China Zenith Chemical Group Limited
中國天化工集團有限公司

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

(Stock Code: 362)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- The Group is still suffering from the idle production capacity in the Chemical Division. However, due to increase in the price of chemical products in 2018, the Group plans to resume the production plant gradually and the Board believes the Group's financial performance would improve after that.
- Record positive operating cash flows.
- Sustainable growth in residential heat supplying areas since 2014 leading to twofold increases in both revenue and the profit from the heat and power division.
- During the financial year, the calcium carbide factory in Heihe was making an operating loss due to the small-scale production. In September 2018, the production scale of the calcium carbide factory had been enlarged. The Board foresees the calcium carbide factory could be benefit from the economics of large scale production.
- The acquisition of Xinyang Maojian International Holding Limited ("Xinyang Maojian") was completed at the end of September 2018. The Board believes the financial contribution from Xinyang Maojian will have a positive impact to the Group for the coming years.

RESULTS

The Board of Directors ("Board" or "Directors") of China Zenith Chemical Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2018 together with the comparative figures for the previous year as follows:

Consolidated Income Statement
for the year ended 30 June 2018

	Note	2018 HK$'000	2017 HK$'000
Continuing operations			
Revenue	4	**367,632**	186,110
Cost of sales		**(299,216)**	(152,270)
Gross profit		**68,416**	33,840
Gain on bargaining purchase on acquisition of a subsidiary		**27,491**	—
Other income	5	**50,844**	94,820
Selling and distribution costs		**(18,064)**	(12,695)
Administrative expenses		**(191,577)**	(107,574)
Other operating expenses		**(60,421)**	(84,488)
Impairment of fixed assets		**(4,218)**	(15,647)
Deficits on property revaluation		**(15,758)**	—
Loss from operations		**(143,287)**	(91,744)
Finance costs	7	**(82,594)**	(60,078)
Loss before tax		**(225,881)**	(151,822)
Income tax credit	8	**7,267**	20,945
Loss for the year from continuing operations	9	**(218,614)**	(130,877)
Discontinued operations			
Profit for the year from discontinued operations		**—**	192,195
(Loss)/Profit for the year		**(218,614)**	61,318

	Note	2018 HK$'000	2017 HK$'000
Attributable to:			
Owners of the Company			
— From continuing operations		**(199,324)**	(123,714)
— From discontinued operations		**—**	192,195
		(199,324)	68,481
Non-controlling interests			
— From continuing operations		**(19,290)**	(7,163)
(Loss)/Profit for the year		**(218,614)**	61,318
(Loss)/Earnings per share			
From continuing and discontinued operations			
— Basic	*11(a)*	**HK(17.98) cents**	HK6.57 cents
— Diluted	*11(a)*	**HK(17.98) cents**	HK6.57 cents
From continuing operations			
— Basic	*11(b)*	**HK(17.98) cents**	(HK11.86 cents)
— Diluted	*11(b)*	**HK(17.98) cents**	(HK11.86 cents)
From discontinued operations			
— Basic	*11(c)*	**N/A**	HK18.43 cents
— Diluted	*11(c)*	**N/A**	HK18.43 cents

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2018

	2018	2017
	HK$'000	*HK$'000*
(Loss)/Profit for the year	**(218,614)**	61,318
Other comprehensive income after tax:		
Item that will not be reclassified to profit or loss:		
(Deficits)/Gains on property revaluation	**(36,232)**	24,637
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**40,615**	(111,489)
Other comprehensive income for the year, net of tax	**4,383**	(86,852)
Total comprehensive income for the year	**(214,231)**	(25,534)
Attributable to:		
Owners of the Company	**(197,753)**	(5,148)
Non-controlling interests	**(16,478)**	(20,386)
	(214,231)	(25,534)

Consolidated Statement of Financial Position
at 30 June 2018

	Note	**2018**	2017
		HK$'000	*HK$'000*
Non-current assets			
Fixed assets		**2,480,315**	2,572,893
Prepaid land lease payments		**325,861**	346,383
Investment in a joint venture		**3,614**	—
Other intangible assets		**9,267**	86
		2,819,057	2,919,362
Current assets			
Inventories		**28,231**	19,914
Trade receivables	*12*	**6,748**	25,719
Prepayments, deposits and other receivables		**258,574**	92,605
Financial assets at fair value through profit or loss		**1,939**	45
Bank and cash balances		**62,240**	93,159
		357,732	231,442
TOTAL ASSETS		**3,176,789**	3,150,804
Capital and reserves			
Share capital	*14*	**111,043**	107,809
Reserves		**1,472,759**	1,650,947
Equity attributable to owners of the Company		**1,583,802**	1,758,756
Non-controlling interests		**93,113**	109,528
Total equity		**1,676,915**	1,868,284

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Bank loans		**24,259**	44,087
Bonds payable		**820,458**	633,475
Other payables		**251,313**	243,191
Deferred tax liabilities		**17,542**	17,017
		1,113,572	937,770
Current liabilities			
Trade payables	*13*	**100,171**	42,128
Other payables and accruals		**159,276**	195,952
Other loans		**53,339**	65,131
Bank loans		**73,516**	41,539
		386,302	344,750
Total liabilities		**1,499,874**	1,282,520
TOTAL EQUITY AND LIABILITIES		**3,176,789**	3,150,804
Net current liabilities		**(28,570)**	(113,308)
Total assets less current liabilities		**2,790,487**	2,806,054

Notes:

1. 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 disclosures provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings and investments which are carried at their fair values.

2. GOING CONCERN BASIS

As at 30 June 2018 the Group had net current liabilities of approximately HK$28,570,000 (2017: HK$113,308,000) and incurred a loss of HK$218,614,000 (2017: HK$130,877,000) from continuing operations during the year then ended. 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 June 2018 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:

— After the end of the financial year, the Group had issued corporate bonds with an aggregate principal amount of approximately HK$135,000,000. These bonds are repayable over 5 years.

— On 19 September 2018, the Company entered in a placing agreement with the placing agent (the "Placing"), VC Brokerage Limited, to place, on a best effort basis, an aggregate of up to 220,000,000 new Shares ("Placing Shares") at a price of HK$0.315 per share. Assuming all the Placing Shares are successfully placed in full by the Placing Agreement, the aggregate gross proceeds from the Placing will be HK$69,300,000.

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.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Amendment to HKFRSs and the new interpretations that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Except as described above, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

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

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015–2017 Cycle*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014–2016 Cycle*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]

[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 2021

[4] Effective for annual periods beginning on or after a date to be determined

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 revised 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 irrecoverable 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 on 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 additions, 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.

HKFRS 15 Revenue from Contracts with Customers and the related Amendments

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

HKFRS16, 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 less or 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.

4. 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.

	2018	2017
	HK$'000	*HK$'000*
Continuing operations:		
Heat supplying services	**166,432**	117,996
Electricity supplying services	**18,530**	16,814
Sales of calcium carbide	**74,661**	51,300
Facilities construction services	**108,009**	—
	367,632	186,110

5. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Continuing operations:		
Conveyance service income	**8,185**	17,750
Gain on disposal of prepaid land lease payments	**7,085**	50,878
Gain on disposal of fixed assets	**430**	42
Government grants *(Note)*	**3,609**	—
Bank interest income	**14**	8
Other interest income	**1,248**	50
Rental income	**16,036**	88
Reversal of trade receivables	**3,684**	17,193
Reversal of prepayment, deposit and other receivables	**6,311**	—
Write off of other payables due to deregistration	**3,327**	3,197
Waiver of loan interest payments	**—**	3,730
Realised gain on financial assets through profit or loss	**705**	—
Sundry income	**210**	1,884
	50,844	94,820

Note: Government grants for the year were received as incentive for capital expenditure and subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.

6. 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;

Calcium carbide — manufacture and sale of calcium carbide;

Construction services — construct and monitor of public facilities construction; and

Vitamin C, glucose and starch — manufacture and sale of vitamin C, glucose and starch.

On 7 January 2018, the Group completed the acquisition of 100% of the equity interest of Mudanjiang Jinyang Municipal Engineering Company Limited ("Jinyang"). Jinyang is engaged in the construction and monitor of public facilities construction and its segment information was presented individually.

On 26 December 2016, the Vitamin C, glucose and starch segment was disposed of and was presented as a discontinued operation.

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

Segment profits or losses do not include fair value loss on financial assets at fair value through profit or loss, impairment of goodwill and corporate administrative expenses. Segment assets do not include bank and cash balances, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, bonds payable, bond interest payable, other loans and other payables and accruals for general administrative use.

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

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

	Continuing operations					
	Polyvinyl-chloride *HK$'000*	**Vinyl acetate** *HK$'000*	**Heat and power** *HK$'000*	**Calcium carbide** *HK$'000*	**Construction services** *HK$'000*	**Total** *HK$'000*
Year ended 30 June 2018						
Revenue from external customers	—	—	184,962	74,661	108,009	367,632
Segment profit/(loss)	(21,615)	(31,415)	30,796	(107,175)	16,013	(113,396)
Interest revenue	—	—	—	16	—	16
Interest expense	—	2,598	3,756	4,499	1,164	12,017
Gain on bargaining purchase on acquisition of subsidiary	—	—	—	—	27,491	27,491
Depreciation and amortisation	13,457	12,223	11,007	76,579	29,422	142,688
Other material items of income and expense:						
Government grants	—	—	3,609	—	—	3,609
Gain on disposal of prepaid land lease payment	—	—	—	7,085	—	7,085
Income tax credit	—	—	—	—	7,267	7,267
Other material non-cash items:						
Reversal of allowance for receivables						
— trade receivables	—	(116)	(3,568)	—	—	(3,684)
— other receivables	—	(910)	—	(5,341)	—	(6,251)
Impairment of fixed assets	—	—	—	4,218	—	4,218
Deficits on property revaluation	—	15,758	—	—	—	15,758
Additions to segment non-current assets	—	—	17,221	7,868	—	25,089
As at 30 June 2018						
Segment assets	193,531	98,025	814,200	1,730,251	169,525	3,005,532
Segment liabilities	14,751	30,030	145,540	275,619	59,449	525,389

	Continuing operations					Discontinued operations	
	Polyvinyl-chloride	Vinyl acetate	Heat and power	Calcium carbide	Sub-total	Vitamin C, glucose and starch	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 30 June 2017							
Revenue from external customers	—	—	134,810	51,300	186,110	—	186,110
Segment profit/(loss)	(7,867)	(9,287)	18,032	(54,760)	(53,882)	192,195	138,313
Interest revenue	—	—	—	2	2	—	2
Interest expense	—	2,462	2,398	5,591	10,451	—	10,451
Depreciation and amortisation	13,296	13,699	11,322	71,561	109,878	433	110,311
Other material items of income and expense:							
Gain on disposal of prepaid land lease payment	—	—	—	50,878	50,878	—	50,878
Income tax credit	4,281	7,236	5,969	3,459	20,945	—	20,945
Other material non-cash items:							
(Reversal of)/allowance for receivables							
— trade receivables	(4,684)	(456)	(333)	(11,720)	(17,193)	—	(17,193)
— other receivables	635	—	13,386	754	14,775	—	14,775
Impairment of fixed assets	—	—	—	15,647	15,647	—	15,647
Additions to segment non-current assets	—	—	82,801	1	82,802	—	82,802
As at 30 June 2017							
Segment assets	222,220	131,583	904,382	1,715,986	2,974,171	—	2,974,171
Segment liabilities	16,898	27,859	165,143	279,634	489,534	—	489,534

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

	2018	2017
	HK$'000	*HK$'000*
Profit or loss		
Total profit or (loss) of reportable segments	**(113,396)**	138,313
Fair value loss on financial assets at fair value through profit or loss	**(1,378)**	(124)
Corporate administrative expenses	**(103,840)**	(76,871)
Consolidated (loss)/profit for the year	**(218,614)**	61,318
Assets		
Total assets of reportable segments	**3,005,532**	2,974,171
Bank and cash balances	**62,240**	93,159
Investment in a joint venture	**3,614**	—
Financial assets at fair value through profit or loss	**1,939**	45
Corporate assets	**103,464**	83,429
Consolidated total assets	**3,176,789**	3,150,804
Liabilities		
Total liabilities of reportable segments	**525,389**	489,534
Bonds payable	**820,458**	633,475
Bank loans	**97,775**	85,626
Other loans	**53,339**	65,131
Other payables and accruals for general administrative use	**2,913**	8,754
Consolidated total liabilities	**1,499,874**	1,282,520

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.

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Continuing operations:		
Interest on bank loans	**6,256**	8,788
Interest on other loans — wholly repayable within five years	**6,616**	2,313
Interest on bonds payable — not wholly repayable in five years	**69,722**	48,977
Total borrowing costs	**82,594**	60,078

8. INCOME TAX CREDIT

	2018	2017
	HK$'000	*HK$'000*
Continuing operations:		
Current tax		
— PRC Enterprise Income tax	**69**	—
— Hong Kong Profits tax	**—**	—
Deferred tax credit	**(7,336)**	(20,945)
	(7,267)	(20,945)

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 (2017: 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 (2017: 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.

9. (LOSS)/PROFIT FOR THE YEAR

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

	Continuing operations		Discontinued operations		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Auditor's remuneration	**1,480**	1,320	**—**	—	**1,480**	1,320
(Reversal of)/Allowance for receivables						
— trade receivables	**(3,684)**	(17,193)	**—**	—	**(3,684)**	(17,193)
— other receivables	**(6,311)**	22,797	**—**	—	**(6,311)**	22,797
Amortisation of other intangible assets (included in administrative expenses)	**29,436**	513	**—**	—	**29,436**	513
Cost of inventories sold	**198,785**	152,270	**—**	—	**198,785**	152,270
Depreciation of fixed assets	**109,376**	107,091	**—**	433	**109,376**	107,524
Write off/loss on disposal of fixed assets	**44**	131	**—**	—	**44**	131
Minimum lease payments under operating leases for land and buildings	**9,158**	8,724	**—**	—	**9,158**	8,724
Factory overhead incurred during suspension of production *(note)*	**60,421**	82,213	**—**	—	**60,421**	82,213
Revaluation deficits on buildings	**15,758**	—	**—**	—	**15,758**	—
Fair value loss on financial assets at fair value through profit or loss	**1,378**	124	**—**	—	**1,378**	124
Staff costs (excluding directors' emoluments):						
Wages, salaries and benefits in kind	**31,313**	22,794	**—**	—	**31,313**	22,794
Retirement benefits scheme contributions	**7,334**	5,934	**—**	—	**7,334**	5,934

Cost of inventories sold includes staff costs and depreciation of approximately HK$12,244,000 (2017: HK$8,054,000) and HK$5,522,000 (2017: HK$5,829,000) respectively, which are included in the amounts disclosed separately above.

Note: During the years ended 30 June 2018 and 2017, factory overhead was incurred during the temporary suspension of the production line of Polyvinyl-chloride segment, Vinyl acetate segment, Calcium carbide segment due to a substantial decrease in profit margin.

10. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2018 (2017: Nil).

11. LOSS/EARNINGS PER SHARE

(a) From continuing and discontinued operations

Basic loss/earnings per share

Calculation of basic loss/earnings per share attributable to the owners of the Company is based on the loss for the year attributable to the owners of the Company of approximately HK$199,324,000 (2017: profit of HK$68,481,000) and the weighted average number of ordinary shares of 1,108,743,867 (2017: 1,042,958,792) in issue during the year.

Diluted loss/earnings per share

The computation of diluted loss/earnings per share for the years did not assume the exercise of outstanding share options of the Company since did not assume the exercise of the outstanding share options as these options were anti-diluted during the year of 2018 and 2017.

(b) From continuing operations

Basic loss per share

Calculation of basic loss per share from continuing operations attributable to the owners of the Company is based on the loss for the year from continuing operations attributable to the owners of the Company of approximately HK$199,324,000 (2017: HK$123,714,000) and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

Diluted earnings per share

The computation of diluted loss per share for the years did not assume the exercise price of outstanding share options of the Company since did not assume the exercise of the outstanding share options as these options were anti-diluted during the year of 2018 and 2017.

(c) Earnings/loss per share from discontinued operations

Basic earnings/loss per share

Basic earnings per share from the discontinued operations for the year ended 30 June 2017 is HK$18.43 cents, based on the profit for the year ended 30 June 2017 from discontinued operations attributable to the owners of the Company of approximately HK$192,195,000 and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

Diluted earnings per share

The computation of diluted earnings/loss per share for the year ended 30 June 2017 did not assume the exercise of outstanding share options of the Company since the exercise price of the share option was higher than the average market price during the year of 2017.

12. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 180 days (2017: 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:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**77**	274
31 to 60 days	**6,660**	268
61 to 90 days	**11**	2,491
91 to 120 days	**—**	2,880
121 to 150 days	**—**	2,806
151 to 180 days	**—**	17,000
	6,748	25,719

As at 30 June 2018, an allowance of approximately HK$161,908,000 (2017: HK$160,832,000) was made for estimated irrecoverable trade receivables.

The reconciliation of allowance for trade receivables is as follows:

	2018	2017
	HK$'000	*HK$'000*
At beginning of year	**160,832**	230,894
Reversal of allowance for the year	**(3,684)**	(17,193)
Disposal of subsidiaries	**—**	(48,071)
Exchange differences	**4,760**	(4,798)
At end of year	**161,908**	160,832

As of 30 June 2018, trade receivables of approximately HK$11,000 (2017: HK$25,177,000) were past due but not impaired. These mainly relate to an independent customer for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2018	2017
	HK$'000	*HK$'000*
Up to 90 days	**11**	2,491
91 to 180 days	**—**	22,686
	11	25,177

The Group's trade receivables are denominated in RMB.

13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (2017: 30 to 120 days) from its suppliers.

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

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**3,499**	8
31 to 60 days	**15**	932
61 to 90 days	**8,328**	571
91 to 120 days	**10,348**	1,656
121 to 365 days	**36,118**	10,442
Over 365 days	**41,863**	28,519
	100,171	42,128

The Group's trade payables are denominated in RMB.

14. SHARE CAPITAL

	2018	2017
	HK$'000	*HK$'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
1,110,427,319 (2017: 1,078,087,319) ordinary shares of HK$0.10 each	**111,043**	107,809

	Number of ordinary shares issued	**Par value**
	'000	*HK$'000*
At 1 July 2016	2,874,899	287,490
Issue of shares under an open offer	718,725	71,872
Issue of bonus shares	718,725	71,873
Share consolidation	(3,234,262)	—
Cancellation of paid-up capital	—	(323,426)
At 30 June 2017 and 1 July 2017	1,078,087	107,809
Exercise of share options	32,340	3,234
At 30 June 2018	1,110,427	111,043

15. 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 ("the Heilongjiang High Court") against Mudanjiang Better Day Power Limited ("Mudanjiang BD Power"), an indirect wholly-owned subsidiary of the Company.

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

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

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

(b) On 16 April 2017, Baosteel Engineering & Technology Group Limited ("Baosteel") obtained an arbitral award in the PRC ("Award") against the Company's 90% owned PRC subsidiary Heihe Longjiang Chemical Company Limited ("Heihe Longjiang Chemical") in the sum of RMB19,440,000 in respect of the construction of plant and machinery in Heihe Longjiang Chemical factory, to which the Company is jointly and severally liable.

On 19 March 2018, Heihe Longjiang Chemical commenced a civil action against Baosteel by writ in the PRC with the Heihe Intermediate Court (case number (2018) 黑11民初13號) ("PRC Proceedings"). Heihe Longjiang Chemical's claim is for the sum of RMB32,972,092 being compensation for loss and damage resulting from Baosteel's breach of an agreement in provision of labour and technology for the launch of Heihe Longjiang Chemical factory.

On the other hand, on 2 February 2018, Baosteel commenced an action (the "Action") against the Company in Hong Kong by Originating Summons. Baosteel's claim is for the Award to be enforced against the Company in the sum of RMB19,818,046, being the amount of the Award plus interest and costs.

The Action was heard on 7 February 2018 and Baosteel obtained an order granting leave to enforce the Award against the Company ("Enforcement Order").

On 21 June 2018, the Company issued an application to stay the Enforcement Order. The Company succeeded in obtaining an order granting a stay of execution for 6 months, subject to the Company making payment into Court of the full judgment sum of RMB19,818,046 or its Hong Kong dollar equivalent within 14 days from the date of the order.

Heihe Longjiang Chemical is vigorously opposing Baosteel in the PRC Proceedings and, according to a PRC legal opinion, Heihe Longjiang Chemical is likely to succeed as they have provided evidence indicating the existence of a contractual relationship as well as documentation to show that Baosteel has caused loss and/or damage to Heihe Longjiang Chemical. Accordingly, the Company's payment into Court can be seen as a temporary deposit which will not be paid out and would instead be returned to the Company, subject to the decision of the Heihe Intermediate Court.

The final judgment in the PRC Proceedings is expected to be handed down within 6 to 12 months from 25 July 2018. Although the stay of execution in the Action has been granted for 6 months, it is likely that we will receive an extension in the event that final judgment has not been given in the PRC Proceedings, especially as Baosteel has caused delay in the PRC Proceedings by unsuccessfully challenging the jurisdiction of the Heihe Intermediate Court.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by Elite Partners CPA Limited, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 30 June 2018:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of its consolidated financial position of the Group as at 30 June 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to the financial statements, which indicates that as of 30 June 2018, the Group had net current liabilities of approximately HK$28,570,000, this event or condition, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the financial year ended 30 June 2018 (the "Year"), the Group recorded a loss of approximately HK$219 million. Despite there has been continuous improvement in the core business of the Group, the production capacity of the coal-related chemical division during the Year was still not yet fully utilised which incurred idle operating cost. Moreover, the one-off profit from disposal of subsidiaries in the last financial year did not recur in the Year.

During the Year, revenue of the Group amounted to approximately HK$368 million, representing an increase of 98% compared with that of the last financial year. Loss attributable to the owners of the Company amounted to approximately HK$199 million in contrast to a profit attributable to the owners of the Company of the last financial year.

During the Year, the increase in the Group's revenue was mainly attributable to the increase in sales volume of our heat and power products and the construction services income from the Construction Services Division, which was acquired during the Year.

The Group's selling and distribution costs for the Year was approximately HK$18 million, representing an increase of approximately 42% when compared with that of the last financial year. The increase in selling and distribution costs resulted from the increase in the sales volume of calcium carbide during the Year.

The Group's administrative expenses for the Year was approximately HK$192 million, representing an increase of approximately 78% when compared with that of the last financial year. During the year, Heihe Longjiang Chemical Co. Ltd. ("HLCCL"), the Group's coal related chemical production in Heihe, had achieved full year operation which increased the administrative expenses by HK$32 million which was mainly allocated from the other operating expenses. In addition, amortisation on construction contract of HK$29 million was incurred from the acquisition of Mudanjiang Jinyang Municipal Engineering Company Limited ("Jinyang Engineering"). Lastly, the Group had granted share options to executive directors and senior management of the Company which cost an employee share option benefits of HK$10 million in the administrative expenses.

The Group's other operating expenses for the Year was approximately HK$60 million, representing a decrease of approximately 28% when compared with that of the last financial year. The decrease in other operating expenses resulted from the shortened suspension period in HLCCL during the Year. In the last financial year, HLCCL had suspended its operation for about half a year due to the fine-tuning process and installation of supplementary machineries.

Heat and power division

During the Year, the heat and power segment recorded a revenue of HK$185 million from external customers. Income from residential supply of heat for the Year was approximately HK$166 million, representing an increase of approximately 41% when compared with that of the last financial year. The increase resulted from the increase of the residential heat supplying area from 3,000,000 square meters to 4,000,000 square meters. Segment profit of approximately HK$31 million was attained compared with a segment profit of HK$18 million for the last financial year.

Apart from the expansion of the residential heat supplying area, the local management had also 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.

Coal-related chemical production division

Coal related chemical production division included the calcium carbide segment (the "CC segment"), the polyvinyl-chloride segment (the "PVC segment") and the vinyl acetate segment (the "VA segment").

During the Year, the CC segment recorded a revenue of HK$75 million from external customers representing an increase of approximately 46% when compared with that of the last financial year. The segment loss of the CC segment were HK$107 million (2017: HK$55 million) representing an increase of 96% when compared with that of the last financial year. The increase in segment loss was mainly due to the operating cost (such as electricity and coal cost) consumed in the trail-run period after the installation of new machineries.

The segment loss of the PVC segment and VA segment were HK$22 million and HK$31 million respectively, representing an increase of 175% and 238%, respectively, compared with that of the last financial year. For the year ended 30 June 2017, the segment loss of PVC segment and VA segment were HK$8 million and HK$9 million. The segment loss of the PVC segment and VA segment mainly represented the deficits on property revaluation, the depreciation/write off of fixed assets and the maintenance cost of its plants and machineries.

Construction services division

During the Year, the Group completed the acquisition of the equity interest of Jinyang Engineering. Jinyang Engineering is engaged in the construction and monitor of public facilities construction (construction services division). During the Year, the construction services division recorded a revenue and a segment profit of HK$108 million and HK$16 million respectively.

On the date of acquisition, the fair value of Jinyang Engineering was HK$104 million which was higher than the consideration of the acquisition of HK$77 million. Therefore, a gain on bargaining purchase of HK$27 million was recorded in the profit or loss during the Year.

PROSPECT

The Group has suffered from the slump of chemical market in the last five years. The management explores new and value-added businesses from time to time in order to diversify the risk of the Group and, hence, to provide a stable return to the Group. During the Year, the Group entered into an equity transfer agreement to acquire the entire equity interest of Jinyang Engineering, through which the

Group intends to construct more heat exchange stations and facilities and pipeline networks to support its growing heat and power segment. On 15 August 2018, the Group passed the resolutions in a special general meeting to approve the acquisition of Xinyang Maojian International Holding Limited ("Xinyang Maojian") to explore the e-commerce sales and overseas sales of tea leaves branded Xinyang Maojian Tea Leaves.

Heat and Power division

During the Year, the residential heat supplying area had increased to 4,000,000 square meters from 3,000,000 square meters at the beginning of the Year. The management targets to expand the heat supplying area to approximately 10 million square meters over the next 3 years.

Although the coal price remained at its peak during the Year, the remarkable growth in the residential heat supplying area enhanced the profit margin and contributed a stable return to the Group. The management strongly believes that the heat and power division will continue to be the growth driver of the Group.

Coal-related chemical production division

Heihe

HLCCL had resumed production of calcium carbide in the last financial year. Despite an operating loss incurred in HLCCL during the year, there had been a continuous improvement in the operation including a rapid increase in the price of calcium carbide and a steady decrease in production cost.

In the end of September 2018, the management launched another furnace in HLCCL. It was expected that the production capacity could be doubled in the coming year and the production cost would drop dramatically as benefited from the scale production. The management anticipates that HLCCL will take a favorable turn and make profit in the coming few years.

Mudanjiang

As well as the recovery of the market for coal-related production, the resumption of production for Mudanjiang's production line becomes profitable. To further reduce the operating cost, the management intends to centralize the production of calcium carbide in Heihe by shifting the calcium carbide production plants to Heihe in the coming few months. Part of the inventory of calcium carbide will be transported to Mudanjiang to resume production of polyvinyl-chloride and vinyl-acetate.

Construction services division

Jinyang Engineering had contributed a remarkable result for the Group during the Year from its external construction contracts. For the coming year, except for exposure of external construction project, Jinyang Engineering would also assist the Group's Heat and Power division to expand its heat supply network, including construction of heat exchange stations and facilities and pipeline networks.

Tea division

E-commerce sales

Xinyang Maojian has been licensed by its suppliers to be the exclusive distributor of the tea leaves under the Xinyang Maojian Tea Leaves brand name on the e-commerce platforms from 5 January 2018 to 5 January 2028. Xinyang Maojian has commenced the sale of Xinyang Maojian Tea Leaves on the Jingdong e-commerce platform since December 2017.

Overseas sales

Xinyang Maojian is the exclusive global distributor (outside of the PRC) of Xinyang Maojian Tea Leaves, distributes raw tea leaves to the overseas market. During the process of acquisition, Xinyang Maojian was negotiating with a tea seller in Japan.

After completion of the acquisition, the Group, on one hand, will execute the marketing plan in the e-commerce platform and, on the other hand, will appoint overseas agents to promote the Xinyang Maojian Tea Leaves.

It is expected that the Tea Division could record a profit in the first year after joining the Group.

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 since being appointed, any particular task, function or role as the local government's agent and window company.

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Liquidity and Financial Ratios

As at 30 June 2018, the Group had total assets of approximately HK$3,176.8 million (2017: approximately HK$3,150.8 million) which were financed by current liabilities of approximately HK$386.3 million (2017: approximately HK$344.8 million), non-current liabilities of approximately

HK$1,113.6 million (2017: approximately HK$937.8 million), non-controlling interests of approximately HK$93.1 million (2017: approximately HK$109.5 million) and shareholders' equity of approximately HK$1,583.8 million (2017: approximately HK$1,758.7 million).

As at 30 June 2018, the current assets of the Group amounted to approximately HK$357.7 million (2017: approximately HK$231.4 million) comprising inventories of approximately HK$28.2 million (2017: approximately HK$19.9 million), trade receivables of approximately HK$6.8 million (2017: approximately HK$25.7 million), prepayments, deposits and other receivables of approximately HK$258.6 million (2017: approximately HK$92.6 million), financial assets at fair value through profit or loss of approximately HK$1.9 million (2017: approximately HK$0.1 million), cash and cash equivalents of approximately HK$62.2 million (2017: approximately HK$93.1 million). As at 30 June 2018, 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 0.9 (2017: 0.7), 0.9 (2017: 0.6), 47.2% (2017: 40.7%) and 94.7% (2017: 72.9%), respectively.

Throughout the Year, the management had taken several measures to improve the liquidity position and financial position of the Group. The net current liabilities had been reduced significantly from approximately HK$113.3 million as at 30 June 2017 to approximately HK$28.6 million as at 30 June 2018.

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

Equity funding

During the Year, the Company raised funds by issuing 32,340,000 new shares through the exercise of share options by option holders. The net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$10 million. As at the date of this announcement, the net proceeds was utilised as working capital of the Group.

In the last financial year, the Company completed an open offer. The net proceeds raised from the open offer by issuing 718,724,879 offer shares at HK$0.1 on the basis of one offer share together with one bonus share for every four existing shares held were HK$70.6 million. As at the date of this announcement, approximately HK$25.6 million was used to reduce current debts of the Group and approximately HK$45.0 million was applied to enhance the working capital of the Group.

Non-equity funding

Bank loans

As at 30 June 2018, the bank loans of the Group amounted to approximately HK$97.8 million (2017: approximately HK$85.6 million). Based on the agreed repayment schedule set out in the loan agreements, bank loans of approximately HK$73.5 million (2017: approximately HK$41.5 million) were repayable within 12 months, of which HK$2.4 million was denominated in Hong Kong Dollar and approximately HK$71.1 million was denominated in Renminbi (2017: approximately HK$2.4 million was denominated in Hong Kong dollar and approximately HK$39.1 million was denominated in Renminbi).

Bonds

On 11 January 2017, 2 May 2017 and 19 October 2017, the Company and Pico Zeman Securities (HK) Limited ("Pico Zeman") entered into various placing agreements pursuant to which Pico Zeman has 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 respective placing agreements or such later date to be mutually agreed between the Company and Pico Zeman.

As at 30 June 2018, the aggregate amount of bonds payable was approximately HK$820 million (2017: HK$633 million). The net proceeds raised from bond placement was applied to enhance the working capital of the Group.

Significant investment held by the Company

As at 30 June 2018, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK$1.9 million. The Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$1.4 million during the Year.

Charges on the Group's assets

As at 30 June 2018, bank loans and other loans of approximately HK$38.1 million and HK$53.3 million respectively are secured by charges over the Group's certain fixed assets, land held under finance leases and prepaid land lease payments.

Event after reporting period

The shareholders of the Company passed resolutions in the special general meeting of the Company held on 15 August 2018 to approve the following matters:

(a) acquisition of the entire share capital of Xinyang Maojian International Holding Limited (together with its subsidiaries, the "Target Group") at a consideration of HK$85,800,000, which shall be paid by allotment and issue of 220,000,000 shares of the Company of HK$0.10 each at an issue price of HK$0.39 per Share with a delayed settlement mechanism;

(b) the annual cap of the non-exempt continuing connected transactions between the Target Group and Henan Xinyang Maojian Group Co., Ltd and its subsidiaries; and

(c) the proposed change of the primary name of the Company from "China Zenith Chemical Group Limited" to "Xinyang Maojian Group Limited", and the proposed change of the secondary name of the Company from "中國天化工集團有限公司" to "信陽毛尖集團有限公司".

Contingent liabilities

As at 30 June 2018, except for disclosed in Note 15, the Group did not have any significant contingent liabilities.

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 2017.

Number and Remuneration of Employees

As at 30 June 2018, the Group had 717 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, 97,020,000 share options were granted to the senior management of the Hong Kong and PRC subsidiaries of the Company. As at 30 June 2018, there were 64,680,000 share options outstanding. These comprise 10,780,000 share options with exercisable period up to 16 July 2020 at the exercise price of HK$0.31 per share and 53,900,000 share options with exercisable period up to 25 July 2020 at the exercise price of HK0.345 per share.

DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company had reviewed the audited consolidated results of the Group for the Year.

SCOPE OF WORK OF ELITE PARTNERS CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 30 June 2018 have been agreed by the Group's auditor, Elite Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 30 June 2018. The work performed by Elite Partners CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Elite Partners CPA Limited on this announcement.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the Year, complied with the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 of the Listing Rules, except for the deviation which is summarised below:

Code Provision A.2.1

The code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Throughout the Year, 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.

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.

By Order of the Board
China Zenith Chemical Group Limited
Chan Yuk Foebe
Chairman and Executive Director

Hong Kong, 27 September 2018

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