which in turn directly and indirectly holds the entire equity interest in Mudanjiang Gaoke Bio-Chem Co. Ltd. (the "Disposal"). The consideration for the Disposal is RMB192,000,000 (equivalent to approximately HK\$222,720,000) of which a non-refundable deposit of RMB10,000,000 (equivalent to approximately HK\$11,600,000) had been received on signing of the sale and purchase agreement. For further details, please refer to the circular of the Company dated 26 September 2016 in relation to the Disposal.
2. On 15 August 2016, the Company announced a proposed open offer on the basis of one offer share for every four existing shares and issue of bonus shares on the basis of one bonus share for every offer share taken up under the open offer (the "Open Offer"). The Open Offer involves the allotment and issue of 718,724,879 offer shares at a price of HK\$0.10 per offer share and the issue of 718,724,879 bonus shares. The gross proceeds of the Open Offer will be approximately HK\$71,900,000.

The Open Offer was underwritten by VC Brokerage Limited, (the "Underwriter"). Mr. Chan Yuen Tung, the substantial shareholder of the Company, has given an irrecoverable undertaking in favour of the Company and the Underwriter to subscribe for 104,457,407 offer shares to which Mr. Chan is entitled under the Open Offer. The Underwriter has agreed to fully underwrite the remaining 614,267,472 offer shares. For further details, please refer to the circular of the Company dated 28 September 2016 in relation to the Open Offer.

Contingent liabilities

As at 30 June 2016, except for disclosed in Note 40, the Group did not have any significant contingent liabilities.

Management Discussion and Analysis

Prospect (Continued)

Capital Structure, Liquidity and Financial Resources

(Continued)

Foreign exchange exposure

Although most of the Group's operations were carried out in the PRC in which transactions were denominated in RMB, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of RMB in recent years. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the Year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2016.

Number and Remuneration of Employees

As at 30 June 2016, the Group had 527 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 Year, no share options were granted to senior management of Hong Kong and PRC subsidiaries of the Company. As at 30 June 2016, there were 80 million share options outstanding. These comprise 34 million share options with an exercise period up to 9 March 2018 at the exercise price of HK\$0.425 per share and 46 million share options with an exercise period up to 10 May 2018 at the exercise price of HK\$1.05 per share.

CORPORATE GOVERNANCE REPORT

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company had, throughout the year ended 30 June 2016, complied with the Corporate Governance Code and Corporate Governance Report (the “Code”), 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 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.

Throughout the financial year under review, the roles of Chairman and Chief Executive Officer were performed by the same individual, Ms. Chan Yuk Foebe, and were not separated. The Board meets regularly to consider issues related to corporate matters affecting operations of the Group and considers that this deviation will not impair the balance of power and authority of the Board and the Company’s management and thus, the Board believes the current structure will enable effective planning and implementation of corporate strategies and decisions of the Group. Notwithstanding the above, the Board will review the current structure from time to time and shall make necessary amendments at the appropriate time.

This report describes the Group’s corporate governance practices applied throughout the year under review.

The Board of Directors

Composition and practices

The Board is responsible for overseeing the Group’s strategic planning and development, and for determining the objectives, strategic and policies of the Group while delegating day-to-day operations of the Group to the management. Besides, each member of the Board is expected to make a full and active contribution to the Board’s affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole. The Board regularly reviews the contribution required from a director to perform his or her responsibilities to the Company, and whether he or she is spending sufficient time performing them.

As at 30 June 2016, the Board comprised six members, namely, Ms. Chan Yuk Foebe as the Chairman of the Board and the Chief Executive Officer, Mr. Law Tze Ping Eric and Mr. Yu Defa as executive directors and Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit as independent non-executive directors. Details of their respective experience and qualification are set out in the “Biographical Details of Directors and Senior Management” section of this annual report. An updated list of directors of the Company and their respective roles and functions have been maintained on the website of the Hong Kong Stock Exchange and that of the Company.

The Board has maintained a balance of skills and experience appropriate for the requirements of the businesses of the Group. Its composition represents a mixture of management, accounting and finance, marketing, manufacturing and procurement with comprehensive experience in and exposure to diversified businesses. It is the opinion of the directors that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interests of the Company.

Besides, to the best knowledge of the Company, there is no material/relevant relationship, whether financial, operational, business, family, etc, among members of the Board.

Corporate Governance Report

The Board of Directors (Continued)

Composition and practices (Continued)

The Company had received confirmation from the independent non-executive Directors that they complied with the guidelines on independence set out under Rule 3.13 of the Listing Rules and had not violated any provision thereunder throughout the Year. Amongst them, Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit have the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2) of the Listing Rules.

Appropriate liability insurance for directors has been arranged for indemnifying their liabilities arising out of corporate activities. This insurance coverage is reviewed on an annual basis.

Training and support for directors

Directors must keep abreast of their collective responsibilities. Each newly-appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. To comply with code provision A.6.5 of the Code, All directors, namely Ms. Chan Yuk Foebe, Mr. Law Tze Ping Eric, Mr. Yu Defa, Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit have participated in the Group briefings and other training provided by the Group to develop and refresh their knowledge and skills during the year. The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes were issued to Directors and senior management, where appropriate, to ensure awareness of best corporate governance practices.

During the year, the Directors also read various literature on directors' obligations and responsibilities. A record of the training received from each of the Directors are kept and updated by the company secretary of the Company.

The Board meeting — full directors' board meeting

The Board meets regularly at least four times a year at quarterly intervals and holds additional meetings as and when the Board thinks appropriate.

During the year ended 30 June 2016, fourteen Board meetings were held for discussion of the Company's matters. The attendance of each director, on a named basis and by category, at the Board meetings during the year is set out below:

Directors	Number of meetings attended/Number of Board meetings held
<i>Executive directors</i>	
Ms. Chan Yuk Foebe	14/14
Mr. Law Tze Ping Eric	14/14
Mr. Yu Defa	2/14
<i>Independent non-executive directors</i>	
Mr. Ma Wing Yun Bryan	14/14
Mr. Tam Ching Ho	13/14
Mr. Hau Chi Kit	13/14

The Board meeting — executive directors' board meeting

In addition, during the year ended 30 June 2016, one Executive Directors' Board meeting was held to deal with the compliance of legal and administrative procedures, including:

- Internal corporate re-structuring and company secretarial matters.

To handle the above-mentioned matters, at least two executive directors of the Company are required to form a quorum.

Corporate Governance Report

The Board of Directors (Continued)

The Board meeting — executive directors' board meeting (Continued)

The attendance of each director, on a named basis and by category, at the Executive Directors' Board meeting during the year is set out below:

Directors	Number of meetings attended/Number of Executive Directors Board meetings held
<i>Executive directors</i>	
Ms. Chan Yuk Foebe	2/2
Mr. Law Tze Ping Eric	2/2
Mr. Yu Defa	0/2
<i>Independent non-executive directors</i>	
Mr. Ma Wing Yun Bryan	N/A
Mr. Tam Ching Ho	N/A
Mr. Hau Chi Kit	N/A

The Board meeting — committee meeting

During the year ended 30 June 2016, six Board committee meetings were held. The attendance of each director, on a named basis and by category, at Board committee meetings during the year is set out below:

Directors	Number of meetings attended/ Number of meetings held		
	Remuneration Committee	Audit Committee	Nomination Committee
<i>Executive directors</i>			
Ms. Chan Yuk Foebe	N/A	N/A	2/2
Mr. Law Tze Ping Eric	N/A	N/A	N/A
Mr. Yu Defa	N/A	N/A	N/A
<i>Independent non-executive directors</i>			
Mr. Ma Wing Yun Bryan	4/4	2/2	2/2
Mr. Tam Ching Ho	3/4	2/2	1/2
Mr. Hau Chi Kit	4/4	2/2	2/2

Pursuant to the Articles, meetings or extraordinary meetings of the Board may be convened by means of telephone or similar telecommunication facilities. Regular meetings of the Board were held during the Year. Extra meetings were also held to cater for important matters arising from time to time. Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least three days before each meeting to keep the directors apprised of the latest developments and financial position of the Company to enable them to make informed decisions.

Minutes of Board/committee meetings would be kept by the company secretary of the Company and shall be open for inspection by directors. Where Directors have a material or conflict of interests in any transaction discussed in the Board/committee meetings, such a transaction will not be dealt with by way of written resolutions unless clear declaration of interest is made by the relevant directors. The Directors concerned could express their views on the matter but would not be counted as part of the quorum and shall abstain from voting on the relevant resolutions.

In addition, to facilitate the decision-making process, the Directors have free access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All Directors have unrestricted access to the company secretary who is responsible for ensuring that the Board/committee procedures are complied with and for advising the Board/committee on compliance matters.

Non-executive Directors, including independent non-executive Directors, should attend Board, committee and general meetings and contribute to the Company's strategy and policies.

Corporate Governance Report

The Board of Directors (Continued)

Appointment and re-election of directors

The Company has established formal, considered and transparent procedures for the appointment and succession plan of directors.

All independent non-executive Directors are appointed for a specific term. The term of office for Mr. Ma Wing Yun Bryan is two years with effect from 1 April 2015. The term of office for Mr. Tam Ching Ho is two years with effect from 7 December 2015. The term of office for Mr. Hau Chi Kit is two years with effect from 18 December 2015.

In accordance with the Articles, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

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.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Board confirmed that all the Directors had complied with the required standard of dealings set out in the Model Code throughout the year ended 30 June 2016.

Board Committees

The Board has established three Board committees, namely the remuneration committee ("Remuneration Committee"), the audit committee ("Audit Committee") and the nomination committee ("Nomination Committee") for overseeing particular aspects of affairs of the Company. These committees have been established with defined written terms of reference, as approved by the Board, which set out the committee's major duties.

The Board committees are provided with sufficient resources to discharge their duties and upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the expense of the Company.

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 over the Group's financial reporting process and internal control systems. In accordance with the requirements of the Code on Corporate Governance Practice, the terms of reference of the Audit Committee were revised on 21 October 2006 and were further reviewed on 21 March 2012 in terms substantially the same as the provisions set out in the Code.

As at 30 June 2016, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Ma Wing Yun Bryan (Chairman of the Committee), Mr. Tam Ching Ho and Mr. Hau Chi Kit, all of whom are not involved in the day-to-day management of the Company.

Corporate Governance Report

Board Committees (Continued)

The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process. The Audit Committee is also responsible for reviewing the auditor's appointment, the auditor's remuneration and any matters relating to the termination of, the appointment of and the resignation of the auditor. In addition, the Audit Committee also examines the effectiveness of the Company's internal controls and risk management, which involve regular reviews of the internal controls of various corporate structure and business processes on a continuous basis, and take into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations, risk management system and the realisation of its corporate objectives and strategies. The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditor and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, during the Year, the Audit Committee reviewed the audited financial statements of the Company for the year ended 30 June 2016 and the unaudited financial statements of the Company for the six months ended 31 December 2015. It also reviewed the system of internal control and risk management of the Company.

During the Year, the Audit Committee met twice with the external auditor. Please refer to the table set out in the section "The Board Meeting — Committee Meeting" of this report for the attendance record of individual Audit Committee members.

The Audit Committee has recommended to the Board that Elite Partners CPA Limited, be nominated for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

Remuneration committee

The Remuneration Committee was established on 1 July 2005 and revised on 21 March 2012 with specific written terms of reference in compliance with the code provisions in the Code. As at 30 June 2016, the Remuneration Committee comprises three independent non-executive directors, namely Mr. Ma Wing Yun Bryan (Chairman of the Committee), Mr. Tam Ching Ho and Mr. Hau Chi Kit.

The Remuneration Committee is responsible for, inter alia, advising the Board on the remuneration policy and structure for all remuneration of the Company's directors and senior management, as well as reviewing and either determining with delegated responsibility the remuneration packages of individual executive directors and senior management or making recommendations to the Board on the remuneration packages of individual executive directors and senior management in accordance with code provision B.1.2(c)(ii) of the Code; making recommendations to the Board on the remuneration of non-executive directors, and approving the compensation to executive directors and senior management for any loss or termination of their office or appointment, and reviewing and approving compensation relating to dismissal or removal of directors for misconduct. No director was involved in deciding his/her own remuneration.

Remuneration of directors and senior management

Pursuant to paragraph B.1.5 of the Code, the remuneration of the members of the senior management by band for the year ended 30 June 2016 is set out below:

Remuneration band (HK\$)	Number of individuals
Nil to 1,000,000	11

Further particulars regarding Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 15 to the financial statements as set out on pages 70 to 71 of this annual report.

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee met fourth times, during which it assessed the performance of the executive directors. The attendance of each member of the Remuneration Committee, on a named basis and by category, at the committee meetings during the year is set out in the section "The Board Meeting — Committee Meeting" of this report above.

Corporate Governance Report

Board Committees (Continued)

Nomination committee

The Nomination Committee was established on 2 November 2007 and on 21 March 2012 it adopted specific written terms of reference in compliance with the Code. As at 30 June 2016, the Nomination Committee comprised one executive Director, namely Ms. Chan Yuk Foebe, and three independent non-executive Directors, namely Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit.

The Nomination Committee is responsible for, inter alia, the following:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of, individuals nominated for directorships;
- (c) to assess the independence of independent non-executive Directors;
- (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer;
- (e) to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board;
- (f) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or applicable laws; and

- (g) to ensure the chairman of the Committee, or in the absence of the chairman, another member of the Committee or failing this his duly appointed delegate, be available to answer questions at the annual general meeting of the Company.

The Nomination Committee would review the composition of the Board from time to time where Board diversity would be considered from a number of aspects, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of services.

During the Year, the Nomination Committee met fourth times during which discussed and reviewed the structure, size and composition of the Board. Please refer to the table set out in the section "The Board Meeting — Committee Meeting" of this report for the attendance record of individual Nomination Committee members.

Corporate governance functions

During the Year under review, the Board determined the policy for the corporate governance of the Company, and performed, inter alia, the following duties: (a) developed and reviewed the Company's policies and practices on corporate governance and made recommendations to the Board; (b) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements; (c) developed, reviewed and monitored the code of conduct applicable to employees and directors; (d) reviewed the Company's compliance with the code and disclosure in the Corporate Governance Report; and (e) reviewed and monitored the training and continuous professional development of directors and senior management.

Company secretary

Ms. Yip Tsz Ying Loretta was appointed as the company secretary of the Company since January 2015 and resigned from her position with effect from 6 May 2016. Mr. Ma Kin Ling has been appointed as the company secretary of the Company with effect from 6 May 2016. Both Ms. Yip and Mr. Ma have confirmed that they have taken no less than 15 hours of relevant professional training during the year ended 30 June 2016. The Company is of the view that both Ms. Yip and Mr. Ma have complied with Rules 3.29 of the Listing Rules.

Corporate Governance Report

Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for (i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements are in accordance with statutory requirements and applicable accounting standards and (ii) selecting suitable accounting policies and applying them consistently with the support of reasonable and prudent judgments and estimates.

The independent auditor's report of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out on pages 27 to 28 of this annual report.

Accountability and Auditor's Remuneration

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 30 June 2016.

The statement of the external auditor of the Company about their responsibilities on the financial statements is set out in the "Independent Auditor's Report" section of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. The Board has not taken any different view from that of the Audit Committee in respect of the selection, appointment, resignation or dismissal of external auditor.

The remuneration paid to Elite Partners CPA Limited, the external auditor of the Company, and the nature of services are set out as follows:

Type of services provided by the external auditor	Fee paid/payable HK\$'000
<i>Audit services:</i>	
Audit of annual financial statements	1,200

Internal Control and Risk Management

The Board is responsible for the effectiveness of the Group's internal control and risk management systems. The internal control and risk management systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up to safeguard assets against unauthorised use or disposition, control capital expenditure, maintain proper accounting records and ensure the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The internal audit department was set up on 15 May 2006, under the supervision of the Board. During the Year, the Board reviewed the effectiveness of the internal control and risk management systems of the Group on the adequacy and effectiveness of the Company's internal controls and risk management. The review covers aspects relating to financial and compliance controls of the major subsidiaries of the Company. Moreover, operation professionals had been appointed to perform reviews on the new information systems and operations. These reviews included operational workflow and risk management controls over new manufacturing functions of the Company. It was also the Board's review to consider the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

Corporate Governance Report

Shareholders' Rights and Investor Relations

The Company encourages two-way communications with both institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to shareholders of the Company.

Designated executive directors and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

At general meetings, the Chairman of the meetings raises separate resolutions for each effectively independent matter. The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board and the chairman of the Board committees, or in their absence, other members of the respective committees, must attend the annual general meeting to address shareholders' queries. External auditor is also invited to attend the Company's annual general meetings and is available to assist the directors in addressing queries from shareholders relating to the conduct of the audit and the preparation and content of its auditor's report.

Shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings can make a requisition to convene an extraordinary general meeting pursuant to article 64 of the Company's articles of association. The procedures for shareholders to put forward proposals at general meetings are stated as follows:

- (a) The written requisition must state the purposes of the meeting, and must be signed by all the shareholders concerned and may consist of several documents in like form each signed by one or more shareholders concerned.
- (b) The written requisition must be stated with the head office of the Company at Room 4007, 40/F., China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong, for the attention of the Directors or the Company Secretary.
- (c) The written requisition will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the relevant resolution in the agenda for such general meeting. Such general meeting shall be held within two months after the deposit of such requisition.
- (d) If within 21 days of such deposit, the Directors fail to proceed to convene such a general meeting, the requisitionist(s) himself (themselves) may themselves convene a meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors to do so shall be reimbursed to the requisitionist(s) by the Company.

During the Year, two general meetings were held. The 2015 annual general meeting was held on 18 December 2015, and an extraordinary general meeting was held on 7 June 2016. The attendance record of each director, on a named basis and by category, at the general meetings held during the Year under review is set out below:

Directors	Number of general meetings attended/ Number of general meetings held
<i>Executive directors</i>	
Ms. Chan Yuk Foebe	2/2
Mr. Law Tze Ping Eric	2/2
Mr. Yu Defa	0/2
<i>Independent non-executive directors</i>	
Mr. Ma Wing Yun Bryan	0/2
Mr. Tam Ching Ho	1/2
Mr. Hau Chi Kit	1/2

Corporate Governance Report

Shareholders' Rights and Investor Relations (Continued)

No amendments were made to the Memorandum and Articles of Association of the Company during the Year. The Memorandum and Articles of Association of the Company is available on both the website of the Company and that of HKEx.

Shareholder services

Any matter in relation to the transfer of shares, change of name or address, or loss of share certificates should be addressed to the Company's Hong Kong branch share registrar and transfer office as follows:

Tricor Tengis Limited

22/F, Hopewell Centre, 183 Queen's Road East, Wanchai,
Hong Kong
Tel: 2980 1888
Fax: 2861 0285

Shareholders' enquiries to the Board

Shareholders of the Company may send their enquiries to the Board in writing with contact details (including registered name, address, telephone number and email address) to the Company Secretary of the Company as follows:

Address: Room 4007, 40/F., China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Telephone: 2845 3131
Fax: 2845 3535
Email: info@chinazenith.com.hk

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Ms. Chan Yuk Foebe (陳昱), aged 47, is the chairman and chief executive officer of the Group and joined the Group in January 2004. Ms. Chan is responsible for the overall management and business development of the Group. Ms. Chan holds a bachelor's degree in Accountancy from the Queensland University of Technology in Australia. Ms. Chan has more than 10 years' experience in the areas of corporate finance and management. Ms. Chan is a non-executive director of Heng Tai Consumables Group Limited ("Heng Tai") (Stock Code: 197), whose shares are listed on the main board of the Stock Exchange. Save as disclosed herein, Ms. Chan did not hold any other directorships in listed public companies in the last three years. Ms. Chan Yuk Foebe was appointed as the Chairman and a member of nomination committee with effect from 2 February 2012.

Mr. Law Tze Ping Eric (羅子平), aged 36, is an executive director of the Company. Prior to the joining of the Group, Mr. Law worked as a business consultant and provided consultancy services for listed and non-listed companies in Hong Kong. Mr. Law did not hold any other directorships in listed public companies in the last three years. Mr. Law was appointed as an executive Director with effect from 3 March 2015.

Mr. Yu Defa (于德發), aged 49, is an executive director of the Company. He is currently acted as the chief operation director of Heihe Longjiang Chemical Co. Ltd., a subsidiary of the Company. Mr. Yu had been the sales and operating general manager of medium-sized enterprises with more than ten years of extensive experiences in sales operation and management.

He joined the Group in October 2011 and was promoted as the deputy general manager of Heihe Longjiang Chemical Co. Ltd. in October 2013. Mr. Yu majored in civil work engineering in Harbin University of Science and Technology in 1988 to 1990. Mr. Yu did not hold any other directorships in listed public companies in the last three years. Mr. Yu Defa was appointed as an executive Director with effect from 5 May 2014.

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan (馬榮欣), aged 50, is an independent non-executive Director and is also the chairman of

the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Ma is the finance director of Union Sun International Group Limited, a non-listed company with affiliates dealing in property development in the PRC. He was an independent director of Celestial Nutrifooods Limited (the shares of which are listed on the main board of Singapore Exchange Securities Trade Limited (the "Singapore Exchange")) until 18 July 2011. Moreover, Mr. Ma was an independent director of China Oilfield Technology Services Group Limited (the shares of which are listed on the main board of the Singapore Exchange) until 30 May 2010. He has approximately 20 years of experience in the areas of audit, financial management and operational management. Mr. Ma is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Ma was appointed as an independent non-executive director in February 2001.

Mr. Tam Ching Ho (譚政豪), aged 45, appointed on 30 June 2007, is an independent non-executive Director and is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Tam is a certified public accountant (practising) registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He has worked in a reputable international accounting firm for about eight years and specialised in providing assurance services for pre-listing, listed and multinational companies. He has also held senior positions in several companies, including mainly the financial controller of a company listed on the main board of the Stock Exchange and another company listed on the Main Board of the Singapore Exchange Limited for a total of about seven years. Mr. Tam has accumulated extensive experience in corporate finance and administration, listing compliance, investor relations, accounting and auditing. Mr. Tam holds a bachelor's degree of arts with honors in accountancy. He is an associate member of the HKICPA and a fellow member of The Association of Chartered Certified Accountants. Mr. Tam is also an independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited (Stock Code: 682), the shares of which are listed on the main board of the Stock Exchange. Save as disclosed herein, Mr. Tam did not hold any other directorships in listed companies in the last three years.

Biographical Details of Directors and Senior Management

Directors (Continued)

Independent Non-executive Directors (Continued)

Mr. Hau Chi Kit (侯志傑), aged 44, appointed on 18 December 2013, is an independent non-executive director and also a member of the Audit committee, Remuneration committee and Nomination committee of the Company. He was a barrister-at-law in private practice in Hong Kong from 2001 to 2008. Prior to becoming a barrister, he worked at the Securities and Futures Commission. Mr. Hau is currently a solicitor and is an independent non-executive director of eForce Holdings Limited (Stock Code: 943), a company listed on the main board of the Stock Exchange of Hong Kong Limited (“the Stock Exchange”) and Trillion Grand Corporate Company Limited (Stock Code: 8103), a company listed on the Growth Enterprises Market (the “GEM”) of the Stock Exchange. In the past three years, he was an independent non-executive director of CNC Holdings Limited (Stock Code: 8356) from May 2011 to May 2015 and Celebrate International Holdings Limited (Stock Code: 8212) from May 2015 to November 2015, all being companies listed on the GEM of the Stock Exchange. Save as disclosed herein, Mr. Hau did not hold any other directorships in listed companies in the last three years.

Senior Management

Mr. Mak Wing Chun (麥永津), aged 35, was the chief financial officer of the Group and resigned from his office with effect from 30 June 2016. Mr. Mak was responsible for the financial reporting of the Group. Mr. Mak graduated from City University of Hong Kong with a bachelor’s degree in Accountancy. Prior to joining the Group in April 2010, he worked in various reputable international accounting firms and has over 9 years of experience in auditing and accounting.

Mr. Ma Kin Ling (馬健凌), aged 34, is the financial controller and the company secretary of the Group. Mr. Ma is responsible for the financial reporting and company’s secretarial functions of the Group. Mr. Ma graduated from City University of Hong Kong with a bachelor’s degree in Accountancy and Law. Mr. Ma joined the Group on 6 May 2016. Prior to joining the Group, he worked in a reputable international accounting firm and has over 9 years of experience in auditing and accounting. Mr. Ma is a member of the HKICPA.

Mr. Wu Huamin (吳化民), aged 53, is the Vice General Manager of the Mudanjiang Gaoke Bio-Chem Company Limited and is mainly responsible for the daily production of the Vitamin C division. Mr. Wu has over 15 years’ experience in production management of the medicine manufacturing enterprises. He joined the Group on May 2009. He studied mechanical development in Jiamusi Technical College (佳木斯工學院) from 1981 to 1985.

Mr. Tian Yu (田雨), aged 59, is the Vice General Manager of the Mudanjiang Better Day Power Limited of the Group, and is mainly responsible for the production technology of power and steam. He joined the Group in December 2006. Mr. Tian has over 20 years’ extensive experience in the production, management and project construction aspects of enterprises which generate and supply power and steam. He further studied and graduated from Heilongjiang Province Economic Cadre Institute (黑龍江省經濟幹部學院) in 2000, majoring in economic management.

Mr. Sun Jianfei (孫劍飛), aged 44, is the Vice General Manager of the Heihe Longjiang Chemical Company Limited. Mr. Sun has over 10 years’ experience in the production management of chemical enterprises. He joined the Group in September 2005 and was promoted to Vice General Manager of the Mudanjiang Daytech Chemical Ltd. Mr. Sun completed a program of chemical technology from Mudanjiang Vocational University (牡丹江職工大學) in July 1995.

Senior Management Remuneration System

The remuneration system of the senior management of the Group is a combination of the economic benefit of the senior management (including executive directors) and the operational results and share performance of the Group. Most of the members of the senior management have signed result examination contracts’ with the Company. In this system, the remuneration of the senior management comprises three parts, namely, basic salary, bonus and share options. The floating remuneration of the senior management represents approximately 70% to 75% of their total potential remuneration, which includes result bonuses and share options representing approximately 15% to 25% and 50% to 60% respectively of their total potential remuneration. Floating remuneration is linked with the specific business performance indicators, for example, the net profit, capital return and cost reduction indicator.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Group for the year ended 30 June 2016.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 25 to the financial statements.

An analysis of the Group's performance for the year by business segments is set out in note 11 to the financial statements.

Results and Dividends

The Group's profit for the year ended 30 June 2016 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 29 to 96 of this annual report.

The directors do not recommend the payment of dividend for the year ended 30 June 2016.

Summary Financial Information

The following is a summary of the published consolidated results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate:

Results

	Year ended 30 June				
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
REVENUE	68,300	62,911	163,477	297,446	213,791
LOSS FROM OPERATIONS	(444,031)	(278,660)	(637,667)	(323,324)	(440,933)
Finance costs	(68,945)	(48,019)	(32,667)	(14,309)	(7,841)
LOSS BEFORE TAX	(512,976)	(326,679)	(670,334)	(337,633)	(448,774)
Income tax credit	4,580	28,418	79,697	12,736	42,610
LOSS FOR THE YEAR	(508,396)	(298,261)	(590,637)	(324,897)	(406,164)
Attributable to:					
Owners of the Company	(421,647)	(248,517)	(559,532)	(310,652)	(390,112)
Non-controlling interests	(86,749)	(49,744)	(31,105)	(14,245)	(16,052)
	(508,396)	(298,261)	(590,637)	(324,897)	(406,164)

Report of the Directors

Summary Financial Information (Continued)

Assets, liabilities and equity

	At 30 June				
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Non-current assets	3,123,917	3,353,154	3,364,546	3,808,089	3,686,862
Current assets	171,612	161,446	302,961	268,754	294,671
TOTAL ASSETS	3,295,529	3,514,600	3,667,507	4,076,843	3,981,533
Non-current liabilities	461,324	340,737	299,289	153,286	164,149
Current liabilities	1,010,947	883,000	861,474	811,191	719,532
TOTAL LIABILITIES	1,472,271	1,223,737	1,160,763	964,477	883,681
TOTAL EQUITY	1,823,258	2,290,863	2,506,744	3,112,366	3,097,852
Attributable to:					
Owners of the Company	1,693,344	2,126,830	2,297,894	2,871,933	2,858,572
Non-controlling interests	129,914	164,033	208,850	240,433	239,280
	1,823,258	2,290,863	2,506,744	3,112,366	3,097,852

Note: The results of the Group for the year ended 30 June 2016 and the assets, liabilities and equity of the Group as at 30 June 2016 are those set out in the audited financial statements on pages 29 to 30 and pages 31 to 32 of this annual report, respectively.

The results of the Group for the years ended 30 June 2012, 2013, 2014 and 2015 have been extracted from the audited financial statements of the Company for the respective years.

The assets, liabilities and equity of the Group as at 30 June 2012, 2013, 2014 and 2015 have been extracted from the audited financial statements of the Company for the respective years and have been restated as appropriate.

Fixed Assets

Details of movements in the Group's fixed assets and land held under finance leases are set out in notes 20 and 21 to the financial statements respectively.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements, respectively.

Report of the Directors

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles or the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Cayman Islands Companies Law”), 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.

Confirmation of Independence of Independent Non-executive Directors

The Company has received from each of Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit an annual confirmation of their independence pursuant to the Rule 3.13 of the Listing Rules and the Company are of the view that all independent non-executive directors of the Company have met the independent guidelines set out in Rule 3.13 of the Listing Rules and considers that they are independent.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year under review.

Reserves

Details of movements in the reserves of the Group and of the Company during the year under review are set out in the consolidated statement of changes in equity on page 33 of this annual report and note 32(b) to the financial statements as set out on page 87 of this annual report, respectively.

Major Customers and Suppliers

During the year, the sales to the Group’s five largest customers accounted for approximately 79.5% of the Group’s total sales for the year and the sales to the largest customer included therein amounted to approximately 52.6%.

Purchases from the Group’s five largest suppliers accounted for approximately 94.6% of the Group’s total purchases for the year and purchases from the largest supplier included therein amounted to approximately 37.3%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company’s issued share capital) had any beneficial interest in the Group’s five largest customers or suppliers.

Directors

The directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:

Ms. Chan Yuk Foebe
Mr. Law Tze Ping Eric
Mr. Yu Defa

Independent Non-executive Directors:

Mr. Ma Wing Yun Bryan
Mr. Tam Ching Ho
Mr. Hau Chi Kit

Report of the Directors

Directors (Continued)

In accordance with articles 108 and 112 of the Articles, Ms. Chan Yuk Foebe, Mr. Ma Wing Yun Bryan and Mr. Tam Ching Ho will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical Details of the Directors and Senior Management

Biographical details of the directors of the Company and senior management of the Group are set out on pages 18 to 19 of this annual report.

Directors' Service Contracts

Ms. Chan Yuk Foebe has entered into a service contract with the Company commencing from 22 November 2004, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other. Mr. Yu Defa has entered into a letter of appointment with the Company for an initial term of two years commencing from 5 May 2014, which shall, subject to his re-appointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other. The term of his appointment was since renewed for a further term of two years commencing from 5 May 2016. Mr. Law Tze Ping Eric have entered into a letter of appointment with the Company for an initial term of two years commencing from 3 March 2015, which shall, subject to the reappointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other.

Mr. Ma Wing Yun Bryan was appointed for a term of two years as an independent non-executive director of the Company commencing from 28 February 2001. The term of his appointment was renewed for a further two-year term commencing from 28 February 2003. Upon expiry of his appointment on 27 February 2005, the Company did not renew the service contract with Mr. Ma Wing Yun Bryan until 24 March 2006. The Company renewed the service contract with Mr. Ma Wing Yun, Bryan for a further term of three years, commencing from 1 April 2006. The term of his appointment was since renewed for a further term of two years commencing from 1 April 2009, 1 April 2011, 1 April 2013 and 1 April 2015, respectively.

The Company entered into a service contract with Mr. Tam Ching Ho commencing from 30 June 2007 to the then following annual general meeting (i.e. 6 December 2007) of the Company. On 7 December 2007, the Company renewed the service contract with Mr. Tam Ching Ho for a term of two years as an independent non-executive director of the Company commencing from 7 December 2007. Moreover, the term of his appointment was renewed for a further term of two years commencing from 7 December 2009, 7 December 2011, 7 December 2013 and 7 December 2015, respectively.

The Company entered into a service contract with Mr. Hau Chi Kit for a term of two years commencing from 18 December 2013 as an independent non-executive director. Moreover, the term of his appointment was renewed for a further term of two years commencing from 18 December 2015.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors

Directors' Interests in Contracts

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

Directors' and Chief Executive's Interests or Short Positions in Shares and Underlying Shares

As at 30 June 2016, 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, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

Interests in the Shares and Underlying Shares

Name of director	Type of interest	Number of Shares held (long position)	% of issued capital of the Company	Share options held	% of issued capital of the Company
Ms. Chan Yuk Foebe	Beneficial Interest	60,030,000	2.09%	11,000,000	0.38%
Mr. Law Tze Ping Eric	Beneficial Interest	400,000	0.01%	23,000,000	0.80%

Save as disclosed herein, as at 30 June 2016, none of the Directors and chief executives of the Company and their respective associates had or was deemed to have any interests or short positions in any Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the 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 which they are deemed or taken to have under provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

Interests of Shareholders Discloseable under the SFO

As far as the directors of the Company are aware, as at 30 June 2016, the following persons, other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

Name	Number of Ordinary shares	Capacity (subject to the notes below)	Approximate percentage interest
Mr. Chan Yuen Tung	Long position 417,829,629	Beneficial owner	14.53%

Save as disclosed above, as far as the directors of the Company are aware, as at 30 June 2016, no other person had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

Emolument Policy and Long-term Incentive Scheme of the Group

Compensation for the Group is made reference to the prevailing market conditions, individual performance, contributions as well as duties and responsibilities.

A share option scheme is in place to provide appropriate long-term incentive to key staff of the Group including Executive Directors. Details of the share option scheme of the Company are set out in note 31 to the financial statements in this annual report.

Basis of Determining Emolument to Directors

The same remuneration philosophy is applicable to the Directors of the Company. Apart from benchmarking against the prevailing market condition, the Company will assess individual performance, contributions, duties and responsibilities in determining the remuneration for each Director.

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.

Directors' Interests in a Competing Business

During the Year and up to the date of this report, no Director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the Directors were appointed as directors to represent the interests of the Company and/or the Group.

Report of the Directors

Audit Committee

The Audit Committee has reviewed the audited financial statements and results of the Group for the year ended 30 June 2016 and is of the view such financial statements are in compliance with applicable accounting standards and requirements.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiries to all the Directors, all the Directors confirmed that they have complied with the code provisions in the Model Code during the year ended 30 June 2016.

Auditor

During the year, Elite Partners CPA Limited (“Elite”) had been appointed as auditor of the Company to fill the casual vacancy following the resignation of RSM Hong Kong, both with effect from 27 June 2016.

The consolidated financial statements of the Group for the year ended 30 June 2016 were audited by Elite which would retire at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution will be proposed to the Shareholders to re-appoint Elite as auditor of the Company.

Save as disclosed above, there has been no change in auditor of the Company in any of the preceding three years.

ON BEHALF OF THE BOARD

Chan Yuk Foebe

Chairman and Executive Director

Hong Kong
30 September 2016

INDEPENDENT AUDITOR'S REPORT



開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
Certified Public Accountants

TO THE MEMBERS OF

CHINA ZENITH CHEMICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Report on the Financial Statements

We have audited the consolidated financial statements of China Zenith Chemical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 96, which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Independent Auditor's Report

Basis for Qualified Opinion

Opening balances, corresponding figures and comparative financial statements

The corresponding figures and comparative financial statements in the current year's financial statements were derived from the financial statements for the year ended 30 June 2015 which contained a disclaimer of audit opinion, details of the qualifications were set out in the auditor's report dated 30 September 2015. We have not been able to obtain sufficient appropriate audit evidence as to whether (i) the opening balances, (ii) the corresponding figures and comparative financial statements were properly recorded and accounted for.

Any adjustments that might have been found to be necessary would have had a consequential impact on the net assets of the Group as at 30 June 2016, results of the Group for the year ended 30 June 2016 and the related disclosures thereof in the financial statements.

Qualified Opinion

In our opinion, except for the effects of the possible effects on the opening balances, corresponding figures and comparative financial statements, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2016 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of Matter

We draw attention to note 2 to the consolidated financial statements which indicates that the Group has net current liabilities of approximately HK\$839,335,000 as at 30 June 2016. These conditions, along with other matters as set out in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Elite Partners CPA Limited

Certified Public Accountants

Hong Kong, 30 September 2016

Siu Jimmy

Practising Certificate number: P05898

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2016

	Note	2016 HK\$'000	2015 HK\$'000
Revenue	9	68,300	62,911
Cost of sales		(47,203)	(60,671)
Gross profit		21,097	2,240
Other income	10	47,088	24,772
Selling and distribution costs		(12,553)	(9,011)
Administrative expenses		(92,053)	(109,076)
Other operating expenses		(147,706)	(187,585)
Impairment of goodwill		(37,904)	–
Impairment of fixed assets		(222,000)	–
Loss from operations		(444,031)	(278,660)
Finance costs	12	(68,945)	(48,019)
Loss before tax		(512,976)	(326,679)
Income tax credit	13	4,580	28,418
Loss for the year	14	(508,396)	(298,261)
Attributable to:			
Owners of the Company	16	(421,647)	(248,517)
Non-controlling interests		(86,749)	(49,744)
		(508,396)	(298,261)
Loss per share			
– Basic	18	(HK17.39 cents)	(HK10.64 cents)
– Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

	Note	2016 HK\$'000	2015 HK\$'000
Loss for the year		(508,396)	(298,261)
Other comprehensive income after tax:			
<i>Item that will not be reclassified to profit or loss:</i>			
Gains on property revaluation		55,613	16,121
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(21,772)	5,282
Other comprehensive income for the year, net of tax	19	33,841	21,403
Total comprehensive income for the year		(474,555)	(276,858)
Attributable to:			
Owners of the Company		(401,535)	(232,041)
Non-controlling interests		(73,020)	(44,817)
		(474,555)	(276,858)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

	Note	2016 HK\$'000	2015 HK\$'000
Non-current assets			
Fixed assets	20	2,679,295	2,845,586
Land held under finance leases	21	65,768	66,451
Prepaid land lease payments	22	378,241	401,658
Goodwill	23	–	37,904
Other intangible assets	24	613	1,555
		3,123,917	3,353,154
Current assets			
Inventories	26	48,918	33,608
Trade receivables	27	8,417	5,965
Other loans receivable		–	700
Prepayments, deposits and other receivables		74,811	79,394
Financial assets at fair value through profit or loss	28	169	403
Bank and cash balances	29	39,297	41,376
		171,612	161,446
TOTAL ASSETS		3,295,529	3,514,600
Capital and reserves			
Share capital	30	287,490	238,290
Reserves	33	1,405,854	1,888,540
Equity attributable to owners of the Company		1,693,344	2,126,830
Non-controlling interests		129,914	164,033
Total equity		1,823,258	2,290,863

Consolidated Statement of Financial Position

as at 30 June 2016

	Note	2016 HK\$'000	2015 HK\$'000
Non-current liabilities			
Bank loans	38	29,358	31,761
Bonds payable	39	416,960	291,437
Deferred tax liabilities	34	15,006	17,539
		461,324	340,737
Current liabilities			
Trade payables	35	72,906	79,543
Bond interest payable		9,219	6,749
Other payables and accruals		828,481	586,089
Other loans	36	46,579	49,843
Due to a non-controlling shareholder of a subsidiary	37	–	43,453
Bank loans	38	53,762	117,323
		1,010,947	883,000
Total liabilities		1,472,271	1,223,737
TOTAL EQUITY AND LIABILITIES		3,295,529	3,514,600
Net current liabilities		(839,335)	(721,554)
Total assets less current liabilities		2,284,582	2,631,600

Approved and authorised for issued by the board of directors on 30 September 2016.

Chan Yuk Foebe
Chairman

Law Tze Ping Eric
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

	Attributable to owners of the Company								
	Issued 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/ (accumulated losses) HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 July 2014	232,490	1,709,247	46,107	952	307,648	1,450	2,297,894	208,850	2,506,744
Total comprehensive income for the year	-	-	11,600	-	4,876	(248,517)	(232,041)	(44,817)	(276,858)
Share option benefits									
- Grant of share option	-	-	-	21,952	-	-	21,952	-	21,952
- Exercise of share options	5,800	33,225	-	-	-	-	39,025	-	39,025
- Transfer to share premium	-	8,338	-	(8,338)	-	-	-	-	-
Changes in equity for the year	5,800	41,563	11,600	13,614	4,876	(248,517)	(171,064)	(44,817)	(215,881)
At 30 June 2015 and 1 July 2015	238,290	1,750,810	57,707	14,566	312,524	(247,067)	2,126,830	164,033	2,290,863
Total comprehensive income for the year	-	-	39,695	-	(19,583)	(421,647)	(401,535)	(73,020)	(474,555)
Placement of new shares (Note 30)	13,800	29,138	-	-	-	-	42,938	-	42,938
Issue of shares for purchase of non-controlling interest (Note 43(a))	35,400	57,422	-	-	-	(167,711)	(74,889)	38,901	(35,988)
Share option benefits									
- Expiry of share options (Note 31)	-	-	-	(952)	-	952	-	-	-
Changes in equity for the year	49,200	86,560	39,695	(952)	(19,583)	(588,406)	(433,486)	(34,119)	(467,605)
At 30 June 2016	287,490	1,837,370	97,402	13,614	292,941	(835,473)	1,693,344	129,914	1,823,258

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

	2016 HK\$'000	2015 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(512,976)	(326,679)
Adjustments for:		
Finance costs	68,945	48,019
Interest income	(39)	(466)
Depreciation	116,312	117,171
Amortisation of prepaid land lease payments	9,172	9,172
Amortisation of other intangible assets	534	1,916
Allowance for receivables	42,850	70,315
Write off/loss on disposal of fixed assets	133	601
Fair value loss/(gain) on financial assets at fair value through profit or loss	234	(256)
Gain on disposal of financial assets at fair value through profit or loss	–	(1,273)
Revaluation deficits on buildings	–	2,058
Impairment of goodwill	37,904	–
Impairment of fixed assets	222,000	–
Share option benefits	–	21,952
Operating loss before working capital changes	(14,931)	(57,470)
(Increase)/decrease in inventories	(15,310)	6,882
(Increase)/decrease in trade receivables	(7,516)	1,937
(Increase)/decrease in prepayments, deposits and other receivables	(32,503)	15,860
Decrease in trade payables	(6,637)	(5,988)
Increase in other payables and accruals	161,560	73,091
Decrease in financial assets at fair value through profit or loss	–	3,847
Cash generated from operations	84,663	38,159
Interest received	39	466
Interest paid	(32,225)	(24,265)
Net cash generated from operating activities	52,477	14,360

Consolidated Statement of Cash Flows

for the year ended 30 June 2016

	Note	2016 HK\$'000	2015 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(130,727)	(95,748)
Proceeds from disposal of fixed assets		589	–
Net cash used in investing activities		(130,138)	(95,748)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares	30	42,938	–
Exercise of share options		–	39,025
Issue of bonds		91,273	47,820
Repayment of bank loans		(58,556)	(52,435)
Net cash generated from financing activities		75,655	34,410
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,006)	(46,978)
Effect of foreign exchange rate changes		(73)	2,775
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		41,376	85,579
CASH AND CASH EQUIVALENTS AT END OF YEAR		39,297	41,376
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		39,297	41,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Room 4007, 40th Floor, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 25 to the consolidated financial statements.

2. Going Concern Basis

The Group incurred a loss of approximately HK\$508,396,000 for the year ended 30 June 2016 and as at 30 June 2016 the Group had net current liabilities of approximately HK\$839,335,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In preparing the consolidated financial statements, the directors have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to achieve profitable and positive cash flows from operations in immediate and long terms. The directors have prepared cash flow forecasts for the period up to December 2017 after taking into account of the measures below. In order to strengthen the Group's capital base and maintain sufficient financing necessary for future business development, the directors of the Company have taken the following measures:

- On 15 July 2016, the Company entered into a sales and purchase agreement with an independent third party to dispose the entire equity interests of Better Day Bio-Chem Technology Limited, which in turn directly and indirectly holds the entire equity interest in Mudanjiang Gaoke Bio-Chem Co. Ltd. (the "Disposal"). The consideration for the Disposal is approximately HK\$222,720,000.
- On 15 August 2016, the Company proposed to carry out the Open Offer, which involves the allotment and issue of 718,724,879 Offer Shares at a price of HK\$0.10 per Offer Share. The gross proceeds of the Open Offer will be approximately HK\$71,900,000.
- Heihe Longjiang Chemical Co. Ltd is currently on trial run and fine-tuning the plant and machinery with an aim to resume full production in the future.

Based on the above conditions, the directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

3. Basis of Preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance.

4. Adoption of New and Revised Hong Kong Financial Reporting Standards

(a) Amendments to HKFRSs and the new Interpretations that are mandatorily effective for the current year

The Group has applied the following new and revised HKFRSs issued by the HKICPA that are relevant for the preparation of the consolidated financial statements for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle
Amendments to HKAS 19 (2011)	Defined benefit plans: Employee contributions

The application of these new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Annual Improvement to HKFRSs 2010–2012 Cycle

The Annual Improvements to HKFRSs 2010–2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of ‘vesting condition’ and ‘market condition’; and (ii) add definitions for ‘performance condition’ and ‘service condition’ which were previously included within the definition of ‘vesting condition’. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have ‘similar economic characteristics’; and (ii) clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

4. Adoption of New and Revised Hong Kong Financial Reporting Standards

(Continued)

(a) Amendments to HKFRSs and the new Interpretations that are mandatorily effective for the current year (Continued)

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel service to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The application of these amendments does not have a material effect on the Group's consolidated financial statements.

Annual Improvement to HKFRSs 2011–2013 Cycle

The Annual Improvements to HKFRSs 2011–2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of business combination under HKFRS 3.

The application of these amendments does not have a material effect on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

4. Adoption of New and Revised Hong Kong Financial Reporting Standards

(Continued)

(a) Amendments to HKFRSs and the new Interpretations that are mandatorily effective for the current year (Continued)

Amendments to HKAS 19 (2011) Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 (2011) clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The application of these amendments to HKAS 19 (2011) does not have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

(b) New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements 2012–2014 Cycle ³
Amendments to HKAS 1	Disclosure Initiative ³
Amendments to HKFRS 11	Accounting for acquisition of Interests in Joint operations ³
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ³
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between on Investors and its Associate or Joint Venture ⁴
Amendments to HKAS 27	Equity method in Separate Financial Statements ³
HKFRS 9 (2014)	Financial instruments ¹
HKFRS 15	Revenue from contracts with customers ¹
HKFRS 16	Leases ²
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidated exception ³

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after 1 January 2016.

⁴ Effective for annual period beginning on or after a date to be determined.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

4. Adoption of New and Revised Hong Kong Financial Reporting Standards

(Continued)

(b) New and revised Standards and Interpretations issued but not yet effective (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting. Another revision version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a “fair value through profit or loss and other comprehensive income” measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortised cost or fair value. Under HKFRS 9, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may take an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liabilities designated as at fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The Directors anticipate that the application of HKFRS 9 in the future may have an impact on the classification and measurement of financial instruments. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

4. Adoption of New and Revised Hong Kong Financial Reporting Standards

(Continued)

(b) New and revised Standards and Interpretations issued but not yet effective (Continued)

HKFRS 9 Financial Instruments (Continued)

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- (i) Identify the contract with the customer;
- (ii) Identify the performance obligations in the contract;
- (iii) Determine the transaction price;
- (iv) Allocate the transaction price to the performance obligations; and
- (v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede Hong Kong Accounting Standard (“HKAS”) 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flow. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company will assess the impact of the application of HKFRS 16. For the moment, considered that it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. buildings and certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 6.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated exchange reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Business combinations and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in statement of comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities and of borrowings are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(d) Fixed assets

Buildings held for use in the production or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. All other fixed assets are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Any revaluation increase arising on the revaluation of such buildings is recognised in other comprehensive income and accumulated in fixed asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Depreciation of revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained profits.

Depreciation of other fixed assets is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Land held under finance leases	Over the lease terms
Buildings	The shorter of the lease terms and 30 to 50 years
Leasehold improvements	10 years
Pipelines and trench	30 years
Plant and machinery	10 to 30 years
Furniture, office equipment and motor vehicles	5 to 10 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(e) Operating leases

(i) The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Prepaid land lease payments are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

(ii) The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(f) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are capitalised only if all of the following conditions are met:

- An asset is created that can be identified (such as new products);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Deferred development costs are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives of 5 years.

(g) Other intangible assets

(i) Technical know-how

Technical know-how is measured initially at purchase cost and is amortised on a straight-line basis over its estimated useful life of 10 years.

(ii) Trade name and exclusive right

Trade name and exclusive right are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives of 25 years.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(j) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables and bank and cash balances are classified in this category.

(k) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits schemes

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "Ordinance") for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount specified in the Ordinance per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the People's Republic of China (the "PRC") are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(p) Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

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for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

(s) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(s) Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(t) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(t) Related parties (Continued)

(B) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (A).
- (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or a parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

(u) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated income statement to its estimated recoverable amount unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

5. Significant Accounting Policies (Continued)

(v) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

(w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(x) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

6. Critical Judgements and Key Estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

(a) **Going concern basis**

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon whether the banks will exercise their discretion to demand immediate repayment of bank loans which are subject to a repayment on demand clause. Details are explained in Note 2 to the consolidated financial statements.

(b) **Legal titles of certain buildings**

As stated in Note 20 to the consolidated financial statements, the legal titles of certain buildings were not yet obtained as at 30 June 2016. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those buildings as fixed assets on the grounds that they expect the legal titles should be obtained in future with no major difficulties and the Group is in substance controlling those buildings.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) **Fixed assets and depreciation**

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives and residual values of fixed assets of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of fixed assets as at 30 June 2016 was approximately HK\$2,679,295,000 (2015: HK\$2,845,586,000).

(b) **Income taxes**

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, income tax credit of approximately HK\$4,580,000 (2015: HK\$28,418,000) was recognised in profit or loss based on the estimated deferred tax liabilities.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

6. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(c) **Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was HK\$nil after an impairment loss of HK\$37,904,000 was recognised during the year. Details of the impairment loss calculation are provided in note 23 to the consolidated financial statements.

(d) **Useful lives of other intangible assets**

The Group determines the estimated useful lives and related amortisation charges for the Group's other intangible assets. This estimate is based on the expected pattern of consumption of the future economic benefits embodied in the asset or, where appropriate, the contractual or other legal rights associated with the assets. The Group will revise the amortisation period and the amortisation method for an intangible asset where the useful life is different to that previously estimated.

(e) **Fair value of certain fixed assets**

The Group appointed an independent professional valuer to assess the fair value of certain fixed assets. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

(f) **Fair value of buildings**

The Group appointed an independent professional valuer to assess the fair value of the buildings. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

The carrying amount of buildings as at 30 June 2016 was approximately HK\$780,519,000 (2015: HK\$674,202,000).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

6. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(g) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. As at 30 June 2016, the accumulated impairment loss for bad and doubtful debts was approximately HK\$230,894,000 (2015: HK\$232,581,000).

(h) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. No allowance for slow-moving inventories was made for the year ended 30 June 2016 (2015: HK\$Nil).

7. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

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 ("RMB") which are the functional currencies of the principal operating entities of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with different risk profiles.

At 30 June 2016, if the prices of the Group's investments increase/decrease by 10%, loss after tax for the year would have been approximately HK\$17,000 (2015: HK\$40,000) lower/higher.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

7. Financial Risk Management (Continued)

(c) Credit risk

The carrying amount of the bank and cash balances, trade and other receivables, other loans receivable and investments included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The credit risk on investments is limited because the counterparty is a well-established securities broker firm in Hong Kong.

The Group's credit risk is primarily attributable to its trade and other receivables and other loans receivable. It has policies in place to ensure that sales are made to customers with an appropriate credit history. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

For term loans which contain a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank loans is prepared based on the scheduled repayment dates.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

7. Financial Risk Management (Continued)

(d) Liquidity risk (Continued)

The maturity analysis of the Group's financial liabilities is as follows:

	On demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2016					
Term loan subject to a repayment					
on demand clause	51,366	–	–	–	–
Other bank loans	–	3,092	3,092	9,274	20,349
Trade payables	–	72,906	–	–	–
Bond payables	–	5,959	5,959	37,596	851,140
Bond interest payable	–	9,219	–	–	–
Other payable and accruals	–	748,151	–	–	–
Other loans	46,579	–	–	–	–
At 30 June 2015					
Term loans subject to a repayment					
on demand clause	114,926	–	–	–	–
Other bank loans	–	3,092	3,092	9,274	23,441
Trade payables	–	79,543	–	–	–
Bonds payable	–	7,755	7,755	32,170	550,150
Bonds interest payable	–	6,749	–	–	–
Other payables and accruals	–	460,682	–	–	–
Other loans	49,843	–	–	–	–
Due to a non-controlling shareholder of a subsidiary	–	43,453	–	–	–

Taking into account the Group's financial position, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

7. Financial Risk Management (Continued)

(d) Liquidity risk (Continued)

The maturity analysis of term loans subject to a repayment on demand clause based on scheduled repayments is as follows:

	Contractual undiscounted cash flows	
	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000
At 30 June 2016	52,428	–
At 30 June 2015	44,653	79,494

(e) Interest rate risk

Bonds payable and other loans were arranged at fixed interest rates and therefore were subject to fair value interest rate risk.

Bank loans were arranged at floating rates varied with the then prevailing market condition.

At 30 June 2016, if interest rates at that date had been 1% lower/higher with all other variables held constant, consolidated loss after tax for the year would have been approximately HK\$831,000 (2015: HK\$1,491,000) lower/higher, arising mainly as a result of lower/higher interest expense on bank loans.

(f) Categories of financial instruments

	2016 HK\$'000	2015 HK\$'000
Financial assets:		
Financial assets at fair value through profit or loss:		
Held for trading	169	403
Loans and receivables (including cash and cash equivalents)	74,693	58,774
Financial liabilities:		
Financial liabilities at amortised cost	1,367,716	1,080,791

(g) Fair values

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

8. Fair Value Measurements

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

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

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

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

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

(a) Disclosures of level in fair value hierarchy at 30 June:

Description	Fair value measurements using:		Total 2016 HK\$'000
	Level 1 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurements:			
Financial assets at fair value through profit or loss			
Listed securities in Hong Kong	169	–	169
Fixed assets			
Properties in Hong Kong	–	7,250	7,250
Properties in the PRC	–	774,999	774,999
	–	782,249	782,249
Total recurring fair value measurements	169	782,249	782,418

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

8. Fair Value Measurements (Continued)

(a) Disclosures of level in fair value hierarchy at 30 June: (Continued)

Description	Fair value measurements using:		Total 2015 HK\$'000
	Level 1 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurements:			
Financial assets at fair value through profit or loss			
Listed securities in Hong Kong	403	–	403
Fixed assets			
Properties in Hong Kong	–	7,398	7,398
Properties in the PRC	–	666,804	666,804
	–	674,202	674,202
Total recurring fair value measurements	403	674,202	674,605

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: Nil).

(b) Reconciliation of assets measured at fair value based on level 3:

The movements of the properties under Level 3 fair value measurements during the year are presented in Note 20 to the consolidated financial statements under the heading of "Buildings". Fair value adjustments on properties are recognised in the line item "gains on property revaluation" in the consolidated statement of comprehensive income of approximately HK\$57,500,000 (2015: HK\$20,871,000) (Note 19) and in the line item "other operating expenses" as revaluation deficits on buildings in the consolidated income statement of approximately HK\$Nil (2015: HK\$2,058,000).

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at annual basis.

Notes to the Consolidated Financial Statements

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8. Fair Value Measurements (Continued)

(c) **Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June: (Continued)**

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value HK\$'000
At 30 June 2016					
Fixed assets					
Properties in Hong Kong	Direct comparison	Adjusted market price (HK\$/square feet)	HK\$28,000/square feet	Increase	7,250
Properties in the PRC	Depreciated replacement cost	Replacement cost (RMB/square feet)	RMB650 – RMB59,000/square feet	Increase	774,999
		Depreciated replacement cost (RMB/square feet)	RMB4 – RMB42,000/square feet		
		Building/Structure life	15–40 years		
At 30 June 2015					
Fixed assets					
Properties in Hong Kong	Direct comparison	Adjusted market price (HK\$/square feet)	HK\$28,500/square feet	Increase	7,398
Properties in the PRC	Depreciated replacement cost	Replacement cost (RMB/square feet)	RMB654 – RMB59,950/square feet	Increase	666,804
		Depreciated replacement cost (RMB/square feet)	RMB4 – RMB30,629/square feet		
		Building/Structure life	15–40 years		

During the two years, there were no changes in the valuation techniques used.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

9. Revenue

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

10. Other Income

	2016 HK\$'000	2015 HK\$'000
Government grants (Note)	42,798	21,914
Bank interest income	12	24
Other interest income	27	442
Fair value gain on financial assets at fair value through profit or loss	–	256
Gain on disposal of financial assets at fair value through profit or loss	–	1,273
Rental income	121	230
Sundry income	4,130	633
	47,088	24,772

Note: Government grants for the years ended 30 June 2016 and 2015 were received as incentive for capital expenditure and subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.

11. Segment Information

The Group has five reportable segments as follows:

Polyvinyl-chloride	–	manufacture and sale of polyvinyl-chloride;
Vinyl acetate	–	manufacture and sale of vinyl acetate;
Heat and power	–	generation and supply of heat and power;
Vitamin C, glucose and starch	–	manufacture and sale of Vitamin C, glucose and starch; and
Calcium carbide	–	manufacture and sale of calcium carbide.

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

The accounting policies of the operating segments are the same as those described in Note 5 to the financial statements. Segment profits or losses do not include fair value gain/(loss) on financial assets at fair value through profit or loss, gain on disposal of financial assets at fair value through profit or loss, impairment of goodwill and corporate administrative expense. Segment assets do not include goodwill, bank and cash balances, other loans receivable, 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, amount due to a non-controlling shareholder of a subsidiary and other payables and accruals for general administrative use.

Notes to the Consolidated Financial Statements

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11. Segment Information (Continued)

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

Information about reportable segment profit or loss, assets and liabilities:

	Polyvinyl- chloride HK\$'000	Vinyl acetate HK\$'000	Heat and power HK\$'000	Vitamin C, glucose and starch HK\$'000	Calcium carbide HK\$'000	Total HK\$'000
Year ended 30 June 2016						
Revenue from external customers	–	–	68,300	–	–	68,300
Segment profit/(loss)	(65,764)	(117,734)	4,379	(14,177)	(224,519)	(417,815)
Interest revenue	3	–	–	–	6	9
Interest expense	–	2,601	6,411	–	7,980	16,992
Depreciation and amortisation	13,171	12,742	11,151	11,398	66,618	115,080
Other material items of income and expense:						
Government grants	–	–	41,352	1,205	241	42,798
Income tax credit	–	–	–	–	4,580	4,580
Other material non-cash items:						
(Reversal of)/allowance for receivables						
– trade receivables	(117)	–	5,181	–	–	5,064
– other receivables	188	–	2,611	–	34,101	36,900
Impairment of fixed assets	47,000	99,000	–	–	76,000	222,000
Additions to segment non-current assets	842	–	299,405	–	2,979	303,226
As at 30 June 2016						
Segment assets	206,970	126,030	721,683	164,790	1,950,850	3,170,323
Segment liabilities	16,359	9,447	328,245	112,834	395,939	862,824

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

11. Segment Information (Continued)

Information about reportable segment profit or loss, assets and liabilities: (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
Year ended 30 June 2015						
Revenue from external customers	–	–	62,911	–	–	62,911
Segment loss	(22,658)	(20,205)	(19,870)	(21,210)	(163,118)	(247,061)
Interest revenue	–	–	–	–	9	9
Interest expense	–	2,705	4,464	–	13,353	20,522
Depreciation and amortisation	15,597	13,885	9,777	11,858	75,485	126,602
Other material items of income and expense:						
Government grants	–	–	20,411	1,252	251	21,914
Income tax expense/(credit)	(57)	–	35	–	(28,396)	(28,418)
Other material non-cash items:						
(Reversal)/allowance for receivables						
– trade receivables	(286)	–	(1,868)	–	70,366	68,212
– other receivables	1,414	(63)	1,154	–	(402)	2,103
Additions to segment non-current assets	–	–	73,807	–	21,941	95,748
As at 30 June 2015						
Segment assets	291,599	270,732	464,263	206,706	2,124,214	3,357,514
Segment liabilities	20,042	39,797	154,611	122,637	335,662	672,749

Notes to the Consolidated Financial Statements

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11. Segment Information (Continued)

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

	2016 HK\$'000	2015 HK\$'000
Profit or loss		
Total profit or loss of reportable segments	(417,815)	(247,061)
Fair value (loss)/gain on financial assets at fair value through profit or loss	(234)	256
Gain on disposal of financial assets at fair value through profit or loss	–	1,273
Impairment of goodwill	(37,904)	–
Corporate administrative expenses	(52,443)	(52,729)
Consolidated loss for the year	(508,396)	(298,261)
Assets		
Total assets of reportable segments	3,170,323	3,357,514
Goodwill	–	37,904
Bank and cash balances	39,297	41,376
Financial assets at fair value through profit or loss	169	403
Other loan receivables	–	700
Corporate assets	85,740	76,703
Consolidated total assets	3,295,529	3,514,600
Liabilities		
Total liabilities of reportable segments	862,824	672,749
Bonds payable	416,960	291,437
Bond interest payable	9,219	6,749
Bank loans	83,120	149,084
Other loans	46,579	49,843
Due to a non-controlling shareholder of a subsidiary	–	43,453
Other payables and accruals for general administrative use	53,569	10,422
Consolidated total liabilities	1,472,271	1,223,737

The Group's revenue is derived from customers based in the People's Republic of China (the "PRC") and accordingly, no geographical information is presented.

Notes to the Consolidated Financial Statements

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12. Finance Costs

	Group	
	2016	2015
	HK\$'000	HK\$'000
Interest on bank loans	8,670	16,802
Interest on other loans – wholly repayable within five years	9,012	3,534
Interest on bonds payable – not wholly repayable in five years	51,263	26,753
Interest on trade payables	–	930
Total borrowing costs	68,945	48,019

13. Income Tax Credit

	Group	
	2016	2015
	HK\$'000	HK\$'000
Deferred tax (Note 34)	(4,580)	(28,418)

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2015: 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.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC enterprise income tax at a rate of 25% during the year (2015: 25%).

Pursuant to the Corporate Income Tax Law of the PRC approved by the National People's Congress on 16 March 2007, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividend derived from sources within the PRC.

According to the notice Cai Shui {2008} No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from withholding tax. Accordingly, the retained profits at 31 December 2007 in the Group's foreign-invested enterprises' books and accounts will not be subject to withholding tax on dividend on future distribution.

Notes to the Consolidated Financial Statements

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13. Income Tax Credit (Continued)

A reconciliation of the tax expense applicable to loss before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	2016 HK\$'000	2015 HK\$'000
Loss before tax	(512,976)	(326,679)
Tax at the statutory tax rate	(123,661)	(75,500)
Income tax exempted	–	(1)
Expenses not deductible for tax	1,899	871
Unrecognised temporary differences	20,162	4,586
Tax losses not recognised	99,345	44,088
Utilisation of unrecognised tax losses	(2,325)	(2,462)
Tax credit at the Group's effective tax rate	(4,580)	(28,418)

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately HK\$45,791,000 (2015: HK\$47,982,000). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

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14. Loss for the Year

The Group's loss for the year is stated after charging the following:

	2016 HK\$'000	2015 HK\$'000
Auditor's remuneration	1,200	1,400
Allowance for receivables		
– trade receivables	5,064	68,212
– other receivables	37,786	2,103
Amortisation of other intangible assets (included in administrative expenses)	534	1,916
Cost of inventories sold	47,203	60,671
Depreciation of fixed assets	116,312	117,171
Write off/loss on disposal of fixed assets	133	601
Minimum lease payments under operating leases for land and buildings	11,582	11,007
Factory overhead incurred during suspension of production (note)	106,944	106,378
Revaluation deficits on buildings	–	2,058
Fair value loss/(gain) on financial assets at fair value through profit or loss	234	(256)
Staff costs (excluding directors' emoluments):		
Wages, salaries and benefits in kind	14,474	31,495
Employee share option benefits	–	16,083
Retirement benefits scheme contributions	5,204	3,048

Cost of inventories sold includes staff costs and depreciation of approximately HK\$7,926,000 (2015: HK\$8,745,000) and HK\$4,985,000 (2015: HK\$5,110,000) respectively, which are included in the amounts disclosed separately above.

Note: During the years ended 30 June 2015 and 2016, factory overhead was incurred during the temporary suspension of the production line of Polyvinyl-chloride segment, Vinyl acetate segment, Calcium carbide segment and Vitamin C, glucose and starch segment due to a substantial decrease in profit margin.

Notes to the Consolidated Financial Statements

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15. Directors' and Employees' Emoluments

The emoluments of each director were as follows:

	Basic salaries, housing benefits, other allowances and benefits in kind		Employee share option benefits		Retirement benefit scheme contributions		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors								
Ms. Chan Yuk Foebe	120	120	–	1,957	–	–	120	2,077
Mr. Yu Defa (Note (a))	345	115	–	1,956	–	–	345	2,071
Mr. Law Tze Ping Eric (Note (b))	285	98	–	1,956	15	5	300	2,059
Mr. Chiau Che Kong (Note (c))	–	242	–	–	–	12	–	254
Independent non- executive directors								
Mr. Ma Wing Yun Bryan	120	120	–	–	–	–	120	120
Mr. Tam Ching Ho	120	120	–	–	–	–	120	120
Mr. Hau Chi Kit	120	120	–	–	–	–	120	120
	1,110	935	–	5,869	15	17	1,125	6,821

Notes:

- (a) Appointed on 5 May 2014
- (b) Appointed on 3 March 2015
- (c) Resigned on 3 March 2015

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2015: Nil).

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15. Directors' and Employees' Emoluments (Continued)

The five highest paid individuals in the Group during the year included 1 (2015: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 4 (2015: 3) individuals are set out below:

	2016 HK\$'000	2015 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	2,145	342
Employee share option benefits	–	16,083
	2,145	16,425

The emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Nil to HK\$1,000,000	4	–
HK\$5,000,001 to HK\$5,500,000	–	3
	4	3

During the year, no share options were granted to certain employees. During the year ended 30 June 2015, share options were granted to certain employees in respect of their services to the Group. The fair value of such options, which was recognised to profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements was included in the above five highest paid individuals' emoluments disclosures.

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2015: Nil).

16. Loss for the Year Attributable to Owners of the Company

The loss for the year attributable to owners of the Company included a loss of approximately HK\$1,456,411,000 (2015: HK\$65,114,000) which has been dealt with in the financial statements of the Company.

17. Dividend

The directors do not recommend the payment of dividend for the year ended 30 June 2016 (2015: Nil).

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for the year ended 30 June 2016

18. Loss Per Share

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK\$421,647,000 (2015: HK\$248,517,000) and the weighted average number of ordinary shares of 2,425,211,848 (2015: 2,335,631,026) in issue during the year.

Diluted loss per share

The exercise of the Group's outstanding share options for the years ended 30 June 2015 and 2016 would be anti-dilutive, therefore no diluted loss per share information is presented for the years ended 30 June 2015 and 2016.

19. Other Comprehensive Income

Tax effects relating to each component of other comprehensive income for the year:

	2016			2015		
	Amount before tax	Tax	Amount after tax	Amount before tax	Tax	Amount after tax
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange differences on translating foreign operations	(21,772)	–	(21,772)	5,282	–	5,282
Gains on property revaluation	57,500	(1,887)	55,613	20,871	(4,750)	16,121
Other comprehensive income	35,728	(1,887)	33,841	26,153	(4,750)	21,403

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20. Fixed Assets

Group

	Buildings	Construction in progress	Plant and machinery	Leasehold improvements	Furniture, office equipment and motor vehicles	Pipelines and trench	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation							
At 1 July 2014	681,593	602,038	2,338,790	3,675	30,182	63,148	3,719,426
Additions	–	95,300	184	–	264	–	95,748
Transfers	–	(11,515)	–	–	–	11,515	–
Disposals/write off	(68)	–	(1,526)	–	(204)	–	(1,798)
Revaluation	(7,902)	–	–	–	–	–	(7,902)
Exchange differences	579	457	1,782	–	23	37	2,878
At 30 June 2015 and 1 July 2015	674,202	686,280	2,339,230	3,675	30,265	74,700	3,808,352
Additions	–	300,252	1,123	559	1,830	–	303,764
Transfers	99,862	(99,862)	–	–	–	–	–
Disposals/write off	–	(18)	(189)	–	(1,522)	–	(1,729)
Revaluation	34,820	–	–	–	–	–	34,820
Exchange differences	(28,365)	(40,281)	(119,207)	–	(1,584)	(3,227)	(192,664)
At 30 June 2016	780,519	846,371	2,220,957	4,234	28,989	71,473	3,952,543
Accumulated depreciation							
At 1 July 2014	–	–	829,990	2,018	21,552	20,408	873,968
Charge for the year	26,699	–	84,056	367	2,095	3,273	116,490
Disposal/write off	–	–	(1,012)	–	(185)	–	(1,197)
Write back on revaluation	(26,715)	–	–	–	–	–	(26,715)
Exchange differences	16	–	172	–	16	16	220
At 30 June 2015 and 1 July 2015	–	–	913,206	2,385	23,478	23,697	962,766
Charge for the year	22,933	–	87,075	401	1,768	3,452	115,629
Disposal/write off	–	–	(180)	–	(827)	–	(1,007)
Impairment loss	–	–	222,000	–	–	–	222,000
Write back on revaluation	(22,680)	–	–	–	–	–	(22,680)
Exchange differences	(253)	–	488	–	(1,326)	(2,369)	(3,460)
At 30 June 2016	–	–	1,222,589	2,786	23,093	24,780	1,273,248

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20. Fixed Assets (Continued)

Group (Continued)

	Buildings HK\$'000	Construction in progress HK\$'000	Plant and machinery HK\$'000	Leasehold improvements HK\$'000	Furniture, office equipment and motor vehicles HK\$'000	Pipelines and trench HK\$'000	Total HK\$'000
Carrying amount							
At 30 June 2016	780,519	846,371	998,368	1,448	5,896	46,693	2,679,295
At 30 June 2015	674,202	686,280	1,426,024	1,290	6,787	51,003	2,845,586
Analysis of cost or valuation at 30 June 2016							
At cost	–	846,371	2,220,957	4,234	28,989	71,473	3,172,024
At valuation 2016	780,519	–	–	–	–	–	780,519
	780,519	846,371	2,220,957	4,234	28,989	71,473	3,952,543
Analysis of cost or valuation at 30 June 2015							
At cost	–	686,280	2,339,230	3,675	30,265	74,700	3,134,150
At valuation 2015	674,202	–	–	–	–	–	674,202
	674,202	686,280	2,339,230	3,675	30,265	74,700	3,808,352

At 30 June 2016, the carrying amount of certain buildings amounted to approximately HK\$270,718,000 (2015: HK\$270,718,000) for which relevant legal titles have not yet been obtained. At the date of approval of these consolidated financial statements, the application for obtaining the aforesaid legal titles is still in progress.

At 30 June 2016, the carrying amount of fixed assets pledged as security for the Group's bank loans and other loans amounted to approximately HK\$1,294,052,000 (2015: HK\$1,388,396,000).

At 30 June 2016, the Group's buildings were revalued on the depreciated replacement cost basis/direct comparison approach by International Valuation Limited, independent firm of chartered surveyors, at approximately HK\$780,519,000 (2015: HK\$674,202,000). For the year ended 30 June 2016, the resulting revaluation surpluses of approximately HK\$57,500,000 (2015: HK\$20,871,000) was credited to fixed asset revaluation reserve and revaluation deficits of approximately HK\$Nil (2015: HK\$2,058,000) was charged to profit or loss.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

20. Fixed Assets (Continued)

Group (Continued)

The carrying amount of the Group's buildings would have been approximately HK\$546,883,000 (2015: HK\$597,759,000) had they been stated at cost less accumulated depreciation and impairment losses.

During the year, the Group carried out reviews of the recoverable amount of plant and machinery used in the Polyvinyl-chloride, Vinyl acetate and Calcium carbide segment, having regard to the condition of product lines and the market conditions of the products. The reviews led to the recognition of an impairment loss of approximately HK\$222,000,000 that has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the depreciated replacement cost basis.

21. Land Held Under Finance Leases

	Group	
	2016	2015
	HK\$'000	HK\$'000
Cost		
At beginning and end of year	71,562	71,562
Accumulated depreciation		
At beginning of year	5,111	4,430
Charge for the year	683	681
At end of year	5,794	5,111
Carrying amount		
At end of year	65,768	66,451
At beginning of year	66,451	67,132

The Group's land held under finance leases are located in Hong Kong and held under long leases.

The Group's land held under finance leases were pledged as security for the Group's bank loans at 30 June 2016 and 2015.

22. Prepaid Land Lease Payments

The Group's prepaid land lease payments represent payments for land use rights outside Hong Kong under medium-term leases.

At 30 June 2016, the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans and other loans amounted to approximately HK\$268,110,000 (2015: HK\$287,190,000).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

23. Goodwill

	Group 2016 HK\$'000	2015 HK\$'000
Cost		
At beginning and end of year	123,589	123,589
Accumulated impairment losses		
At beginning of year	85,685	85,685
Impairment loss recognised for the year	37,904	–
At end of year	123,589	85,685
Carrying amount		
At end of year	–	37,904
At beginning of year	37,904	37,904

Goodwill acquired in business combination is allocated, at acquisition, to the cash-generating units (“CGUs”) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	Group 2016 HK\$'000	2015 HK\$'000
Calcium carbide		
Mudanjiang Daytech Chemical Limited (“Mudanjiang Daytech Chemical”)	–	26,050
Heihe LongJiang Chemical Company Limited (“Heihe LongJiang Chemical”)	–	11,854
	–	37,904

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

23. Goodwill (Continued)

At 30 June 2016, before impairment testing, goodwill of approximately HK\$37,904,000 (2015: HK\$37,904,000) was allocated to Mudanjiang Daytech Chemical and Heihe Longjiang Chemical within the Calcium Carbide segment. Due to changes in market condition, the Group has revised its cash flow forecasts for this CGU. The goodwill allocated to the Calcium Carbide segment has therefore been reduced to its recoverable amount through recognition of an impairment loss against goodwill of approximately HK\$37,904,000 (2015: Nil) during the year.

24. Other Intangible Assets

	Exclusive right HK\$'000	Trade name HK\$'000	Technical know-how HK\$'000	Total HK\$'000
Cost				
At 1 July 2014	72,347	33,459	19,094	124,900
Exchange differences	–	–	19	19
At 30 June 2015 and 1 July 2015	72,347	33,459	19,113	124,919
Exchange differences	–	–	(1,252)	(1,252)
At 30 June 2016	72,347	33,459	17,861	123,667
Accumulated amortisation and impairment losses				
At 1 July 2014	72,347	33,459	15,631	121,437
Amortisation for the year	–	–	1,916	1,916
Exchange differences	–	–	11	11
At 30 June 2015 and 1 July 2015	72,347	33,459	17,558	123,364
Amortisation for the year	–	–	534	534
Exchange differences	–	–	(844)	(844)
At 30 June 2016	72,347	33,459	17,248	123,054
Carrying amount				
At 30 June 2016	–	–	613	613
At 30 June 2015	–	–	1,555	1,555
Remaining amortisation period:	–	–	0 to 1.17 years	

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25. Particulars of Subsidiaries

Particulars of the subsidiaries as at 30 June 2016 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dragon Boom Investments Limited	British Virgin Islands ("BVI")	Ordinary US\$1	100%	–	Investment holding
Ever Strength Investments Limited	BVI	Ordinary US\$1	100%	–	Inactive
Gold Capture Investments Inc.	BVI	Ordinary US\$1	100%	–	Investment holding
Prosper Path Limited	BVI	Ordinary US\$1	100%	–	Investment holding
Quality Gain Investments Ltd.	BVI	Ordinary US\$1	100%	–	Investment holding
Better Day Bio-Chem Technology Ltd.	BVI	Ordinary US\$2	100%	–	Investment holding
Better Day Power Ltd.	BVI	Ordinary US\$2	100%	–	Investment holding
Master King Group Limited	Hong Kong	Ordinary HK\$1	100%	–	Inactive
Better Lion Holdings Limited	BVI	Ordinary US\$2	–	100%	Investment holding
Daytech Group Limited	BVI	Ordinary US\$2	–	100%	Investment holding
Powerful Rise Group Limited	BVI	Ordinary US\$1	–	100%	Inactive
Racing Dragon Group Limited ("Racing Dragon")	BVI (Note (a))	Ordinary US\$100	–	90%	Investment holding
Mudanjiang Better Day Power Limited ("Mudanjiang BD Power")	PRC (Note (b))	RMB110,000,000	–	100%	Generation and supply of heat and power
Mudanjiang Daytech Chemical	PRC (Note (c))	RMB558,844,178	–	100%	Manufacture and sale of calcium carbide
Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Dongbei Chemical")	PRC (Note (d))	RMB110,910,000	–	63.11%	Manufacture and sale of vinyl acetate
Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. ("Mudanjiang Dongbei Gaoxin")	PRC (Note (e))	HK\$230,000,000	–	100%	Manufacture and sale of polyvinyl-chloride

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25. Particulars of Subsidiaries (Continued)

Name	Place of incorporation/ registration and operation	Issued and paid up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mudanjiang Gaoke Bio-Chem Company Limited ("Mudanjiang Gaoke")	PRC (Note (f))	RMB100,000,000	–	100%	Manufacture and sale of Vitamin C, glucose and starch
Heihe Longjiang Chemical	PRC (Note (g))	RMB265,000,000	–	90%	Manufacture and sale of calcium carbide, polyvinyl-chloride and vinyl acetate
大慶高新區東北化工銷售 有限公司	PRC (Note (h))	RMB500,000	–	63.11%	Sale of vinyl acetate
China Zenith Construction Materials Limited	Cayman Islands	Ordinary HK\$0.01	–	100%	Inactive
STB Company Limited	Hong Kong	Ordinary HK\$2	–	100%	Inactive
Success Eagle Investment Limited	Hong Kong	Ordinary HK\$1	–	100%	Provision of administrative and consultancy services

Notes:

- (a) The Group acquired further equity interests in the subsidiary on 17 June 2016, and the percentage of equity interests attributable to Company increased from 67% to 90%.
- (b) Mudanjiang BD Power is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 9 June 2006.
- (c) Mudanjiang Daytech Chemical is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 30 December 2006.
- (d) Mudanjiang Dongbei Chemical is a Sino-foreign equity joint venture established in the PRC for an operating period of 50 years commencing from the approval date of 27 May 2004.
- (e) Mudanjiang Dongbei Gaoxin is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 26 April 2005.
- (f) Mudanjiang Gaoke is a wholly foreign-owned enterprise established in the PRC for an operating period of 50 years commencing from the approval date of 1 March 2006.
- (g) Heihe Longjiang Chemical is a wholly foreign-owned enterprise established in the PRC for an operating period of 20 years commencing from the approval date of 5 June 2008.
- (h) 大慶高新區東北化工銷售有限公司 is a limited liability company established in the PRC with indefinite operating period.

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25. Particulars of Subsidiaries (Continued)

The following table shows information of subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	Mudanjiang Dongbei Chemical		Racing Dragon	
	2016	2015	2016	2015
Principal place of business/country of incorporation	PRC/PRC	PRC/PRC	PRC/BVI	PRC/BVI
% of ownership interests/voting rights held by NCI	36.89%	36.89%	10%	33%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June:				
Non-current assets	125,298	258,426	1,353,121	1,437,713
Current assets	321,858	377,133	475,523	464,456
Non-current liabilities	–	–	(31,000)	(3,696)
Current liabilities	(49,141)	(136,992)	(1,966,781)	(1,958,742)
Net assets/(liabilities)	398,015	498,567	(169,137)	(60,269)
Accumulated NCI	146,828	183,921	(16,914)	(19,888)
Year ended 30 June:				
Revenue	–	–	–	–
Loss	(117,734)	(20,205)	(188,336)	(128,153)
Total comprehensive income	(100,552)	(19,659)	(108,867)	(113,833)
Loss allocated to NCI	(43,432)	(7,454)	(23,588)	(42,291)
Dividends paid to NCI	–	–	–	–
Net cash (used in)/generated from operating activities	(25)	(49)	(61,388)	(19,255)
Net cash used in investing activities	–	–	(2,876)	(21,941)
Net cash generated from/(used in) financing activities	–	–	64,245	40,404
Effect of foreign exchange rate changes	(1)	19	(12)	599
Net increase/(decrease) in cash and cash equivalents	(26)	(30)	(31)	(193)

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26. Inventories

	Group	
	2016	2015
	HK\$'000	HK\$'000
Raw materials	48,918	33,608

27. Trade Receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (2015: 60 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	Group	
	2016	2015
	HK\$'000	HK\$'000
Within 30 days	56	–
31 to 60 days	1,044	70
61 to 90 days	484	4,894
91 to 120 days	2,453	561
121 to 150 days	839	233
151 to 180 days	3,541	207
	8,417	5,965

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27. Trade Receivables (Continued)

As at 30 June 2016, an allowance of approximately HK\$230,894,000 (2015: HK\$232,581,000) was made for estimated irrecoverable trade receivables.

The reconciliation of allowance for trade receivables is as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
At beginning of year	232,581	164,375
Allowance made for the year	5,064	68,212
Exchange differences	(6,751)	(6)
At end of year	230,894	232,581

As of 30 June 2016, trade receivables of approximately HK\$7,317,000 (2015: HK\$5,895,000) were past due but not impaired. These mainly relate to a number of independent customers (2015: an independent customer) for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
Up to 90 days	484	4,894
91 to 180 days	6,833	1,001
	7,317	5,895

The Group's trade receivables are denominated in RMB.

28. Financial Assets at Fair Value Through Profit or Loss

	2016	2015
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at market value	169	403

The Group's financial assets at fair value through profit or loss are classified as held for trading.

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29. Bank and Cash Balances

As at 30 June 2016, the bank and cash balances of the Group denominated in RMB amounted to approximately HK\$19,273,000 (2015: HK\$1,460,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

30. Share Capital

	2016 HK\$'000	2015 HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.10 each	5,000,000	5,000,000
Issued and fully paid:		
2,874,899,519 (2015: 2,382,899,519) ordinary shares of HK\$0.10 each	287,490	238,290

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2015 and 2016 is as follows:

	No. of ordinary shares issued '000	Par value HK\$'000
At 1 July 2014	2,324,899	232,490
Exercise of share options (Note 1)	58,000	5,800
At 30 June 2015 and 1 July 2015	2,382,899	238,290
Placement of new shares (Note 2)	138,000	13,800
Issue of shares for purchase of non-controlling interest (Note 3)	354,000	35,400
At 30 June 2016	2,874,899	287,490

Note 1: During the year, the subscription rights attaching to 58,000,000 shares options issued pursuant to the share option scheme of the Company were exercised at the subscription prices ranging from HK\$0.425 to HK\$1.05 per share, resulting in the issue of 58,000,000 shares of HK\$0.10 each for the total cash consideration of approximately HK\$39,025,000.

Note 2: On 15 April 2016, pursuant to the placing and subscription agreement dated 5 April 2016, 138,000,000 ordinary shares of HK\$0.10 each were allotted and issued at the price of HK\$0.315 per share.

Note 3: On 17 June 2016, 354,000,000 new ordinary shares of HK\$0.265 each of the Company were issued for the further acquisition of 23% equity interests in Racing Dragon Group Limited.

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30. Share Capital (Continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes had been made in the objectives, policies and processes during the two years ended 30 June 2014 and 2015.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group received a report from the share registrars on substantial share interests showing the non-public float and it demonstrated continuing compliance with the 25% limit throughout the year.

31. Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted on 20 December 2012 for a period of 10 years. The purpose of the Scheme is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution to the Group. Under the Scheme, the directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares. The offer for a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. 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.

The maximum number of shares to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of shares of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the extraordinary general meeting held on 20 December 2012.

Share options do not confer rights to the holders to dividends or to vote at shareholders' meetings.

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31. Share Option Scheme (Continued)

Details of the specific categories of options are as follows:

Grant date	10 March 2015	11 May 2015
Vesting period (Note (a))	10 March 2015	11 May 2015
Exercise period	10 March 2015 to 9 March 2018	11 May 2015 to 10 May 2018
Exercise price at date of grant (Note (b))	0.425	1.05
Price of the Company's shares at the date of grant (Note (c))	0.425	1.05

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 the share options and the average Stock Exchange closing price for the five business days immediately preceding the date of the grant of the share options.

Details of the grantees are as follows:

	Employee Number of share options	Weighted average exercise price
Outstanding at 1 July 2014	22,000,000	0.204
Granted during the year	138,000,000	0.738
Exercised during the year	(58,000,000)	0.673
Outstanding at 30 June 2015 and 1 July 2015	102,000,000	0.659
Expiry during the year	(22,000,000)	0.204
Outstanding at 30 June 2016	80,000,000	0.784
Exercisable at 30 June 2016	80,000,000	0.784
Exercisable at 30 June 2015	102,000,000	0.659

No share options were exercised during the year ended 30 June 2016.

The weighted average share price at the date of exercise for share options exercised during the year ended 30 June 2015 was HK\$0.901. The options outstanding at the end of the year have a weighted average remaining contractual life of 1.79 (2015: 2.36) years and the exercise price of HK\$0.784 (2015: HK\$0.659).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

32. Statement of Financial Position of the Company

(a) Statement of financial position of the Company

	Note	2016 HK\$'000	2015 HK\$'000
Non-current assets			
Investments in subsidiaries	25	8,742	222,405
Current assets			
Due from subsidiaries		1,087,194	2,011,301
Other receivables		8,940	–
Bank and cash balances		19,638	36,063
		1,115,772	2,047,364
TOTAL ASSETS		1,124,514	2,269,769
Capital and reserves			
Share capital	30	287,490	238,290
Reserves	32(b)	138,910	1,508,761
Total equity		426,400	1,747,051
Non-current liabilities			
Bonds payable		416,960	291,437
Current liabilities			
Due to subsidiaries		219,484	219,484
Bond interest payable		9,219	6,749
Other payables and accruals		52,451	5,048
		281,154	231,281
Total liabilities		698,114	522,718
TOTAL EQUITY AND LIABILITIES		1,124,514	2,269,769
Net current assets		834,618	1,816,083
Total assets less current liabilities		843,360	2,038,488

Approved and authorised for issued by the board of directors on 30 September 2016.

Chan Yuk Foebe
Chairman

Law Tze Ping Eric
Executive Director

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for the year ended 30 June 2016

32. Statement of Financial Position of the Company (Continued)

(b) Reserves movement of the Company

	Share premium account HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2014	1,787,281	952	(269,535)	1,518,698
Loss for the year	–	–	(65,114)	(65,114)
Share option benefits				
– Grant of share options	–	21,952	–	21,952
– Exercise of share options	33,225	–	–	33,225
– Transfer to share premium	8,338	(8,338)	–	–
At 30 June 2015 and 1 July 2015	1,828,844	14,566	(334,649)	1,508,761
Loss for the year	–	–	(1,456,411)	(1,456,411)
Placement of new shares	29,138	–	–	29,138
Issue of shares for purchase of non-controlling interest	57,422	–	–	57,422
Expiry of share option (Note 31)	–	(952)	952	–
At 30 June 2016	1,915,404	13,614	(1,790,108)	138,910

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

33. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves of the Group

(i) Share premium account

The share premium account includes (i) the premium arising from the issue of shares; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation for the purpose of the listing of the Company's shares on the Stock Exchange, over the nominal value of the shares of the Company issued in exchange therefor.

(ii) Fixed asset revaluation reserve

Fixed asset revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for buildings in Note 5(d) to the financial statements.

(iii) Share option reserve

Share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees and business associates of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in Note 5(p) to the financial statements.

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 5(c) to the financial statements.

34. Deferred Tax

The movement in deferred tax liabilities account is as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
At beginning of year	(17,539)	(41,132)
Credit to profit or loss (Note 13)	4,580	28,418
Charge to equity (Note 19)	(1,887)	(4,750)
Exchange differences	(160)	(75)
At end of year	(15,006)	(17,539)

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

34. Deferred Tax (Continued)

The following are the major deferred tax assets/(liabilities) recognised by the Group, and the movements thereon, during the current and prior reporting periods:

Deferred tax assets	Accelerated tax depreciation	Other temporary differences	Revaluation of buildings and prepaid land lease payments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2014	5,935	(2,008)	(3,927)	–
Credit to profit or loss	57	–	–	57
Credit to equity	–	–	(57)	(57)
Exchange differences	5	–	(5)	–
At 30 June 2015 and 1 July 2015	5,997	(2,008)	(3,989)	–
Credit to profit or loss	1,626	–	–	1,626
Charge to equity	–	–	(1,626)	(1,626)
Exchange differences	443	–	(443)	–
At 30 June 2016	8,066	(2,008)	(6,058)	–
Deferred tax liabilities	Accelerated tax depreciation	Other temporary differences	Revaluation of buildings and prepaid land lease payments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2014	31,455	34,475	(107,062)	(41,132)
Credit to profit or loss	13,409	13,772	1,180	28,361
Charge to equity	–	–	(4,693)	(4,693)
Exchange differences	9	(11)	(73)	(75)
At 30 June 2015 and 1 July 2015	44,873	48,236	(110,648)	(17,539)
Credit to profit or loss	12,331	–	(9,377)	2,954
Charge to equity	–	–	(261)	(261)
Exchange differences	–	(271)	111	(160)
At 30 June 2016	57,204	47,965	(120,175)	(15,006)

The deferred tax liabilities in relation to revaluation of buildings have been charged to equity directly.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

35. Trade Payables

The Group normally obtains credit terms ranging from 30 to 120 days (2015: 30 to 120 days) from its suppliers.

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

	Group	
	2016	2015
	HK\$'000	HK\$'000
Within 30 days	9,674	6,305
31 to 60 days	10,881	4,353
61 to 90 days	413	2,661
91 to 120 days	282	45
121 to 365 days	31,805	19,967
Over 365 days	19,851	46,212
	72,906	79,543

The Group's trade payables are denominated in RMB.

36. Other Loans

A loan of the Group of approximately HK\$23,978,000 (2015: HK\$24,859,000) granted from an independent third party is interest bearing at 12% (2015: 12%) p.a., secured by the pledge of the Group's fixed assets and prepaid land lease payments and is repayable on demand. The Group received a verdict from the Intermediate People's Court of Heilongjiang Province in the PRC in relation to the repayment of the other loan during the year ended 30 June 2013. According to the verdict, the other loan should be repaid before 20 March 2013.

A loan of the Group of approximately HK\$24,098,000 (2015: HK\$24,984,000) was reclassified from bank loan to other loan based on a verdict issued by the Intermediate People's Court of Heilongjiang Province in the PRC during the year ended 30 June 2015, of which the details are stated in Note 38. At 30 June 2016, the loan is interest free, secured by the pledge of the Group's fixed assets and prepaid land lease payments and is repayable before 8 May 2014.

37. Due to a Non-Controlling Shareholder of a Subsidiary

The amount due to a non-controlling shareholder of a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

38. Bank Loans

The Group's bank loans are repayable as follows:

	2016 HK\$'000	2015 HK\$'000
Term loans subject to a repayment on demand clause	51,366	114,926
Within one year	2,396	2,397
In the second year	2,500	2,449
In the third to fifth years inclusive	7,868	7,659
After five years	18,990	21,653
	83,120	149,084
Less: Amount due for settlement within 12 months (shown under current liabilities)	(53,762)	(117,323)
	29,358	31,761

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

	2016 HK\$'000	2015 HK\$'000
Hong Kong dollars	31,754	34,158
RMB	51,366	114,926
	83,120	149,084

At 30 June 2016, bank loans were arranged at floating rates ranging from 2.10% to 7.21% (2015: 2.10% to 7.21%) p.a., thus exposed 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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

39. Bonds Payable

The movement of the bonds payable is as follows:

	2016 HK\$'000	2015 HK\$'000
At beginning of year	291,437	224,000
Issuance of bonds	83,580	47,820
Interest charge for the year	41,943	19,617
At the end of year	416,960	291,437

During the year, the Group and the Company issued fixed rate corporate bonds with total principal amount of approximately HK\$319,559,000 (2015: HK\$80,000,000). The bonds were repayable as follows:

	2016 HK\$'000	2015 HK\$'000
In the third to fifth years inclusive	99,509	10,000
After five years	766,300	536,250
	865,809	546,250

The bonds payables are unsecured and interest bearing at coupon rates ranging from 3% to 8.75%.

Interest on bond payables at face value of HK\$113,750,000 (2015: HK\$150,000,000) is payable annually and the principal is repayable in full upon maturity. Interest on bond payables at face value of HK\$752,059,000 (2015: HK\$396,250,000) was fully paid on issue date and the principal is repayable in full upon maturity.

The bonds payable are measured at amortised cost, using the effective interest method, and the effective rates are ranging from 7.1% to 23.27% p.a. (2015: 3.0% to 26.23% p.a.) after taking into account the transaction costs directly attributable to the issuance of the bonds.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

40. Contingent Liabilities

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

Mudanjiang BD Power had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of Mudanjiang BD Power (the "Contract"). Owing to the alleged delay in the progress of the construction, the Plaintiff claimed (i) the payment of the contract sum in the amount of approximately RMB42,700,000 and the interest thereof; (ii) the grant of the first priority right to receive payment from Mudanjiang BD Power in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13,300,000 for alleged termination of the Contract; and (iv) the legal fees arising from this legal case. The Company has been seeking legal advice in respect of the Writ on the dispute in the payment for the Contract since December 2012. According to management of Mudanjiang BD Power, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since 2009. To handle the claim from the Plaintiff, the local management has appointed an independent professional valuer to ascertain both the percentage of completion of the subject construction project and the quality of the construction work done in respect of the subject Contract at the moment. Thereafter, 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. Management believes that sufficient provision for this legal claim was made at this stage.

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

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

41. Capital Commitments

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

	2016 HK\$'000	2015 HK\$'000
Contracted but not provided for Buildings and construction in progress	621,552	656,752

The Company did not have any capital commitments as at 30 June 2016 (2015: Nil).

42. Lease Commitments

At 30 June 2016 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group 2016 HK\$'000	2015 HK\$'000
Within one year	1,037	1,817
In the second to fifth years inclusive	–	1,037
	1,037	2,854

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for a lease term of 3 years (2015: 3 years) and rentals are fixed over the lease terms and do not include contingent rentals.

The Company did not have any operating lease arrangements as at 30 June 2016 (2015: Nil).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

43. Notes to the Consolidated Statement of Cash Flows

(a) Purchase of non-controlling interests

On 18 March 2016, the Group entered into a share purchase agreement for the acquisition of 23% of the issued share capital (the "Acquisition") of Racing Dragon. Racing Dragon is the legal and beneficial owner of the entire equity interest in Heihe LongJiang Chemical which is engaged in the manufacture and sale of calcium carbide, polyvinyl-alcohol and vinyl acetate in the PRC. The vendor of the Acquisition was Hope High Holdings Limited ("Hope High"). Hope High was the then legal and beneficial owner of 23% of the issued share capital of Racing Dragon. The Group originally owned 67% of the issued share capital of Racing Dragon. Upon completion of the Acquisition, the Group holds 90% of the equity interest in Racing Dragon and Heihe LongJiang Chemical.

The effect of the Acquisition on the equity attributable to the owners of the Company is as follows:

	HK\$'000
Share of net liabilities in Racing Dragon and Heihe LongJiang Chemical acquired	38,901
Direct cost attributable to the acquisition	988
Consideration	127,822
Loss on acquisition recognised directly in equity	167,711
Satisfied by:	
354,000,000 Consideration Shares at fair value	92,822
Promissory Note repayable within one year	35,000
	127,822

The promissory note of HK\$35,000,000 was outstanding as at 30 June 2016.

(b) Major non-cash transaction

The payable for additions to fixed assets of HK\$173,037,000 was outstanding as at 30 June 2016.

44. Related Party Transactions

Except as disclosed in Note 15 to the financial statements, the Group did not have any related party transaction during the years ended 30 June 2015 and 2016.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2016

45. Events After the Reporting Period

- (a) On 15 July 2016, the Company entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest in Better Day Bio-Chem Technology Limited, which in turn directly and indirectly holds the entire equity interest in Mudanjiang Gaoke Bio-Chem Co. Ltd. (the "Disposal"). The consideration for the Disposal is RMB192,000,000 (equivalent to approximately HK\$222,720,000) of which a non-refundable deposit of RMB10,000,000 (equivalent to approximately HK\$11,600,000) had been received upon signing of the sale and purchase agreement. For further details, please refer to the circular of the Company dated 26 September 2016 in relation to the Disposal.
- (b) On 15 August 2016, the Company announced a proposed open offer on the basis of one offer share for every four existing shares and issue of bonus shares on the basis of one bonus share for every offer share taken up under the open offer (the "Open Offer"). The Open Offer involves the allotment and issue of 718,724,879 offer shares at a price of HK\$0.10 per offer share and the issue of 718,724,879 bonus shares. The gross proceeds of the Open Offer will be approximately HK\$71,900,000.

The Open Offer was underwritten by VC Brokerage Limited, (the "Underwriter"). Mr. Chan Yuen Tung, the substantial shareholder of the Company, has given an irrevocable undertaking in favour of the Company and the Underwriter to subscribe for 104,457,407 offer shares to which Mr. Chan is entitled to subscribe under the Open Offer. The Underwriter has agreed to fully underwrite the remaining 614,267,472 offer shares. For further details, please refer to the circular of the Company dated 28 September 2016 in relation to the Open Offer.

46. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 30 September 2016.