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XINYANG MAOJIAN GROUP LIMITED

信陽毛尖集團有限公司

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

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

(Stock Code: 362)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

HIGHLIGHTS

- The Group is still suffering from the idle production capacity in the chemical production division. However, the Group has gradually resumed the production plant and the Board believes the Group's financial performance will gradually improve.
- Heihe production plant started to make contribution to the Group.
- Continuous improvement in the financial liquidity of the Group.

The board of directors (the “**Board**” or “**Directors**”) of Xinyang Maojian Group Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim financial statements (the “**Interim Financial Statements**”) of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 31 December 2018 (the “**Period**”). The results for the Period have not been reviewed by external auditor but have been reviewed by the Company's audit committee (the “**Audit Committee**”).

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		Six months ended	
		31 December	
		2018	2017
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	205,162	167,150
Cost of sales		<u>(144,273)</u>	<u>(100,694)</u>
Gross profit		60,889	66,456
Other income	5	14,775	23,401
Selling and distribution costs		(9,629)	(10,352)
Administrative expenses		(48,775)	(45,155)
Other operating expenses		(30,827)	(24,702)
Fair value change of contingent consideration payables		<u>13,838</u>	<u>—</u>
Profit from operations		271	9,648
Finance costs		(47,755)	(37,246)
Share of results of a joint venture		<u>(423)</u>	<u>—</u>
Loss before tax		(47,907)	(27,598)
Income tax	6	<u>—</u>	<u>—</u>
Loss for the period	7	<u>(47,907)</u>	<u>(27,598)</u>
Attributable to:			
Owners of the Company		(48,460)	(25,815)
Non-controlling interests		<u>553</u>	<u>(1,783)</u>
Loss for the period		<u>(47,907)</u>	<u>(27,598)</u>
Loss per share			
— Basic	8(a)	<u>HK(4.26) cents</u>	<u>HK(2.33) cents</u>
— Diluted	8(b)	<u>HK(4.26) cents</u>	<u>HK(2.33) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	Six months ended	
	31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	<u>(47,907)</u>	<u>(27,598)</u>
Other comprehensive income after tax:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	<u>(43,449)</u>	<u>18,519</u>
Other comprehensive income for the period, net of tax	<u>(43,449)</u>	<u>18,519</u>
Total comprehensive income for the period	<u><u>(91,356)</u></u>	<u><u>(9,079)</u></u>
Attributable to:		
Owners of the Company	(88,269)	(10,723)
Non-controlling interests	<u>(3,087)</u>	<u>1,644</u>
	<u><u>(91,356)</u></u>	<u><u>(9,079)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 31 December 2018	(Audited) 30 June 2018
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets		2,356,414	2,480,315
Prepaid land lease payments		312,514	325,861
Investment in a joint venture		4,992	3,614
Goodwill	12	36,547	—
Other intangible assets		<u>8,905</u>	<u>9,267</u>
		<u>2,719,372</u>	<u>2,819,057</u>
Current assets			
Inventories		30,365	28,231
Trade receivables	9	30,065	6,748
Prepayments, deposits and other receivables		249,525	258,574
Financial assets at fair value through profit or loss		1,300	1,939
Bank and cash balances		<u>71,212</u>	<u>62,240</u>
		<u>382,467</u>	<u>357,732</u>
TOTAL ASSETS		<u>3,101,839</u>	<u>3,176,789</u>
Capital and reserves			
Share capital		133,043	111,043
Reserves		<u>1,425,281</u>	<u>1,472,759</u>
Equity attributable to owners of the Company		1,558,324	1,583,802
Non-controlling interests		<u>90,026</u>	<u>93,113</u>
Total equity		<u>1,648,350</u>	<u>1,676,915</u>

		(Unaudited) 31 December 2018 <i>HK\$'000</i>	(Audited) 30 June 2018 <i>HK\$'000</i>
	<i>Note</i>		
Non-current liabilities			
Bank loans	<i>10</i>	23,009	24,259
Bonds payable		850,469	820,458
Other payables		218,147	251,313
Contingent consideration payables		21,083	—
Deferred tax liabilities		<u>16,856</u>	<u>17,542</u>
		<u>1,129,564</u>	<u>1,113,572</u>
Current liabilities			
Trade payables	<i>11</i>	78,157	100,171
Other payables and accruals		125,140	159,276
Other loans		45,558	53,339
Bonds payable		11,250	—
Bank loans	<i>10</i>	<u>63,820</u>	<u>73,516</u>
		<u>323,925</u>	<u>386,302</u>
Total liabilities		<u>1,453,489</u>	<u>1,499,874</u>
TOTAL EQUITY AND LIABILITIES		<u>3,101,839</u>	<u>3,176,789</u>
Net current assets/(liabilities)		<u>58,542</u>	<u>(28,570)</u>
Total assets less current liabilities		<u>2,777,914</u>	<u>2,790,487</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 31 December 2018

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

These condensed consolidated financial statements should be read in conjunction with the 2018 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the 2018 annual financial statements except as stated in note 2 below.

2. ADOPTION OF NEW AND REVISED HKFRSS

In the current Period, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting period beginning on 1 July 2018. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards; and Interpretations. Other than as further explained below, the adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current Period and prior years.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. Considering the nature of the Group’s principal activities, the adoption of HKFRS 15 does not have material impact on the Group’s revenue recognition and HKFRS 15 had no material impact on amounts and/or disclosures reported in these unaudited condensed consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. The adoption of HKFRS 9 from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

(a) Classification and measurement

On 1 July 2018 (the date of initial adoption of the new HKFRSs), the Group’s management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate categories of the New HKFRSs.

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Upon the adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset’s contractual cash flow characteristics and the entity’s business model for managing the financial asset. The Group considered that its equity investments previously classified as available-for-sale financial assets were reclassified as financial assets at FVOCI as these investments are held as long-term strategic investments. Fair value is measured at the reclassification date. Dividends are recognised as income in profit or loss. Any difference between previous amortised cost and fair value on reclassification is recognised in other comprehensive income and never reclassified to profit or loss.

(b) Impairment

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the expected credit loss (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, loans to customers, trade and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9 are recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group considers reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; or
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For trade receivable

Allowances of doubtful debts for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

Other financial assets subject to impairment

For all other financial assets, the Group recognises allowances of doubtful debts equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the allowances of doubtful debts are measured at an amount equal to lifetime ECLs.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- The Group has taken an exemption not to restate comparative information for prior periods with respect to measurement (including impairment) requirements. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the information presented for 2018 annual financial statements continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed as of 1 July 2018 (the date of initial application of HKFRS 9 by the Group).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

The following table summarises the classification and measurement (including impairment) of financial assets under HKFRS 9 and HKAS 39 as at 1 July 2018:

	Trade receivables <i>HK\$'000</i>	Other receivables <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>
Closing balance as at 30 June 2018 under HKAS 39	6,748	77,440	1,164,276
Remeasurement			
Recognition of ECLs on trade receivables	(12)	—	(12)
Recognition of ECLs on other receivables	<u>—</u>	<u>(9,951)</u>	<u>(9,951)</u>
	----- (12)	----- (9,951)	----- (9,963)
Opening balance as at 1 July 2018 under HKFRS 9	6,736	67,489	1,154,313

Loss allowances for other financial assets at amortised cost mainly comprising bank balances, amounts due from related parties and other receivables are measured on 12-month ECLs basis and there had been no significant increase in credit risk since initial recognition. No additional credit loss allowance has been recognised against retained earnings as at 1 July 2018.

The preparation of the Interim Financial Statements in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgements in the process of applying the Group's accounting policies. Actual results may differ from these estimates. The significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Group's annual financial statements for the year ended 30 June 2018.

Except as described above, the application of HKFRS 9 in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

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

3. REVENUE

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

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:		
Heat supplying services	124,392	126,731
Electricity supplying services	2,521	5,139
Sales of calcium carbide	66,594	35,280
Sales of beverage products	9,994	—
Facilities of construction services	1,661	—
	<u>205,162</u>	<u>167,150</u>

4. SEGMENT INFORMATION

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

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

Calcium carbide — manufacture and sale of calcium carbide;

Construction services — construction and monitor of public facilities construction;

Beverage business — sale of beverage products;

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

Vinyl acetate — manufacture and sale of vinyl acetate.

The accounting policies of the operating segments are the same as those described in the Group's 2018 annual financial statements. Segment profits or losses do not include fair value gain on financial assets at fair value through profit or loss and corporate administrative expenses. Segment assets do not include bank and cash balances, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, bonds payable, bond interest payable, other loans and other payables and accruals for general administrative use.

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

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

	(Unaudited)						
	Heat and power <i>HK\$'000</i>	Calcium carbide <i>HK\$'000</i>	Construction services <i>HK\$'000</i>	Beverage business <i>HK\$'000</i>	Polyvinyl- chloride <i>HK\$'000</i>	Vinyl acetate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 31 December 2018							
Revenue from external customers	126,913	66,594	1,661	9,994	—	—	205,162
Segment profit/(loss)	41,889	(12,590)	(1,550)	(1,671)	(8,685)	(10,126)	7,267
As at 31 December 2018							
Segment assets	791,979	1,702,935	158,345	3,072	178,846	92,247	2,927,424
Segment liabilities	<u>109,486</u>	<u>280,459</u>	<u>54,898</u>	<u>6,377</u>	<u>14,173</u>	<u>18,651</u>	<u>484,044</u>

	(Unaudited)						
	Heat and power <i>HK\$'000</i>	Calcium carbide <i>HK\$'000</i>	Construction services <i>HK\$'000</i>	Beverage business <i>HK\$'000</i>	Polyvinyl- chloride <i>HK\$'000</i>	Vinyl acetate <i>HK\$'000</i>	Total <i>HK\$'000</i>

Six months ended 31 December 2017

Revenue from external customers	131,870	35,280	—	—	—	—	167,150
Segment profit/(loss)	57,924	(18,273)	—	—	(6,130)	(5,473)	28,048

	(Audited)						
As at 30 June 2018							
Segment assets	814,200	1,730,251	169,525	—	193,531	98,025	3,005,532
Segment liabilities	<u>145,540</u>	<u>275,619</u>	<u>59,449</u>	<u>—</u>	<u>14,751</u>	<u>30,030</u>	<u>525,389</u>

Reconciliation of reportable segment profit or loss:

	(Unaudited)	
	Six months ended	
	31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit or loss		
Total profit or loss of reportable segments	7,267	28,048
Fair value loss on financial assets at fair value through profit or loss	(639)	(137)
Share of results of a joint venture	(423)	—
Corporate administrative expenses	<u>(54,112)</u>	<u>(55,509)</u>
Consolidated loss for the period	<u>(47,907)</u>	<u>(27,598)</u>

5. OTHER INCOME

	(Unaudited)	
	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
Bank interest income	84	17
Gain on settlement of other loan payables	13,748	—
Construction income of installation of pipe	943	5,441
Reversal of allowance for other receivables	—	14,451
Write off of other payables due to deregistration	—	3,252
Sundry income	—	240
	<u>14,775</u>	<u>23,401</u>

6. INCOME TAX

	(Unaudited)	
	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
Current tax	<u>—</u>	<u>—</u>

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

7. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

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

	(Unaudited)	
	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
Depreciation	53,014	52,088
Amortisation of other intangible assets	—	86
Allowance for receivables		
— trade receivables	5,131	—
— other receivables	3,326	—
Factory overhead incurred during suspension of production (<i>note</i>)	23,314	23,123
Fair value loss on financial assets at fair value through profit or loss	638	137
Operating lease rental expenses	1,448	1,422
Staff costs (excluding Directors' emoluments):		
Wages, salaries and benefits in kind	17,083	12,233
Employee share option benefits	3,454	10,001
Retirement benefits scheme contributions	3,830	3,354
Directors' emoluments	<u>684</u>	<u>3,434</u>

Note: For the Period and the six months ended 31 December 2017, factory overhead was incurred during the temporary suspension of production line of polyvinyl-chloride segment, vinyl acetate segment and calcium carbide segment.

8. LOSS PER SHARE

(a) Basic loss per share

Calculation of basic loss per share attributable to the owners of the Company is based on the loss for the Period attributable to the owners of the Company of approximately HK\$48,460,000 (2017: HK\$25,815,000) and the weighted average number of ordinary shares of 1,136,731,667 (2017: 1,106,776,029) in issue during the Period.

(b) Diluted loss per share

For the Period and the six months ended 31 December 2017, the diluted loss per share was the same as the basic loss per share as the computation of the diluted loss does not assume the exercise of the Company's share options because assumption of exercise of the share options would result in a decrease in loss per share.

9. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (30 June 2018: 60 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

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

	(Unaudited) 31 December 2018 <i>HK\$'000</i>	(Audited) 30 June 2018 <i>HK\$'000</i>
Within 30 days	11,361	77
31 to 60 days	880	6,660
61 to 90 days	13,662	11
91 to 180 days	129	—
181 to 270 days	3,431	—
271 to 365 days	<u>602</u>	<u>—</u>
	<u>30,065</u>	<u>6,748</u>

10. BANK LOANS

The Group's bank loans are repayable as follows:

	(Unaudited) 31 December 2018 <i>HK\$'000</i>	(Audited) 30 June 2018 <i>HK\$'000</i>
Term loans subject to a repayment on demand clause	34,169	35,559
Within one year	29,651	37,957
In the second year	2,606	2,606
In the third to fifth years inclusive	8,158	8,158
After five years	<u>12,245</u>	<u>13,495</u>
	86,829	97,775
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(63,820)</u>	<u>(73,516)</u>
	<u>23,009</u>	<u>24,259</u>

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

	(Unaudited) 31 December 2018 <i>HK\$'000</i>	(Audited) 30 June 2018 <i>HK\$'000</i>
Hong Kong dollars	25,562	26,812
Renminbi	<u>61,267</u>	<u>70,963</u>
	<u><u>86,829</u></u>	<u><u>97,775</u></u>

As of 31 December 2018, bank loans were arranged at floating rates ranging from 2.10% to 8.50% (30 June 2018: 2.10% to 8.50%) per annum, thus exposing the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets, land held under finance leases and prepaid land lease payments.

11. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (30 June 2018: 30 to 120 days) from its suppliers.

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

	(Unaudited) 31 December 2018 <i>HK\$'000</i>	(Audited) 30 June 2018 <i>HK\$'000</i>
Within 30 days	12,690	3,499
31 to 60 days	7,985	15
61 to 90 days	3,098	8,328
91 to 120 days	—	10,348
121 to 365 days	19,189	36,118
Over 365 days	<u>35,195</u>	<u>41,863</u>
	<u><u>78,157</u></u>	<u><u>100,171</u></u>

12. BUSINESS COMBINATION

The acquisition has been treated as a business combination.

Details of assets and liabilities of the acquiree recognised at the date of acquisition

	HK\$'000
Property, plant and equipment	4
Tax recoverable	6
Accounts receivable	5
Prepayments, deposits and other receivables	475
Bank and cash balances	849
Accounts payable	(530)
Other payables and accruals	<u>(2,435)</u>
Net liabilities acquired	(1,626)
Goodwill arising on acquisition	<u>36,547</u>
Total consideration satisfied by fair value of contingent consideration payable	<u><u>34,921</u></u>

Net cash flow effect arising from the acquisition

	HK\$'000
Cash and cash equivalents acquired	<u>849</u>
Net cash inflow	<u><u>849</u></u>

On 5 January 2018, the Company entered into a sale and purchase agreement with an independent third party vendor to acquire the entire equity interest of Xinyang Maojian Holding Co., Ltd. (“**Xinyang Maojian Holding**”), a company incorporated in the BVI, for a total consideration of HK\$85,800,000, which will be satisfied by way of allotment and issue of 220,000,000 new shares of the Company to the vendor (the “**Consideration Shares**”). On 11 June 2018, the Company entered into a supplemental agreement (the “**Supplemental Agreement**”) with the vendor pursuant to which the Consideration Shares will not be allotted and issued to the Vendor unless and until the guaranteed financial performance set out in the Supplemental Agreement is met by Xinyang Maojian Holding for the two years ending 30 June 2020. The acquisition was completed on 4 October 2018.

13. CONTINGENT LIABILITIES

- (a) On 19 November 2012, China Electricity Construction Consultant Group Dongbei Electricity Design College (translated from the Chinese name of 中國電力工程顧問集團東北電力設計院) (the “**Plaintiff**”) filed a writ (the “**Writ**”) with 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 construction, the Plaintiff claimed (i) the payment of the contract sum in the amount of approximately RMB42,700,000 and the interest thereon; (ii) the grant of the first priority right to receive payment from Mudanjiang BD Power in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13,300,000 for alleged termination of the Contract; and (iv) the legal fees arising from the action. The Company has been seeking legal advice in respect of the Writ on the dispute in the payment for the Contract since December 2012. According to the management of Mudanjiang BD Power, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since 2009.

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

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

- (b) On 16 April 2017, Baosteel Engineering & Technology Group Limited (“**Baosteel**”) obtained an arbitral award in the PRC (the “**Award**”) against the Company’s 90% owned 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 for the 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) (the “**PRC Proceedings**”). Heihe Longjiang Chemical’s claim was for the sum of RMB32,972,092, which has subsequently been increased to RMB52,329,832.98, being compensation for loss and damage resulting from Baosteel’s breach of an agreement in provision of labour and technology with respect to the Heihe Longjiang Chemical factory. The PRC Proceedings ended on 13 November 2018 and the Heihe Intermediate Court is expected to hand down judgment in the near future. Heihe Longjiang Chemical expects to be successful in its claim and the judgment sum is expected to partially or fully extinguish Baosteel’s claim under the Award.

In the meantime, Baosteel obtained an order for enforcement of the Award against the Company in Hong Kong on 7 February 2018 (the “**Enforcement Order**”). On 11 July 2018, the Company obtained a stay of execution of the Enforcement Order for 6 months on the condition that the Company paid security into court in the sum of RMB19,818,046 or its equivalent in Hong Kong dollars (the “**Security Sum**”), which the Company duly paid on 24 July 2018.

The Company applied for an extension of the stay of execution on 7 January 2019, but the application was unsuccessful. On 14 January 2019, the Company issued an application to the Court of Appeal for leave to appeal the order refusing the extension of stay. However, in the meantime, Baosteel obtained an order for payment out of the Security Sum on 17 January 2019, before the application for leave could be heard. The Company, with the cooperation of Heihe Longjiang Chemical, will seek to recover the Security Sum once judgment has been handed down in the PRC Proceedings.

14. EVENTS AFTER THE REPORTING PERIOD

On 20 January 2019, the Company entered into a cooperation framework agreement (the “**Framework Agreement**”) with Xinyang Maojian Investment Development Company Limited (信陽毛尖投資發展有限公司) (“**Xinyang Investment**”). Pursuant to the Framework Agreement, from 20 January 2019 to 17 January 2022, the Company and Xinyang Investment intend to cooperate as follows: (1) Xinyang Investment will enter the capital market in Hong Kong, and intends to become a strategic shareholder of the Company by way of holding shares of the Company through various channels; (2) both parties will coordinate and negotiate with the Xinyang local government (the “**Local Government**”) concerning the procedures of the land, planning and construction of Xinyang International Tea City (信陽國際茶城), so as to ultimately legally merge and acquire Xinyang International Tea City into the Company; and (3) Xinyang Investment and the Local Government will promote relevant tea-trading and well-known tea companies, which have become mature, to actively cooperate with the Company.

As at the date of this announcement, the Company and Xinyang Investment have not entered into any legally binding agreement in relation to any specific cooperation projects.

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

For the Period, revenue of the Group amounted to approximately HK\$205 million, representing an increase of 23% when compared with that of the last corresponding period.

Loss attributable to the owners of the Company for the Period amounted to approximately HK\$48 million, representing an increase of 74% when compared with that of the last corresponding period.

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

The Group's selling and distribution costs for the Period was approximately HK\$10 million, representing a decrease of approximately 7% when compared with that of the last corresponding period. The decrease in selling and distribution costs resulted from the improvement in cost control during the Period.

The Group's administrative expenses for the Period was approximately HK\$49 million, representing an increase of approximately 8% when compared with that of the last corresponding period. The increase in administrative expenses was due to the acquisition of the construction service division and the beverage division in January 2018 and October 2018, respectively.

The Group's other operating expenses for the Period was approximately HK\$31 million, representing an increase of approximately 25% when compared with that of the last corresponding period. The other operating expenses mainly represented the factory overhead incurred during the suspension of the coal-related operation in the chemical production division. The increase in other operating expenses represented the general maintenance costs in the Mudanjiang factories.

The Group's finance costs for the Period was approximately HK\$48 million, representing an increase of approximately 28% when compared with that of the last corresponding period. The increase in finance costs was resulted from the increase in bonds payable charged at the effective interest rate during the Period.

Heat and power division

During the Period, the heat and power division recorded a revenue of HK\$127 million from external customers. Income from supplying heat to residential users for the Period was approximately HK\$115 million, representing a decrease of approximately 1% compared with that of the last corresponding period. The decrease was arisen from the drop of the exchange rate in RMB to HKD. Segment profit of approximately HK\$42 million was achieved representing a decrease of approximately 28% compared with that of the last corresponding period.

Chemical production division

Calcium carbide

During the Period, the calcium carbide segment of the chemical production division recorded a revenue of HK\$67 million from external customers. Segment loss of approximately HK\$13 million was recorded, representing a decrease of approximately 31% compared with that of the last corresponding period. The segment loss was mainly derived from the unavoidable non-cash expenditure such as depreciation and amortisation in the Mudanjiang factories.

Polyvinyl-chloride and vinyl acetate

During the Period, each of the polyvinyl-chloride segment and the vinyl acetate segment of the chemical production division recorded no revenue from external customers, due to the temporary suspension of the Mudanjiang factories.

Construction services division

Jinyang Engineering Co. Ltd. was acquired by the Group in January 2018. During the Period, the construction services division recorded a revenue and a segment loss of HK\$2 million and HK\$2 million, respectively.

Beverage division

Xinyang Maojian Holding Co. Ltd. was acquired by the Group in October 2018. During the Period, the beverage division recorded a revenue and a segment loss of HK\$10 million and HK\$2 million, respectively.

The local management had closely monitored the operation to reduce coal or energy consumption and avoid wastage so as to enhance the profit from both operation of the heat and power division and the calcium carbide segment of the chemical production division. The heat and power generating facilities were in normal operation throughout the Period and the last corresponding period. The calcium carbide facilities were in a set-up period and is expected to run smoothly in the foreseeable future.

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Liquidity and financial ratio

As at 31 December 2018, the Group had total assets of approximately HK\$3,102 million (30 June 2018: HK\$3,177 million), which were financed by current liabilities of approximately HK\$324 million (30 June 2018: HK\$386 million), non-current liabilities of approximately HK\$1,130 million (30 June 2018: HK\$1,114 million), non-controlling interests of approximately HK\$90 million (30 June 2018: HK\$93 million) and owners' equity of approximately HK\$1,558 million (30 June 2018: HK\$1,584 million).

As at 31 December 2018, the current assets of the Group amounted to approximately HK\$382 million (30 June 2018: HK\$358 million), mainly comprising inventories of approximately HK\$30 million (30 June 2018: HK\$28 million), trade receivables of approximately HK\$30 million (30 June 2018: HK\$7 million), prepayments, deposits and other receivables of approximately HK\$250 million (30 June 2018: HK\$259 million), financial assets at fair value through profit or loss of approximately HK\$1 million (30 June 2018: HK\$2 million) and cash and cash equivalents of approximately HK\$71 million (30 June 2018: HK\$62 million).

As at 31 December 2018, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets — inventories)/(current liabilities)), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/owners' equity) of the Group were approximately 1.2 (30 June 2018: 0.9), 1.1 (30 June 2018: 0.9), 46.9% (30 June 2018: 47.2%) and 93.3% (30 June 2018: 94.7%), respectively.

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

Equity funding

On 5 October 2018, the Company and Mr. Sha Tao (“**Mr. Sha**”) entered into a subscription agreement, pursuant to which the Company had conditionally agreed to allot and issue, and Mr. Sha had conditionally agreed to subscribe for, 220,000,000 new shares of HK\$0.1 each of the Company at the subscription price of HK\$0.315 per share. The subscription was completed on 10 December 2018. The net proceeds were approximately HK\$68.8 million of which HK\$38.2 million have been used for repayment of bank loan and other loan payables. The remaining balance of the net proceeds will be used for repayment of bank loan and bonds payable.

Non-equity funding

Bank loans

As at 31 December 2018, the bank loans of the Group amounted to approximately HK\$87 million (30 June 2018: HK\$98 million), of which HK\$26 million was denominated in Hong Kong dollars and HK\$61 million was denominated in Renminbi (30 June 2018: HK\$27 million was denominated in Hong Kong dollars and HK\$71 million was denominated in Renminbi). Based on agreed scheduled repayments set out in the loan agreements, bank loans of approximately HK\$64 million (30 June 2018: HK\$74 million) were repayable within 12 months.

Bonds and other non-equity financing

As at 31 December 2018, the aggregate bonds payable were approximately HK\$862 million which were issued for improving the working capital of the Group during the Period.

Significant investments held by the Company

As at 31 December 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 million.

Charges on the Group's assets

As at 31 December 2018, bank loans and other loans of approximately HK\$87 million and HK\$28 million, respectively, were secured by charges over the Group's certain fixed assets and prepaid land lease payments.

Contingencies

The Board has reviewed and considered the contingent liabilities of the Company and disclosed information concerning such contingent liabilities in note 13 to the condensed consolidated financial statements.

Contingent liabilities

As at 31 December 2018, except for disclosed in note 13, the Group did not have any significant contingent liabilities.

Foreign exchange exposure

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi, which are the functional currencies of the principal operating entities of the Group. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings. During the Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2018.

Number and remuneration of employees

As at 31 December 2018, the Group had 734 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.

Details of the movement in the share options granted under the share option scheme of the Company during the Period are set out below:

Number of category of participants	Options held at 30 June 2018	Options granted during the Period	Options exercised during the Period	Options cancelled during the Period	Options lapsed during the Period	Options held at 31 December 2018
Directors						
Chan Yuk Foebe	10,780,000	—	—	—	—	10,780,000
Law Tze Ping Eric	10,780,000	—	—	—	—	10,780,000
Other Employees	<u>43,120,000</u>	<u>110,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>153,120,000</u>
Total	<u>64,680,000</u>	<u>110,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>174,680,000</u>

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

PROSPECT

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

Heat and power division

During the Period, turnover of the heat and power division decreased by 3.8% (2017: increased by 24.9%) and the gross profit decreased by 4.6% (2017: increased by 4%). This is because the residential heat supplying areas were stabilized during the Period (2018 and 2017: 4.1 million square meters).

During the Period, the market price of raw coal stayed at its peak and the profit margin from the heat and power division was therefore kept at an unfavourable level. However, since early 2019, the market price of raw coal has been trending downwards. The management foresees that the profit margin will benefit from the lower coal cost and the heat and power division will begin to trend upwards.

Chemical production division

Heihe

Turnover of the calcium carbide segment of the chemical production division increased by 89% (2017: decreased by 10%) and recorded a gross profit of HK\$5 million for the first time (2017: gross loss of HK\$6 million). During the Period, a part of the production plant was still under installation, but the remaining part of the production plant was running at a normal level. Under the existing production capacity and market situation, the Heihe factory was running at an equilibrium stage. Although the management expects that the calcium carbide segment may face challenges in 2019 due to the uncertainty of the global market, it is believed that the Heihe factory would increase its contribution to the Group through the expansion of production capacity and the reduction of the material cost and wastage.

Mudanjiang

The management will closely monitor the market situation and consider the effectiveness in resuming the chemical production division. However, the management does not rule out the possibility in the disposal of the idle production plant in Mudanjiang if the resalable price is reasonable.

Construction service division

Since the heat and power division is investigating the possibility and effectiveness in construction of Phase II Power Plant, the construction of residential heat supplying areas was temporary suspended. It is expected that the resumption in construction of Phase II Power Plant and the expansion of residential heat supplying areas will contribute a remarkable profit to the division.

Tea division

E-commerce sales

Although the division was acquired by the Group in October 2018, it contributed a remarkable turnover of HK\$10 million to the Group. With the injection of promotion and advertisement, the management believes the e-commerce business will contribute a remarkable profit in 2019.

Cooperation framework agreement with Xinyang Maojian Investment Development Company Limited

On 20 January 2019, the Company entered into a cooperation framework agreement with Xinyang Maojian Investment Development Company Limited (信陽毛尖投資發展有限公司) (“**XY Investment**”).

XY Investment was a company incorporated in Xinyang City, the PRC, with limited liability with a registered capital of RMB2,000,000,000, which is wholly-owned by the Xinyang City Finance Bureau.

It was agreed that a corporative partnership would be established, collaborating in areas such as the economic development of Xinyang via the capital market.

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, pursuant to a framework agreement, 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.

Save as disclosed above, there were no other significant changes in the Group's financial position or from the information disclosed under the Management Discussion and Analysis section in the annual report for the year ended 30 June 2018.

GROUP STRATEGY

The Group will actively restructure the assets so as to create value to the shareholders of the Company. It will not rule out the possibility of further acquisition and disposal of non-core assets.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE GROUP

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

CORPORATE GOVERNANCE

Corporate Governance Code

The Directors are of the view that the Company has complied with the Corporate Governance Code (the “**Code**”) and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) during the Period, except for a certain deviation which is summarised below:

Code Provision A.2.1

The roles of Chairman and Chief Executive Officer are performed by the same individual, Ms. Chan Yuk Foebe, and are not separated. The Board meets regularly to consider issues related to corporate matters affecting operations of the Group. The Board considers the structure will not impair the balance of power and authority of the Board and the Company's management and thus, the Board believes this structure will enable effective planning and implementation of corporate strategies and decisions.

AUDIT COMMITTEE

The Company set up the Audit Committee on 8 April 2001 pursuant to Rules 3.21 and 3.22 of the Listing Rules, with written terms of reference, for the purposes of reviewing and providing supervision on the Group's financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive Directors of the Company, namely, Mr. Ma Wing Yun Bryan (Chairman), Mr. Tam Ching Ho and Mr. Hau Chi Kit. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal

control and financial reporting aspects of the Company including the review of the unaudited interim results of the Company for the Period and there was no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

REMUNERATION COMMITTEE

A remuneration committee was established by the Company (the “**Remuneration Committee**”) on 1 July 2005, with specific written terms of reference which set out clearly its authority and duties pursuant to Rules 3.25 and 3.26 of the Listing Rules. The Remuneration Committee currently comprises Mr. Ma Wing Yun Bryan (Chairman), Mr. Tam Ching Ho and Mr. Hau Chi Kit, who are responsible for advising the Board on the remuneration policy and framework for all the remuneration of the Directors and senior management of the Company, as well as reviewing and determining the remuneration packages of Directors and senior management with reference to the Company’s objectives from time to time.

NOMINATION COMMITTEE

The nomination committee was established by the Company (the “**Nomination Committee**”) on 2 November 2007, with specific written terms of reference pursuant to provisions A.5.1 and A.5.2 of the Code. The Nomination Committee currently comprises one executive Director, namely Ms. Chan Yuk Foebe (Chairman), and three independent non-executive Directors, namely Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit. The Board as a whole, with the Nomination Committee, is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession plan of Directors and assessing the independence of independent non-executive Directors.

INTERIM REPORT

The 2018/19 interim report containing all the financial and other related information of the Company required by the Listing Rules will be available on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.xinyangmaojian.com.hk, and dispatched to the shareholders of the Company before the end of March 2019.

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

Hong Kong, 28 February 2019

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.