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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 (1) AUDITED RESULTS FOR THE YEAR ENDED 30 JUNE 2023 (2) DELAY IN DESPATCH OF THE 2023 ANNUAL REPORT AND (3) RESUMPTION OF TRADING

RESULTS

The board (the “**Board**”) of directors (the “**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 2023 (the “**Year**”) together with the comparative figures for the previous year.

Audited Consolidated Statement of Profit or Loss
for the year ended 30 June 2023

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i> (Re-presented)
Continuing operations			
Revenue	3	100,847	198,664
Cost of sales		<u>(105,947)</u>	<u>(166,181)</u>
Gross (loss)/profit		(5,100)	32,483
Other income and other gains or losses	5	8,319	50,699
Gain on bargain purchase on acquisition of a subsidiary		2,611	–
Loss on reclassification from assets classified as held for sale		–	(5,393)
Reversal/(provision) of allowance for receivables, net			
– trade receivables		163	4,004
– prepayments, deposits and other receivables		(14,991)	(27,468)
Administrative expenses		(95,559)	(112,233)
Other operating expenses		(13,319)	(42,771)
Share of result of an associate		–	(137)
Impairment on property, plant and equipment		(359,411)	(4,371)
Gain on deconsolidation of a subsidiary		404,680	–
Gain on disposal of a subsidiary		–	<u>10,220</u>
Loss from operations		(72,607)	(94,967)
Finance costs	6	<u>(113,926)</u>	<u>(166,030)</u>
Loss before tax		(186,533)	(260,997)
Income tax expense	7	<u>–</u>	<u>–</u>
Loss for the year from continuing operations		<u>(186,533)</u>	<u>(260,997)</u>
Discontinued operations			
Loss for the year from discontinued operations		<u>(8,709)</u>	<u>(812,824)</u>
Loss for the year		<u>(195,242)</u>	<u>(1,073,821)</u>

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i> (Re-presented)
Attributable to:			
Owners of the Company			
Continuing operations		(147,167)	(251,382)
Discontinued operations		(8,709)	(812,824)
		<u>(155,876)</u>	<u>(1,064,206)</u>
Non-controlling interests			
Continuing operations		(39,366)	(9,615)
		<u>(195,242)</u>	<u>(1,073,821)</u>
			(Restated)
Loss per share	10		
From continuing and discontinued operations			
– Basic (<i>HK cents</i>)		(49.84)	(957.54)
– Diluted (<i>HK cents</i>)		(49.84)	(957.54)
		<u>(49.84)</u>	<u>(957.54)</u>
From continuing operations			
– Basic (<i>HK cents</i>)		(47.06)	(226.19)
– Diluted (<i>HK cents</i>)		(47.06)	(226.19)
		<u>(47.06)</u>	<u>(226.19)</u>
From discontinued operations			
– Basic (<i>HK cents</i>)		(2.78)	(731.35)
– Diluted (<i>HK cents</i>)		(2.78)	(731.35)
		<u>(2.78)</u>	<u>(731.35)</u>

Audited Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2023

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Re-presented)
Loss for the year	(195,242)	(1,073,821)
Other comprehensive (expense)/income after tax: <i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	(7,571)	1,567
Share of other comprehensive expense of an associate	–	(592)
Exchange differences reclassified to profit or loss on deconsolidation of a subsidiary	(31,872)	–
Exchange differences reclassified to profit or loss on disposal of a subsidiary	–	6,312
Other comprehensive (expense)/income for the year, net of tax	(39,443)	7,287
	(234,685)	(1,066,534)
Total comprehensive expense for the year		
Continuing operations	(194,104)	(260,022)
Discontinued operations	(40,581)	(806,512)
	(234,685)	(1,066,534)
Attributable to:		
Owners of the Company		
Continuing operations	(152,888)	(249,195)
Discontinued operations	(40,581)	(806,512)
	(193,469)	(1,055,707)
Non-controlling interests		
Continuing operations	(41,216)	(10,827)
	(234,685)	(1,066,534)

Audited Consolidated Statement of Financial Position
at 30 June 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		389,974	840,473
Right-of-use assets		228,886	247,791
Financial assets at fair value through profit or loss (“FVTPL”)		2,075	–
Investment in an associate		–	–
Other intangible assets		–	–
		<u>620,935</u>	<u>1,088,264</u>
Current assets			
Inventories		2,125	22,197
Trade receivables	11	5,430	29,759
Prepayments, deposits and other receivables		26,360	73,803
Financial assets at FVTPL		116	1,971
Bank and cash balances		2,898	12,874
		<u>36,929</u>	<u>140,604</u>
Assets classified as held for sale		<u>8,765</u>	<u>9,379</u>
		<u>45,694</u>	<u>149,983</u>
Total assets		<u>666,629</u>	<u>1,238,247</u>
Capital and reserves			
Share capital	12	52,755	266,056
Reserves		<u>(1,008,112)</u>	<u>(1,139,224)</u>
Equity attributable to owners of the Company		(955,357)	(873,168)
Non-controlling interests		<u>7,638</u>	<u>48,318</u>
Total deficit		<u>(947,719)</u>	<u>(824,850)</u>

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current liabilities			
Bank loans		10,734	13,267
Bonds payable		740,387	916,770
Convertible bonds		22,745	16,538
		<u>773,866</u>	<u>946,575</u>
Current liabilities			
Trade payables	13	39,955	57,638
Tax payable		–	815
Other payables and accruals		400,011	747,748
Other loans		48,247	120,400
Bank loans		8,948	9,115
Bonds payable		324,319	149,384
Lease liabilities		–	1,483
Convertible bonds		19,002	29,939
		<u>840,482</u>	<u>1,116,522</u>
Total liabilities		<u>1,614,348</u>	<u>2,063,097</u>
Total equity and liabilities		<u>666,629</u>	<u>1,238,247</u>
Net current liabilities		<u>(794,788)</u>	<u>(966,539)</u>
Total assets less current liabilities		<u>(173,853)</u>	<u>121,725</u>
Net liabilities		<u>(947,719)</u>	<u>(824,850)</u>

Notes:

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 7 December 2000 and continued in Bermuda on 24 April 2017. The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda.

The address of its principal place of business is Room 4007, 40th Floor, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"), which is also the functional currency of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention.

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

(a) Going concern

The Group incurred a loss of approximately HK\$195,242,000 for the year ended 30 June 2023. As at 30 June 2023, the Group had net current liabilities of approximately 794,788,000 and net liabilities of approximately 947,719,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In preparing the consolidated financial statements, the management has given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to achieve positive cash flows from operations in immediate and long terms. The Directors have reviewed the Group's cash flow forecast prepared by management, which cover the period up to 30 June 2024. The Directors are of the opinion that, taking into account of the plans and measures below, the Group will have sufficient working capital to finance its operations and to meet its financial

obligations as and when they fall due within twelve months from 30 June 2023. In order to strengthen the Group's capital base and maintain sufficient financing necessary for future business development, the Directors have taken the following measures:

- Following the deconsolidation of Mudanjiang Better Day Power Limited (“**Mudanjiang BD Power**”), the then wholly-owned subsidiary of the Company, is in the process of voluntary liquidation. The Company expects a written-off receivable due from Mudanjiang BD Power of approximately HK\$293 million will be settled out of the proceeds of its liquidation;
- The Company is in the process of negotiating for a settlement of a bond payable to several bondholders in the amount of approximately HK\$128 million. In the event that a proposed settlement is reached between the Company and bondholders, the Company expects the payment schedule of relevant bond payable in the amount of approximately HK\$96 million to be deferred or discounted;
- Other loans of the Group of approximately HK\$45 million out of approximately HK\$48 million as at 30 June 2023 has been refinanced in August 2023;
- The Group had several idle right-of-use assets and buildings located in Mudanjiang City, Heilongjiang Province, the People's Republic of China (“**PRC**”) and Hong Kong with a total carrying amount of approximately HK\$98 million and approximately HK\$63 million respectively. These right-of-use assets and buildings are available to be disposed of, which have a total market value of approximately HK\$262 million with reference to the estimated market approach analysis of the right-of-use assets and buildings carried out by an independent third-party valuer, in the event the Group requires further financing;
- On 28 December 2020, a subsidiary of the Group, Heihe Longjiang Chemical Limited (“**HLCL**”) entered into an agreement (the “**Disposal Agreement**”) with Heihe Longhe Investment Management Limited (“**HLIML**”), an independent third party, pursuant to which HLCL had agreed to transfer the land use rights of certain lands located in the PRC at an aggregate consideration of approximately Renminbi (“**RMB**”) 156,440,000, comprising approximately RMB139,440,000 with land compensation of RMB17,000,000 (the “**Land Disposal**”).

Although the Land Disposal was suspended by vendor, the management is of the view that the other payables of approximately RMB139,440,000 (equivalent to approximately HK\$152,770,000) due to HLIML will not be recalled in case HLCL is under normal operation;

- The Group will consider equity fund raising activities to meet the financial obligations; and
- The Group will apply cost cutting measures to reduce administrative expenses and cash outflows for the next twelve months for the reporting period.

Based on the above measures, the Directors are therefore of the opinion that it is appropriate to prepare the consolidated 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 consolidated 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. The effect of these adjustments had not been reflected on these consolidated financial statements.

(b) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing on 1 July 2022:

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements Project	Annual Improvements to HKFRS Standards 2018–2020
Amendments to Accounting Guideline 5 (Revised)	Merger Accounting Guideline 5 Merger Accounting for Common Control Combinations

The amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current period.

(c) New and amended standards that have been issued but not yet effective

A number of new and amended standards have been published that are not yet effective for reporting period beginning on 1 July 2022 and have not been early adopted by the Group. These new and revised HKFRSs include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 – Non-current Liabilities with Covenants	1 January 2024
Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 7 and HKFRS 7 – Supplier Finance Arrangements	1 January 2024
Amendments to HKAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKAS 12 International Tax Reform – Pillar Two Model Rules	1 January 2023 (except for HKAS 12 paragraph 4A and 88A which are immediately effective upon issue of the amendments)
Amendments to HKFRS 16 – Lease Liability in a Sales and Leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Hong Kong Interpretation 5 (Revised) – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

The Directors have performed an assessment on these new and amended standards and have concluded on a preliminary basis that the adoption of these new and amended standards is not expected to have a significant impact on the Group's financial performance and position.

3. REVENUE

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Re-presented)
Continuing operations:		
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of calcium carbide	84,224	184,966
Sales of lime powder	13,815	13,698
Sales of chemical products for agriculture	2,808	–
	<u>100,847</u>	<u>198,664</u>
Discontinued operations:		
Heat supplying services	3,766	158,973
Electricity supplying services	–	11,991
	<u>3,766</u>	<u>170,964</u>

4. SEGMENT INFORMATION

The Group has four reportable segments as follows:

- Calcium carbide – manufacture and sale of calcium carbide and lime powder;
- Chemical products for agriculture – manufacture and sale of chemical products for agriculture;
- Heat and power – generation and supply of heat and power; and
- Construction services – construction and monitor of public facilities construction.

The Group's reporting segments of (i) heat and power; and (ii) construction services have been presented as discontinued operation following (i) Mudanjiang BD Power, a wholly-owned subsidiary of the Company, engaging in the Group's heat and power segment; had been taken over by Mudanjiang Authority of Housing and Urban-Rural Development on 26 August 2022; and (ii) Mudanjiang Jinyang Municipal Engineering Company Limited, another wholly-owned subsidiary of the Company, engaging in the Group's construction services segment had been disposed on 16 June 2022.

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 change in fair value of financial assets at FVTPL, net, gain on disposal of financial assets at FVTPL, share of result of an associate, gain on disposal of a subsidiary, gain on deconsolidation of a subsidiary and corporate administrative expenses. Segment assets do not include bank and cash balances, financial assets at FVTPL, investment in an associate, assets classified as held for sale and corporate assets. Segment liabilities do not include bank loans, bonds payable, convertible bonds, bonds interest payable, other loans and other payables and accruals for general administrative use.

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

	Continuing operations			Discontinued operation	Total HK\$'000
	Calcium carbide HK\$'000	Chemical products for agriculture HK\$'000	Unallocated HK\$'000	Heat and power HK\$'000	
Year ended 30 June 2023					
Revenue from external customers	<u>98,039</u>	<u>2,808</u>	<u>–</u>	<u>3,766</u>	<u>104,613</u>
Segment loss	(434,242)	(804)	–	(8,709)	(443,755)
Loss on fair value of financial assets at FVTPL, net					(47)
Gain on deconsolidation of a subsidiary					404,680
Corporate administrative expenses					<u>(156,120)</u>
Loss before tax					(195,242)
Income tax expense					<u>–</u>
Consolidated loss for the year					<u>(195,242)</u>
	Continuing operations		Re-presented Discontinued operations		Total HK\$'000
	Calcium carbide HK\$'000	Unallocated HK\$'000	Heat and power HK\$'000	Construction services HK\$'000	
Year ended 30 June 2022					
Revenue from external customers	<u>198,664</u>	<u>–</u>	<u>170,964</u>	<u>–</u>	<u>369,628</u>
Segment loss	(85,721)	–	(812,648)	(176)	(898,545)
Gain on fair value of financial assets at FVTPL, net					1,765
Gain on disposal of financial assets at FVTPL					191
Share of result of an associate					(137)
Gain on disposal of a subsidiary					10,220
Corporate administrative expenses					<u>(187,315)</u>
Loss before tax					(1,073,821)
Income tax expense					<u>–</u>
Consolidated loss for the year					<u>(1,073,821)</u>

5. OTHER INCOME AND OTHER GAINS OR LOSSES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Re-presented)
Continuing operations:		
Government grants (<i>Note (a)</i>)	64	112
Bank interest income	4	33
(Loss)/gain on fair value of financial assets at FVTPL, net	(47)	1,765
Gain on disposal of financial assets at FVTPL	–	191
Gain on conversion of convertible bonds	198	–
(Impairment of)/reversal of impairment of inventories	(3,563)	3,726
Forfeiture of deposit received for partial disposal of a subsidiary (<i>Note (b)</i>)	–	30,238
Income from consideration received for disposal of deconsolidated subsidiary	–	3,800
Gain on early redemption of bonds	11,500	10,321
Sundry income	163	513
	<u>8,319</u>	<u>50,699</u>
Discontinued operations:		
Government grants (<i>Note (a)</i>)	–	5,830
Bank interest income	–	32
Sundry income	20	221
	<u>20</u>	<u>6,083</u>

Notes:

- (a) Government grants for the years were received as incentive for capital expenditure and subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.
- (b) Forfeiture of deposit received for partial disposal of a subsidiary represented the non-refundable deposit RMB25,000,000 for 40% equity interest of the Mudanjiang BD Power which was being forfeited and credited as other income during the year ended 30 June 2022.

6. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Re-presented)
Continuing operations:		
Interest on bank loans	1,621	1,065
Interest on other loans	6,294	5,920
Interest on bonds payable	103,134	155,489
Interest on convertible bonds	2,824	3,197
Interest on lease liabilities	53	359
	<u>113,926</u>	<u>166,030</u>
Discontinued operations:		
Interest on other loans	1,509	3,758
Default interest on other loan	–	9,676
	<u>1,509</u>	<u>13,434</u>

7. INCOME TAX EXPENSE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Continuing operations:		
Current tax		
– PRC Enterprise Income tax	–	–
– Hong Kong Profits tax	–	–
	<u>–</u>	<u>–</u>
Discontinuing operations:		
Current tax		
– PRC Enterprise Income tax	–	–
	<u>–</u>	<u>–</u>

Hong Kong Profits Tax has been provided in accordance with the two-tiered profits tax rate regime under which the first HK\$2,000,000 (2022: HK\$2,000,000) of assessable profit of a qualifying corporation of the Group is taxed at 8.25% (2022: 8.25%) and the remaining assessable profits above HK\$2,000,000 (2022: HK\$2,000,000) are taxed at 16.5% (2022: 16.5%).

No provision for Hong Kong Profits Tax has been made for the year ended 30 June 2023 as the Group had no assessable profits arose in Hong Kong for the year (2022: Nil).

Tax charge on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group's entities 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 ended 30 June 2023 (2022: 25%).

No provision for PRC Enterprise Income Tax has been made for the years ended 30 June 2023 and 2022 as the Group had no assessable profits arose in the PRC during the years.

8. LOSS FOR THE YEAR

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Re-presented)
Continuing operations:		
Auditor's remuneration	1,200	1,100
Cost of inventories sold (<i>Note</i>)	105,947	166,181
Depreciation of property, plant and equipment	56,399	57,321
Depreciation of right-of-use assets	6,941	7,460
Expenses relating to short-term leases	1,097	320
Provision of litigation claims, net (included in other operating expenses)	2,636	2,871
Staff costs (excluding Directors' emoluments):		
Wages, salaries and benefits in kind	9,926	6,121
Retirement benefits scheme contributions	607	1,725
Impairment on property, plant and equipment	359,411	4,371
(Reversal)/provision of allowance for receivables, net		
– trade receivables	(163)	(4,004)
– prepayments, deposits and other receivables	14,991	27,468
Discontinued operations:		
Cost of services rendered (<i>Note</i>)	5,614	229,167
Depreciation of property, plant and equipment	–	16,056
Depreciation of right-of-use assets	–	1,593
Provision of litigation claims, net (included in other operating expenses)	–	11,605
Staff costs (excluding Directors' emoluments):		
Wages, salaries and benefits in kind	1,156	13,442
Retirement benefits scheme contributions	564	2,622
Impairment on property, plant and equipment	–	641,841
Impairment on right-of-use assets	–	46,526
(Reversal)/provision of allowance for receivables, net		
– trade receivables	(655)	7,315
– prepayments, deposits and other receivables	3,542	(4,495)

Note: Cost of inventories sold and services rendered includes staff costs and depreciation of approximately HK\$4,020,000 (2022: HK\$7,600,000) and approximately HK\$4,649,000 (2022: HK\$8,487,000) respectively, which are included in the amounts disclosed separately above.

9. DIVIDEND

The Directors do not recommend the payment of dividend for the year ended 30 June 2023 (2022: Nil).

10. LOSS PER SHARE

Basic loss per share

From continuing and discontinued operations

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$155,876,000 (2022: HK\$1,064,206,000) and on the weighted average number of approximately 312,745,000 ordinary shares in issue during the year (2022 (restated): 111,140,000 ordinary shares). Adjustment to the weighted average number of shares is required for the purpose of calculating the basic loss per share for the rights issue during the year due to the fact that the exercise price of the rights issue (note 12(e)) was lower than the market price immediately before the exercise of the right.

The weighted average number of ordinary shares in issue for the year ended 30 June 2022 has been adjusted retrospectively to reflect the share consolidation completed on 16 December 2022 as disclosed in note 12(d).

From continuing operations

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$147,167,000 (2022 (re-presented): HK\$251,382,000) and on the weighted average number of approximately 312,745,000 ordinary shares in issue during the year (2022 (restated): 111,140,000 ordinary shares).

From discontinued operations

Basic loss per share of the discontinued operations is approximately HK2.78 cents per share (2022 (restated): HK731.35 cents per share) based on the loss for the year from the discontinued operations of approximately HK\$8,709,000 (2022 (re-presented): HK\$812,824,000) and the denominators detailed above for basic loss per share from continuing operations.

Diluted loss per share

The computation of diluted loss per share for the years did not assume the exercise of outstanding share options and convertible bonds of the Company since these options have no dilutive effect and convertible bonds were anti-dilutive during the years ended 30 June 2023 and 2022.

11. TRADE RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables from contracts with customers	5,437	51,478
Less: allowance for ECL	(7)	(21,719)
	<u>5,430</u>	<u>29,759</u>

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 15 to 90 days (2022: 15 to 30 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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 30 days	3,078	6,447
31 to 60 days	282	314
61 to 90 days	539	1,679
91 to 120 days	325	3,990
121 to 150 days	–	3,456
151 to 180 days	383	3,463
181 to 365 days	823	10,410
	5,430	29,759

The Group's trade receivables are denominated in RMB.

12. SHARE CAPITAL

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Authorised:		
5,000,000,000 ordinary shares of HK\$0.10 each	500,000	500,000
	Number of ordinary shares issued <i>'000</i>	Par value <i>HK\$'000</i>
At 1 July 2021, 30 June 2022 and 1 July 2022	500,000	500,000
Share consolidation (<i>Note (d)</i>)	(475,000)	–
Share sub-division (<i>Note (d)</i>)	475,000	–
At 30 June 2023	500,000	500,000
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Issued and fully paid:		
527,548,168 (2022: 2,660,560,978) ordinary shares of HK\$0.10 each	52,755	266,056

	Number of ordinary shares issued '000	Par value HK\$'000
At 1 July 2021	1,603,707	160,371
Placing of shares (<i>Note (a)</i>)	170,000	17,000
Rights issue (<i>Note (b)</i>)	886,854	88,685
	<hr/>	<hr/>
At 30 June 2022 and 1 July 2022	2,660,561	266,056
Issue of share on conversion of convertible bonds (<i>Note (c)</i>)	354,000	35,400
Share consolidation (<i>Note (d)</i>)	(2,863,833)	(286,383)
Rights issue (<i>Note (e)</i>)	376,820	37,682
	<hr/>	<hr/>
At 30 June 2023	<u>527,548</u>	<u>52,755</u>

Notes:

- (a) On 3 September 2021, a total of 170,000,000 shares with subscription price of HK\$0.25 per share were issued under general mandate pursuant to the subscription agreement dated 24 August 2021. The net proceeds of approximately HK\$40,951,000 was used for repayment of debts and general working capital of the Group.
- (b) On 7 January 2022, a total of 886,853,659 rights shares with subscription price of HK\$0.12 per rights share were allotted and issued pursuant to the underwriting agreement entered on 23 November 2021. The net proceeds of approximately HK\$106,422,000 was used for repayment of the Group's indebtedness and general working capital.
- (c) On 21 June 2022, the Company issued convertible bonds in an aggregate principal amount of HK\$35,400,000 with the rights to converted into 354,000,000 ordinary shares of the Company at conversion price of HK\$0.1 per share. The convertible bonds of approximately HK\$29,996,000 were converted into 354,000,000 ordinary shares on 4 July 2022.
- (d) On 14 December 2022, the Company implemented a share consolidation of every twenty (20) existing shares of par value of HK\$0.1 each in the ordinary shares of the Company into one (1) consolidated share of par value of HK\$2.00 each with effect from 16 December 2022. Immediately following the share consolidation, issued share capital of the Company will be reduced by (a) rounding down the total number of consolidated shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a consolidated share in the issued share capital of the Company; and (b) cancelling the paid up capital of the Company to the extent of HK\$1.9 on each of the then issued consolidated shares such that the par value of each issued consolidated share will be reduced from HK\$2.0 to HK\$0.1. Besides, every authorised but unissued consolidated shares of HK\$2.0 each were sub-divided into 20 new ordinary shares of HK\$0.1 each. The capital reorganisation was completed on 16 December 2022. Details of which are set out in the Company's circular dated 21 November 2022 and announcements dated 14 December 2022 and 16 December 2022.
- (e) On 27 January 2023, a total of 376,820,120 rights shares with subscription price of HK\$0.2 per rights share were allotted and issued pursuant to the underwriting agreement entered on 18 October 2022. The proceeds of approximately HK\$75,364,000 was used for repayment of the Group's indebtedness and general working capital.

13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 180 days (2022: 30 to 120 days) from its suppliers.

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 30 days	61	9,745
31 to 60 days	2,008	3,023
61 to 90 days	144	1,780
91 to 120 days	520	3,170
121 to 365 days	14,430	8,515
Over 365 days	22,792	31,405
	<u>39,955</u>	<u>57,638</u>

14. CONTINGENT LIABILITIES

On 26 June 2023, Mudanjiang BD Power, a deconsolidated subsidiary, had submitted to the Intermediate People's Court of Mudanjiang City, Heilongjiang Province for its voluntary liquidation (the "**Voluntary Liquidation**") under the action number (2023) Black 10 Liquidation No. 1 (the "**Application**") was duly accepted. Subsequent to the Application, the liquidation team of the Authority has been appointed as its administrator (the "**Administrator**") on 10 July 2023.

Mudanjiang Longtuo New Energy Co., Ltd. ("**Mudanjiang Longtuo**"), a wholly-owned subsidiary of the Group, being the sole equity holder of Mudanjiang BD Power immediately prior to its deconsolidation and taken over by the Authority on 24 August 2022 would be liable in the sum of RMB150 million, representing a subscription amount of RMB150 million in the registered capital of Mudanjiang BD Power ("**Mudanjiang BD Power Subscription**") made by Mudanjiang Longtuo on 18 May 2020 by way of capitalisation of a shareholder's loan due by Mudanjiang BD Power to Mudanjiang Longtuo which amounted to RMB150 million ("**Capitalisation**"). In the event the Capitalisation was not certified and accepted by the Administrator, the Mudanjiang BD Power Subscription would be deemed unsuccessful and void whereby the Mudanjiang BD Power Subscription become due and payable immediately upon the Voluntary Liquidation.

As of the approval date on these consolidated financial statements, the Voluntary Liquidation is still under processing and not yet completed. Hence the outcome of the Voluntary Liquidation is uncertain and cannot be estimated reliably. The directors of the Company are having carefully considered any possible outcomes of the Voluntary Liquidation and of the view that the same amount of shareholder's loan (RMB150 million) is available to offset against Mudanjiang BD Power Subscription in case the Capitalisation was being voided and therefore no provision was made in preparing these consolidated financial statements.

15. EVENTS AFTER THE REPORTING PERIOD

- (a) On 4 December 2013, Ms. Wang Yuexian (the “**Petitioner**”) subscribed for an eight-year bond (the “**Bond**”) with a face value of HK\$10,000,000 issued by the Company. Under the instruction of the Petitioner, the Company made a payment of HK\$5,800,000 to the designated account of the Petitioner and the Petitioner signed a deed of waiver (the “**Deed of Waiver**”) in favour of the Company and undertook to waive the payment of HK\$4,500,000 of the principal amount of the Bonds by the Company to the Petitioner on the maturity date (i.e. the Company would only be required to repay the principal amount of the Bonds of HK\$5,500,000 at the maturity date). After maturity of the Bond, the Petitioner refused to acknowledge the Deed of Waiver and demanded the Company to pay HK\$13,200,000 (comprising of the principal amount of HK\$10,000,000 and all interest of HK\$3,200,000). In this regard, the Company and the Petitioner disagreed on the amount of payment, which resulted in the Petitioner commencing proceedings on 22 February 2022. On 30 November 2022, besides filing a claim for HK\$13,200,000 on 22 February 2022 against the Company, the Petitioner filed for summary judgement proceedings in respect of the Bond of which the principal amount is HK\$5,500,000. On 13 April 2023, the Court ordered the Company to pay HK\$5,500,000 to the Petitioner by way of a summary judgement (the “**Summary Judgement**”). After taking the opinion from legal counsel on certain grounds, an appeal has been lodged by the Company. The appeal will be conducted by way of a rehearing. The result of the appeal is still pending.

Notwithstanding the pending retrial, on 8 June 2023 (and refiled on 3 July 2023), a winding up petition (the “**Petition**”) was filed by the Petitioner with the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (the “**High Court**”) for the winding up of the Company under the provisions of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (the “**Companies (WUMP) Ordinance**”) under Companies Winding-up Proceedings No. 243 of 2023, in relation to the Statutory Demand.

The Petition was heard on 16 August 2023 and has been adjourned to 22 November 2023 for a further call over hearing. The Company estimates that the total amount claimed under the Petition is approximately HK\$6,500,000.

The Company had fully made the provision on such amount. In addition, on 28 August 2023, the Company has filed a counterclaim against the Petitioner for abusing the legal process.

Details of above are set out in the Company’s announcements dated 23 August 2023 and 28 August 2023.

- (b) Reference is made to the inside information announcement dated 28 September 2023 of the Company regarding the investigation by the ICAC (the “**Incident**”). According to the information available, the investigation related to the bonds for the purpose of immigration investment. In view of the Incident, the Company has formed a special investigation committee (“**SIC**”) comprising Mr. Law Tze Ping Eric, executive Directors, all independent nonexecutive Directors and Mr. Ma Kin Ling, company secretary and chief financial officer of the Company to assess if there are any impacts of the Incident on the financial results of the Group and to liaise with the Auditor relating to the Incident.

The SIC has engaged an independent third party certified public accountants (“**Bond Reviewer**”) to perform agreed-upon procedures (the “**Agreed-Up On Procedures**”) to review the bonds issuance procedures of the Company and whether there is any impact on the financial statements of the Company. The Agreed-Up On Procedures including, among others, review the internal control procedures in relation to the financing cycle of the Company for the bonds issuance, walk through the procedures of financing activities of the Company, review the arithmetical accuracy of the bonds issuance transaction, reperform the calculation of the bonds transactions handled by a specific bond agent to determine whether the bond transactions are consistent with the expected business model of the Company and engage a legal counsel to examine the legality and enforceability of the bonds issuance, have been completed and the Bond Reviewer is satisfied that there is no irregularity or inconsistency for the bonds issuance against the business model of the Company and the legal counsel is of the opinion that the bonds are legal, valid and enforceable.

The auditors of the Company is also satisfied with the results of the Agreed-Up On Procedures and has completed the auditing process for the final results of the Group for the year ended 30 June 2023 pursuant to the Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants and other applicable laws and regulations.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

The below sections set out an extract of the report by McMillan Wood (Hong Kong) CPA Limited, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 30 June 2023:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

The Group had incurred a loss of approximately HK\$195,242,000 for the year ended 30 June 2023 and as at 30 June 2023, the Group had net current liabilities and net liabilities of approximately HK\$794,788,000 and HK\$947,719,000 respectively. 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.

As details in note 2 to the consolidated financial statements, the directors of the Company have been undertaking a number of plans and measures to improve the Group’s liquidity and financial position to enable the Group to meet in full its financial obligations as and when they fall due for the next twelve months. In supporting the Group’s going concern, the directors have reviewed the Group’s cash flow forecast prepared by management, which covers a period up to 30 June 2024. Notwithstanding the material uncertainty as mentioned above, these consolidated financial statements have been prepared on a going concern basis on the assumption that a successful outcome of these plans and measures could be achieved.

However, as of the approval date on these consolidated financial statements, we were unable to obtain sufficient appropriate evidence to satisfy ourselves regarding the following: (i) the viability and outcome of the assumption that the Group could receive a settlement from Mudanjiang Better Day Power Limited (“**Mudanjiang BD Power**”), a deconsolidated subsidiary, for a written-off receivable of approximately HK\$293 million out of the proceeds upon its voluntary liquidation (“**Voluntary Liquidation**”); (ii) whether a settlement plan to defer the repayment schedule of a bond payable of approximately HK\$128 million (“**Bond Payable**”) could be reached between the Company and the bondholders; (iii) whether the Group’s idle right-of-use assets and buildings can be sold at a consideration of not less than their market value as of 30 June 2023, which is approximately HK\$262 million (“**Proposed Realisation**”); (iv) whether the amount of approximately HK\$152,770,000 due to the Purchaser will not be demanded for repayment if the land disposal of Heihe Longjiang Chemical Limited is suspended (“**Suspended Disposal**”); and (v) whether the

Group is able to raise equity funds (“**Proposed Fund Raising**”). There were no alternative audit procedures that we could adopt to ascertain the outcome of the Voluntary Liquidation, Proposed Realization, Suspended Disposal and Proposed Fund Raising; and obtain evidence of bondholders’ consent to defer the repayment schedule of the Bond Payable. These limitations in scope constitute a limitation of our audit. Hence, we were unable to assess the appropriateness or reasonableness of assumptions adopted in the Group’s cash flow forecast in supporting the use of the going concern basis in the preparation of these consolidated financial statements. As a result of these limitations and uncertainties, we were unable to form an opinion as to whether the going concern basis of preparation is appropriate. Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue as a going concern and to settle its obligations and commitments, and adjustments may have to be made to write down the Group’s assets to amounts that can be realised, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments, which could be both material and pervasive, have not been reflected in these consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year, revenue of the Group amounted to approximately HK\$105 million (2022: approximately HK\$370 million), representing a decrease of approximately 72% compared with that of the last financial year. Loss attributable to the owners of the Company amounted to approximately HK\$156 million (2022: approximately HK\$1,064 million), representing a decrease of 85% compared with that of the last financial year.

The decrease in the Group’s revenue was mainly derived from deconsolidation of the heat and power segment and temporarily suspension of sales of calcium carbide during the year.

The Group’s selling and distribution costs for the Year was approximately HK\$1 million (2022: approximately HK\$20 million), representing a decrease of approximately 95% compared with that of the last financial year. The decrease in selling and distribution costs was mainly due to deconsolidation of the heat and power segment during the Year.

The Group’s administrative expenses for the Year was approximately HK\$97 million (2022: approximately HK\$126 million), representing a decrease of approximately 23% compared with that of the last financial year. The decrease in administrative expenses was mainly due to the deconsolidation of the heat and power segment during the Year.

The Group’s other operating expenses for the Year was approximately HK\$14 million (2022: approximately HK\$65 million), representing a decrease of approximately 78% compared with that of the last financial year. The decrease in other operating expenses was due to the decrease in provision of litigation claims during the Year.

Coal-related chemical production division

The coal-related chemical production division includes the calcium carbide segment (the “CC segment”), the polyvinyl-chloride segment and the vinyl acetate segment. During the Year, the CC segment recorded a revenue of approximately HK\$98 million (2022: approximately HK\$199 million) from external customers, representing a decrease of approximately 51% compared with that of the last financial year. The decrease in sales of CC segment was mainly due to temporarily suspended partial operation since January 2023. In view of the market selling price of calcium carbide in the recent, the management expects to resume the production of calcium carbide at the end of 2023.

Chemical products for agriculture division

During the Year, the Company acquired Mudanjiang Haidi to manufacture and sales of chemical products for agriculture and recorded a new segment. The chemical products for agriculture segment record a revenue of approximately HK\$3 million from external customer. The chemical products for agriculture segment record a gross profit of approximately HK\$1 million.

Heat and power division

During the Year, the heat and power segment recorded a revenue of approximately HK\$4 million (2022: approximately HK\$171 million) from external customers, representing a decrease of approximately 98% compared with that of the last financial year. Income from supply of heat for the Year was approximately HK\$4 million (2022: approximately HK\$159 million), representing a decrease of approximately 97% when compared with that of the last financial year. The decrease was mainly due to the deconsolidation of the heat and power division during the Year. Due to the escalating coal price during the Year, the heat and power segment record a gross loss of approximately HK\$2 million (2022: HK\$58 million). Segment loss for the Year was approximately HK\$9 million (2022: HK\$813 million), representing a decrease of approximately 99% compared with that of the last financial year. The decrease in segment loss was mainly due to decrease in the impairment loss on property, plant and equipment and right-of-use assets compared with that of the last financial year. In view of the Authority has taken over the operations of Mudanjiang BD Power, the management of the Group had deconsolidated the operation of heat and power segment.

Construction services division

The Group had disposed the construction services division during the year ended 30 June 2021 to reduce the burden of the Group.

PROSPECT

Although the COVID-19 pandemic still has impact on the People's Republic of China (“**PRC**”) economies, the Board overcome several barriers to resume the production of calcium carbide in HLCL, a subsidiary of the Company and developed new production of chemical products for agriculture. Although the production of calcium carbide has temporarily suspended, the Board believes that the production of calcium carbide will resume soon and these two operations will continue to be the growth driver of the Group in the forthcoming years.

Coal-related chemical production division

During the Year, HLCL has temporarily suspended partial production of calcium carbide due to the decrease in market selling price of calcium carbide as compared with last year. During the temporarily suspension period, the management keep closely monitor the situation and consider to resume the production of calcium carbide at the end of 2023.

Chemical products for agriculture division

During the Year, Mudanjiang Haidi has commenced production and sales of chemical products for agriculture. Mudanjiang Haidi expected to annual output of approximately 3,500 tonnes and an annual output value of approximately RMB250 million. In view of the considerable profit margin, the Board believes that Mudanjiang Haidi will continue to be the growth driver of the Group in the forthcoming years.

Heat and power division

During the Year, the heat and power division decided deconsolidation of the operation. On 26 August 2022, the Group received a notice (the “**Notice**”) issued by the Authority stating that in order to ensure the stability of the heat supply to the residents of Mudanjiang in the coming winter, the Authority has temporarily taken over the operations of Mudanjiang BD Power. Upon the effective of the Notice, Mudanjiang BD Power shall be deemed as deconsolidated from the consolidated financial statements of the Group and be classified as a discontinued operation. The Group is also liaising with the Authority relating to the Notice and the control and operation of Mudanjiang BD Power. BD Power is in the process of voluntary liquidation and after the completion of liquidation process, the Company can be carried out reversal of receivables in respect of the proceeds from liquidation of BD Power and expected to record in the revenue of the Company.

FINANCIAL REVIEW

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Liquidity and financial ratios

As at 30 June 2023, the Group had total assets of approximately HK\$667 million (2022: approximately HK\$1,238 million), which were financed by current liabilities of approximately HK\$841 million (2022: approximately HK\$1,117 million), non-current liabilities of approximately HK\$774 million (2022: approximately HK\$947 million), non-controlling interests of approximately HK\$8 million (2022: approximately HK\$48 million) and shareholders' equity of deficit by approximately HK\$955 million (2022: approximately HK\$873 million). As at 30 June 2023, the current assets of the Group amounted to approximately HK\$46 million (2022: approximately HK\$150 million), comprising inventories of approximately HK\$2 million (2022: approximately HK\$22 million), trade receivables of approximately HK\$5 million (2022: approximately HK\$30 million), prepayments, deposits and other receivables of approximately HK\$26 million (2022: approximately HK\$74 million), financial assets at fair value through profit or loss of approximately HK\$1 million (2022: approximately HK\$2 million), and cash and cash equivalents of approximately HK\$3 million (2022: approximately HK\$13 million).

As at 30 June 2023, 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 0.1 (2022: approximately 0.1), approximately 0.1 (2022: approximately 0.1), approximately 242% (2022: approximately 167%) and deficit by approximately 170% (2022: approximately 250%), respectively. The higher gearing ratio was mainly attributable to the impairment of assets of HLCL, whilst the total debts of the Group remained stable. Throughout the Year, the management had taken several measures to improve the liquidity position and financial position of the Group.

Although the Group was in a net current liabilities position and net liabilities position as at 30 June 2023, 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.

Non-equity funding

Bank loans

As at 30 June 2023, the bank loans of the Group amounted to approximately HK\$20 million (2022: approximately HK\$22 million). Based on the agreed repayment schedule set out in the loan agreements, bank loans of approximately HK\$9 million (2022: approximately HK\$9 million) were repayable within 12 months, of which approximately HK\$14 million was denominated in Hong Kong dollars and approximately HK\$6 million was denominated in RMB (2022: approximately HK\$16 million was denominated in Hong Kong dollars and approximately HK\$6 million was denominated in RMB, respectively).

Bonds

As at 30 June 2023, the aggregate amount of bonds payable was approximately HK\$1,065 million (2022: approximately HK\$1,066 million).

On 26 January 2023, the Company completed a rights issue. The net proceeds raised from the rights issue by issuing 376,820,120 shares at HK\$0.2 on the basis of five right shares for every two existing shares held were approximately HK\$73 million. As at the date of this announcement, approximately HK\$65 million was used to repayment of the Group's indebtedness and interest expenses and approximately HK\$8 million was used as general working capital of the Group.

Details of the rights issue were disclosed in the announcements of the Company dated 18 October 2022, 10 November 2022 and 26 January 2023.

On 5 June 2023, the Company completed the issue of the 3% coupon convertible bonds due 2025 in the principal amount of HK\$28,560,000 (the "CB 2023") to eleven individual subscribers. The conversion price of CB 2023 is HK\$0.21 per conversion share. The closing price of the Company on 5 June 2023 was HK\$0.325 per conversion share. The net proceeds from CB2023 were approximately HK\$28 million. As at the date of this announcement, approximately HK\$26 million was used to repayment of the Group's indebtedness and interest expenses and approximately HK\$2 million was used as general working capital of the Group.

Details of the CB 2023 were disclosed in the announcements of the Company dated 3 April 2023, 28 April 2023, 16 May 2023, 31 May 2023 and 5 June 2023.

Significant investment held by the Company

As at 30 June 2023, the Company did not have any significant investments, except for the financial assets at FVTPL of approximately HK\$2 million (2022: HK\$2 million). During the Year, the Company had recorded a fair value loss on financial assets at fair value through profit or loss, net of approximately HK\$0.1 million (2022: fair value gain of approximately HK\$2 million) and gain on disposal of financial assets FVTPL of approximately HK\$Nil (2022: approximately HK\$0.2 million).

Charges on the Group's assets

As at 30 June 2023, bank loans and other loans of approximately HK\$20 million (2022: approximately HK\$22 million) and approximately HK\$48 million (2022: approximately HK\$120 million), respectively, were secured by charges over the Group's certain property, plant and equipment and right-of-use assets (2022: property, plant and equipment, rights-of-use assets and 51% of equity shares of a PRC wholly owned subsidiary).

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year, there was no material acquisitions or disposals of subsidiaries, associates and joint venture.

On 28 December 2020, HLCCL, a company indirectly owned as to 90% by the Company, entered into an agreement (the “**Disposal Agreement**”) with Heihe Longhe Investment Management Limited* (黑河龍合投資管理有限責任公司), an independent third party, pursuant to which HLCCL had agreed to transfer the land use rights of certain lands (the “**Lands**”) located in the PRC at an aggregate consideration of RMB156,440,000 (equivalent to approximately HK\$185,500,000), comprising RMB139,440,000 with land compensation of RMB17,000,000 (the “**Land Disposal**”).

Due to the out-break of COVID-19 during the year 2021 and year 2022, the Land Disposal was prolonged. The Company is finalizing the procedure for Land Disposal and it is expected the Land Disposal will be completed in the early of 2024.

DISPOSAL OF SHARES BY THE SINGLE LARGEST SHAREHOLDER

The Company was informed by Mr. Chan Yuen Tung (“**Mr. Chan**”), the single largest shareholder of the Company that on 11 August 2023, Mr. Chan as the vendor and Mr. Tang Yi Duan (“**Mr. Tang**”) as the purchaser, pursuant to which Mr. Chan sold 142,850,000 shares in the Company (“**Shares**”) to Mr. Tang), representing approximately 27.08% of the total issued share capital of the Company as at the date of this announcement, at a selling price of HK\$0.966 per share (the “**Disposal**”). Immediately after the Disposal, Mr. Chan does not hold any Shares and is no longer the single largest shareholder of the Company, and Mr. Tang holds 142,850,000 Shares, representing approximately 27.08% of the total issued share capital of the Company and becomes the single largest shareholder of the Company.

Details of the Disposal were disclosed in the announcement of the Company dated 11 August 2023.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 15 of this announcement, the Group did not have any significant event after June 2023.

CONTINGENT LIABILITIES

As at 30 June 2023, save as disclosed in note 14 of this announcement, 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, despite of the devaluation of RMB during the Year. 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 as at 30 June 2023.

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

NUMBER AND REMUNERATION POLICIES

As at 30 June 2023, the Group had 111 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.

The Company also operated a share option scheme (the “**Scheme**”) for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group. The Scheme was proposed by the Board on 3 April 2023 and approved by its shareholders on 16 May 2023. As at 30 June 2023, there were 4,974,455 Share options outstanding. The Share options with exercisable period up to 2 November 2023 at the adjusted exercise price of HK\$7.91 per Share.

DIVIDEND

The Directors do not recommend the payment of dividend for the Year (2022: Nil).

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.

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 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for the deviation as 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 to 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.

AUDIT COMMITTEE REVIEW

The audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive directors, namely, Mr. Ma Wing Yun Bryan (Chairman), Mr. Tam Ching Ho and Mr. Hau Chi Kit.

The Audit Committee has reviewed the audited consolidated financial results of the Group for the year 30 June 2023 and is of the view that such results complied with the applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

SPECIAL INVESTIGATION COMMITTEE REVIEW

Reference is made to the inside information announcement dated 28 September 2023 of the Company regarding the investigation by the ICAC. In light of the Incident, the Company has formed a special investigation committee (“**SIC**”) comprising Mr. Law Tze Ping Eric, executive Directors, all independent nonexecutive Directors and Mr. Ma Kin Ling, company secretary and chief financial officer of the Company to assess if there are any impacts of the Incident on the annual results of the Company and its subsidiaries for the year ended 30 June 2023 and to liaise with the auditor of the Company relating to the Incident.

The SIC has engaged an independent third party certified public accountants (“**Bond Reviewer**”) to perform agreed-upon procedures (the “**Agreed-Upon Procedures**”) to review the bonds issuance procedures of the Company and whether there is any impact on the financial statements of the Company. The Agreed-Upon Procedures including, among others, review the internal control procedures in relation to the financing cycle of the Company for the bonds issuance, walk through the procedures of financing activities of the Company, review the arithmetical accuracy of the bonds issuance transaction, reperform the calculation of the bonds transactions handled by a specific bond agent and engage a legal counsel to examine the legality and enforceability of the bonds issuance, have been completed and the Bond Reviewer is satisfied that there is no irregularity or inconsistency for the bonds issuance and the legal counsel is of the opinion that the bonds are legal, valid and enforceable.

Taking into account the Agreed-Upon Procedures report prepared by the Bond Reviewer and the legal advice from the legal counsel, the SIC agrees with the view of the Bond Reviewer and considers that (i) there is no irregularity or inconsistency for the bonds issuance; (ii) the bonds are legal, valid and enforceable; and (iii) there is no impact of the Incident on the annual results of the Company and its subsidiaries for the year ended 30 June 2023.

SCOPE OF WORK OF MCMILLAN WOODS (HONG KONG) CPA LIMITED

The figures in respect of the preliminary announcement of the Group’s results for the year ended 30 June 2023 have been agreed by the auditor of the Company, McMillan Woods (Hong Kong) CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the Year. The work performed by McMillan Woods (Hong Kong) 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 McMillan Woods (Hong Kong) CPA Limited on this announcement.

Reference is made to the inside information announcement dated 28 September 2023 of the Company regarding the investigation by the ICAC. In light of the Incident, McMillan Woods (Hong Kong) CPA Limited has extended its audit scope and performed additional audit process. The purpose of such additional audit process is to understand the rationale of the procedures which SIC performed to verify the relevant bonds transactions. The additional audit process performed by McMillan Woods (Hong Kong) CPA Limited include the obtaining and checking of the relevant bonds documentations on sample basis, reviewing and agreeing with the procedures performed on the relevant bonds transactions by the SIC and re-performing the procedures and checking the arithmetical accuracy of the relevant bonds transactions.

DELAY IN DESPATCH OF THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2023

Pursuant to Rule 13.46 of the Listing Rules, the Company is required to send to every shareholder a copy of its annual report including its annual accounts not more than four months after the end of the financial year to which such annual accounts relate, being not later than 31 October 2023 in respect of the financial year ended 30 June 2023.

As a result of the delay in the finalisation of the audited consolidated results of the Group for the Year, the Company will not be able to despatch the annual report of the Company for the year ended 30 June 2023 (the “**2023 Annual Report**”) by 31 October 2023.

The Company will be endeavour to despatch the 2023 Annual Report to the shareholders of the Company as soon as possible which is now expected to be no later than 30 November 2023 and will make further announcement(s) as and when appropriate, to inform shareholders of the Company regarding the despatch of the 2023 Annual Report.

DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Reference is made to the announcement of the Company dated 30 September 2023 in relation to the unaudited annual results of the Company for the year ended 30 June 2023 (the “**Unaudited Annual Results Announcement**”).

Since the financial information contained in the Unaudited Annual Results Announcement was neither audited nor agreed with the Auditor as at the date of its publication and subsequent adjustments have been made to such information, Shareholders and potential investors of the Company are advised to pay attention to certain differences between the financial information of the unaudited and audited annual results of the Group.

The Board would like to draw attention of the Shareholders and the potential investors of the Company that there are minor differences in the figures as shown in the consolidated statement of profit or loss contained in the Unaudited Annual Results Announcement and this announcement. A comparison is as follows:

Consolidated Statement of Profit or Loss
for the year ended 30 June 2023

	<i>Notes</i>	Audited	Unaudited	Difference audited vs unaudited
Loss per share	10			
From continuing and discontinued operations				
– Basic (<i>HK cents</i>)		(49.84)	(48.97)	(0.87)
– Diluted (<i>HK cents</i>)		(49.84)	(48.97)	(0.87)
		<u>(49.84)</u>	<u>(48.97)</u>	
From continuing operations				
– Basic (<i>HK cents</i>)		(47.06)	(46.24)	(0.82)
– Diluted (<i>HK cents</i>)		(47.06)	(46.24)	(0.82)
		<u>(47.06)</u>	<u>(46.24)</u>	
From discontinued operations				
– Basic (<i>HK cents</i>)		(2.78)	(2.73)	(0.05)
– Diluted (<i>HK cents</i>)		(2.78)	(2.73)	(0.05)
		<u>(2.78)</u>	<u>(2.73)</u>	

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$155,876,000 (2022: HK\$1,064,206,000) and on the weighted average number of approximately 312,745,000 ordinary shares (instead of 318,290,000 ordinary shares as disclosed in the Unaudited Annual Results Announcement) in issue during the year (2022 (restated): 111,140,000 ordinary shares).

Save as disclosed in this announcement, all other information contained in the Unaudited Annual Results Announcement had no material changes.

RESUMPTION OF TRADING

Pursuant to Rule 13.50 of the Listing Rules and at the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 3 October 2023. In light of the publication of this announcement, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 2 November 2023.

PUBLICATION OF ANNUAL REPORT

The 2023 Annual Report of the Company containing all the financial and other related information of the Company required by the Listing Rules will be available on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.chinazenith.com.hk and will be despatched to the shareholders of the Company and available on the above websites in due course.

By Order of the Board
China Zenith Chemical Group Limited
Law Tze Ping Eric
Acting Chief Executive Officer

Hong Kong, 1 November 2023

As at the date of this announcement, Mr. Law Tze Ping Eric, Mr. Tang Yiduan, Mr. Shing Pan Yu James and Ms. Chan Yuk Foebe (duties suspended) 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 purpose only*