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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)

SUPPLEMENTAL ANNOUNCEMENT TO FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2019

Reference is made to the announcement (the “**Announcement**”) of Xinyang Maojian Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 30 September 2019 in relation to the audited consolidated results of the Group for the year ended 30 June 2019. Terms used herein shall have the same meanings as defined in the Announcement unless the context requires otherwise. In addition to the information provided in the Announcement, the Board wishes to provide further information in relation to the written-off of fixed assets (including assets in the calcium carbide (“**CC**”) segment, the polyvinyl-chloride (“**PVC**”) segment and the vinyl acetate (“**VA**”) segment, respectively) (collectively, the “**Relevant Assets**”) of approximately HK\$409.8 million (the “**Written-Off**”).

BACKGROUND AND REASONS FOR THE WRITTEN-OFF

The coal-related business in Mudanjiang included the following sectors:

- Daytech Factory (日達化工有限公司) in relation to the CC segment;
- PVC Factory (東北高新化工有限公司) in relation to the PVC segment; and
- VA Factory (東北化工有限公司) in relation to the VA segment.

The operation of these sectors had been suspended since 2013 due to the drop in market selling price of products of these sectors. During the years from 2013 to 2018, the management believed that the drop of market selling price of these products would be short-term and would recover soon. However, in light of the current market situation (e.g. the outbreak of the Sino-US trade war), the management was not optimistic to resume the operation of these sectors in the near future.

On 28 June 2019, the executive Directors resolved that these production lines would not be resumed and the relevant assets would be considered as written-off.

FACTORS LEADING TO THE WRITTEN-OFF

In order to protect the interests of the Company and its shareholders as a whole, the management closely monitored the market conditions to achieve effective cost control. The management had monitored the market selling price of each of the Relevant Assets.

Increase in market selling price of the Relevant Assets

There had been an increasing trend in market selling price during the years from 2013 to 2018, of which the Group had believed that the market selling price could recover to the level of the years of 2011 and 2012. Therefore, the Group was of the view that the production plants would resume in the near future. Nonetheless, CC is a crucial element for the production of PVC and VA, and since the Group was unable to produce CC cost-effectively, the supply chain of PVC and VA had been broken from the years of 2013 to 2019.

During the years from 2013 to 2019, we had assessed the effectiveness in resuming the production of the Relevant Assets from time to time. However, as the market prices for each of the production of the Relevant Assets were insufficient to cover the direct production costs, respectively, the Group had decided to suspend the operation of the production plants of these factories during the period.

Although the market selling price in the chemical market trended upwards during the year of 2017 and reached its peak in the year of 2018, since the outbreak of the Sino-US trade war and the overall economic slowdown in early 2019, the market selling price of each of the Relevant Assets had a downward trend. In light of this downward trend and after thoughtful consideration, the Group was not optimistic that the market selling price could recover to an acceptable level; therefore, the Group was of the view that these production plants would not be resumed in the near future.

The Sino-US trade war

As mentioned under the paragraph headed “Increase in market selling price of the Relevant Assets” above, the market selling price peaked during the year of 2018 and trended downwards in 2019, which was in line with the slowdown of the economy since the Sino-US trade war. Factors including, but not limited to, the currency exchange rate, export and import trading and various manufacturing industries had affected the economy in the PRC due to the Sino-US trade war.

In relation to the Relevant Assets, the following aspects of the relevant business of the Group had been affected as a result of the Sino-US trade war:

- The price and market environment of downstream products of the Group’s customers, such as the production of PVC (rubber) floor, PVC plastic doors and windows, PVC drain pipes and PVC glove, had been affected.

- The real estate market of the PRC had been affected, and since the demand for PVC is directly related to the new construction and completion of real estate, the PVC industry had been affected.
- Textile products has been subject to tax imposed by the US government, and since VA is one of the materials used to produce synthetic fibers, the VA industry had been affected.

Analysis in relation to the impairment of the Relevant Assets and the Written-off

In order to ensure that the Group makes timely and sufficient impairment provisions or write-off the Relevant Assets, the Group had performed impairment tests annually in accordance with Hong Kong Accounting Standards 36 (“**HKAS 36**”).

During the financial years ended 30 June 2013 to 30 June 2018, the Group performed valuation of the Relevant Assets using the discounted cash flow model under HKAS 36. However, during the financial year ended 30 June 2015, as the auditor did not agree with the Group’s measurement of the Relevant Assets as it had been suspended for three years already then, a qualified opinion had been issued on the measurements of the Relevant Assets.

PRESERVATION AND FUTURE PLANS FOR THE REMAINING ASSETS IN MUDANJIANG

In order to preserve the value of the Relevant Assets, during the years from 2013 to 2018, the Group, on one hand, kept the plant and machineries in good condition in order to prepare for the resumption of production, and on the other hand, was seeking for any opportunity to dispose of the idle Relevant Assets. For example, the Group had disposed of the idle production line in relation to the Vitamin C segment during the financial year ended 30 June 2017.

As the market for each of the Relevant Assets was poor in the year of 2016, the Group contacted the Mudanjiang local government to identify any potential business partner who had been interested in purchasing or developing the production plant in Mudanjiang. Nonetheless, save for the disposal of the idle production line in relation to the Vitamin C segment, there had been no further opportunities for the disposal of the idle production plants and the Company is still seeking for opportunities to dispose of the remaining assets in Mudanjiang, which represent land and building that have a competitive market price.

As at the date of this announcement, the Group does not have any solid plans for the disposal of the idle Relevant Assets, but in light of the current market situation, it is not possible to resume the production plants in the near future.

FURTHER INFORMATION ON HLCCL

As disclosed in the Announcement:

“HLCCL had suspended the production of calcium carbide since March 2019 due to the continuous low pricing in the final products of calcium carbide resulting in a gross loss in production. To avoid the further deterioration of the financial performance of the Group, the management had suspended its operations.”

The plant and equipment in Heihe is a production plant for the production of CC, which is separated from the production plant in Mudanjiang. The suspension of operations in Mudanjiang would therefore not affect the operations in Heihe.

Moreover, HLCCL enjoys a preferential electricity price in Heihe, which provides an opportunity for the transformation of use for the plants and equipment in Heihe. Therefore, the Group did not consider further impairment on such assets for the year ended 30 June 2019. Once the transformation of the assets of HLCCL is confirmed, the assets which were originally classified under the CC segment, as its suspension was only temporary, shall be classified into assets under other segments.

Shareholders and potential investors may refer to the Announcement and the annual report of the Company for the financial year ended 30 June 2019 which was published on 30 October 2019 for further details of the Written-off.

By order of the Board
Xinyang Maojian Group Limited
Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong, 5 December 2019

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

* *For identification only*