中國天
China Zenith

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

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

ANNUAL REPORT 2018

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Ma Kin Ling

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUTHORISED REPRESENTATIVES

Ms. Chan Yuk Foebe
Mr. Law Tze Ping Eric

AUDITOR

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

LEGAL ADVISER TO THE COMPANY

(as to Hong Kong law)
KCL & Partners
Units 1602–06, 16/F, FWD Financial Center,
308 Des Voeux Road Central,
Sheung Wan, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Central
Hong Kong

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Management (Bermuda)
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

FINANCIAL YEAR END DATE

30 June

COMPANY WEBSITE:

www.chinazenith.com.hk

TELEPHONE NUMBER:

2845 3131

FACSIMILE NUMBER:

2845 3535

STOCK CODE

00362

CHAIRMAN'S STATEMENT

To Shareholders,

On behalf of China Zenith Chemical Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2018 (the "Year").

FINANCIAL RESULTS

For the Year, the Group was still suffering from the idle production capacity in Chemical Division and, thus, recorded a loss from continuing operations of HK$219 million.

The Group recorded a loss attributable to the owners of the Company of approximately HK$199 million in contrast to a profit attributable to owners of the Company of approximately HK$68 million of the previous financial year. It was because that the one-off profit from disposal of subsidiaries in the previous financial year did not recur in the Year.

For the Year, the Group recorded a revenue of approximately HK$368 million, representing an increase of 98% compared with that of previous financial year. The increase in revenue resulted from the increase in sales volume of our heat and power products and the construction service income from the Construction Services Division, which was acquired during the Year.

BUSINESS REVIEW

The chemical production division is in the recovering trend. The operation of Heihe Longjiang Chemical Company Limited (the "Heihe factory") is on the right track. It was believed that the Heihe factory will become profitable because of the scale production in the coming year.

In the heat and power division, the gradual increase in the heat supplying areas results a twofold increase in turnover of Mudanjiang Better Day Power Limited (the Power factory).

During the Year, the Group diversified its business risk by acquiring a construction services company. This newly acquired company contributed a remarkable revenue and profit to the Group.

Our management will closely monitor the business environment and explores new and value-added businesses from time to time in order to diversify the risk of the Group and, hence, to provide a stable return to the Group.

PROSPECTS

Looking forward, with the successful acquisition of the construction service business, our management is seeking for opportunity to carry out new projects and transactions which could bring economic value and benefit to our shareholders.

GRATITUDE

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

By order of the Board

Chan Yuk, Foebe
Chairman and Chief Executive Officer

Hong Kong, 27 September 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

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

Heat and power division

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

Apart from the expansion of the residential heat supplying area, the local management had also closely monitored the operation to reduce coal or energy consumption and avoid wastage so as to increase the profit generated from our heat and power generating facilities.

Coal-related Chemical Production Division

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

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

BUSINESS REVIEW (Continued)

Coal-related Chemical Production Division (Continued)

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

Construction Services Division

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

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

PROSPECT

The Group has suffered from the slump of chemical market in the last five years. The management explores new and value-added businesses from time to time in order to diversify the risk of the Group and, hence, to provide a stable return to the Group. During the Year, the Group entered into an equity transfer agreement to acquire the entire equity interest of Jinyang Engineering, through which the Group intends to construct more heat exchange stations and facilities and pipeline networks to support its growing heat and power segment. On 15 August 2018, the Group passed the resolutions in a special general meeting to approve the acquisition of Xinyang Maojian International Holding Limited ("Xinyang Maojian") to explore the e-commerce sales and overseas sales of tea leaves branded Xinyang Maojian Tea Leaves.

Heat and Power Division

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

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

Coal-related Chemical Production Division

Heihe

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

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

Mudanjiang

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

PROSPECT (Continued)

Construction Services Division

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

Tea Division

E-commerce sales

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

Overseas sales

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

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

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

Appointment as window company of Mudanjiang City Government

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

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Liquidity and Financial Ratios

As at 30 June 2018, the Group had total assets of approximately HK$3,176.8 million (2017: approximately HK$3,150.8 million) which were financed by current liabilities of approximately HK$386.3 million (2017: approximately HK$344.8 million), non-current liabilities of approximately HK$1,113.6 million (2017: approximately HK$937.8 million), non-controlling interests of approximately HK$93.1 million (2017: approximately HK$109.5 million) and shareholders' equity of approximately HK$1,583.8 million (2017: approximately HK$1,758.7 million).

PROSPECT (Continued)

Capital Structure, Liquidity and Financial Resources (Continued)

Liquidity and Financial Ratios (Continued)

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

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

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

Equity funding

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

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

Non-equity funding

Bank loans

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

Bonds

On 11 January 2017, 2 May 2017 and 19 October 2017, the Company and Pico Zeman Securities (HK) Limited ("Pico Zeman") entered into various placing agreements pursuant to which Pico Zeman has agreed to procure, on a best endeavor basis, independent placees (which may include Pico Zeman and its associates) to subscribe in cash for one or multiple tranches of 5% to 12%, 4 to 10 years term bonds in an aggregated principal amount of up to HK$100,000,000 within 120 days starting from the date of the respective placing agreements or such later date to be mutually agreed between the Company and Pico Zeman.

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

PROSPECT (Continued)

Capital Structure, Liquidity and Financial Resources (Continued)

Significant investment held by the Company

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

Charges on the Group's assets

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

Event after reporting period

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

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

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

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

Contingent liabilities

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

Foreign exchange exposure

Although most of the Group's operations were carried out in the PRC in which transactions were denominated in RMB, the directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of RMB in recent years. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the Year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2018.

Number and Remuneration of Employees

As at 30 June 2018, the Group had 717 full time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance-related commissions.

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

CORPORATE GOVERNANCE REPORT

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

The Company has, throughout the year ended 30 June 2018, complied with the Corporate Governance Code and Corporate Governance Report (the "Code"), except for a certain deviation which is summarised below:

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1

Paragraph A.2.1 of the Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

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

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

THE BOARD OF DIRECTORS

Composition and practices

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

As at 30 June 2018, the Board comprised six members, namely, Ms. Chan Yuk Foebe as the Chairman of the Board and the Chief Executive Officer, Mr. Law Tze Ping Eric and Mr. Yu Defa as executive directors and Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit as independent non-executive directors. Details of their respective experience and qualification are set out in the "Biographical Details of Directors and Senior Management" section of this annual report. An updated list of directors of the Company and their respective roles and functions have been maintained on the website of the Hong Kong Stock Exchange and that of the Company.

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

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

THE BOARD OF DIRECTORS (Continued)

Composition and practices (Continued)

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

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

Training and support for directors

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

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

The Board meeting — full directors' board meeting

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

During the year ended 30 June 2018, 6 Board meetings were held for discussion of the Company's matters. The attendance of each director, on a named basis and by category, at the Board meetings during the year is set out below:

Directors	**Number of meetings attended/Number of Board meetings held**
Executive directors	
Ms. Chan Yuk Foebe	6/6
Mr. Law Tze Ping Eric	6/6
Mr. Yu Defa	0/6
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	6/6
Mr. Tam Ching Ho	6/6
Mr. Hau Chi Kit	6/6

The Board meeting — executive directors' board meeting

In addition, during the year ended 30 June 2018, 3 Executive Directors' Board meeting was held to deal with the compliance of legal and administrative procedures, including:

– Internal corporate re-structuring and company secretarial matters.

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

THE BOARD OF DIRECTORS (Continued)

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

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

Directors	Number of meetings attended/Number of Executive Directors Board meetings held
Executive directors	
Ms. Chan Yuk Foebe	3/3
Mr. Law Tze Ping Eric	3/3
Mr. Yu Defa	3/3
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	N/A
Mr. Tam Ching Ho	N/A
Mr. Hau Chi Kit	N/A

The Board meeting — committee meeting

During the year ended 30 June 2018, 6 Board committee meetings were held. The attendance of each director, on a named basis and by category, at Board committee meetings during the year is set out below:

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

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

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

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

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

THE BOARD OF DIRECTORS (Continued)

Appointment and re-election of directors

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

All independent non-executive Directors are appointed for a specific term. The term of office for Mr. Ma Wing Yun Bryan is two years with effect from 1 April 2017. The term of office for Mr. Tam Ching Ho is two years with effect from 7 December 2017. The term of office for Mr. Hau Chi Kit is two years with effect from 18 December 2017.

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

The Board as a whole, with the nomination committee, is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession plan of directors and assessing the independence of independent non-executive directors.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Board confirmed that all the Directors had complied with the required standard of dealings set out in the Model Code throughout the year ended 30 June 2018.

BOARD COMMITTEES

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

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

Audit committee

The Company set up the Audit Committee on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control systems. In accordance with the requirements of the Code on Corporate Governance Practice, the terms of reference of the Audit Committee were revised on 21 October 2006 and were further reviewed on 21 March 2012 in terms substantially the same as the provisions set out in the Code.

As at 30 June 2018, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Ma Wing Yun Bryan (Chairman of the Committee), Mr. Tam Ching Ho and Mr. Hau Chi Kit, all of whom are not involved in the day-to-day management of the Company.

BOARD COMMITTEES (Continued)

The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process. The Audit Committee is also responsible for reviewing the auditor's appointment, the auditor's remuneration and any matters relating to the termination of, the appointment of and the resignation of the auditor. In addition, the Audit Committee also examines the effectiveness of the Company's internal controls and risk management, which involve regular reviews of the internal controls of various corporate structure and business processes on a continuous basis, and take into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations, risk management system and the realisation of its corporate objectives and strategies. The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditor and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, during the Year, the Audit Committee reviewed the audited financial statements of the Company for the year ended 30 June 2018 and the unaudited financial statements of the Company for the six months ended 31 December 2017. It also reviewed the system of internal control and risk management of the Company.

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

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

Remuneration committee

The Remuneration Committee was established on 1 July 2005 and revised on 21 March 2012 with specific written terms of reference in compliance with the code provisions in the Code. As at 30 June 2018, the Remuneration Committee comprises three independent non-executive directors, namely Mr. Ma Wing Yun Bryan (Chairman of the Committee), Mr. Tam Ching Ho and Mr. Hau Chi Kit.

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

Remuneration of directors and senior management

Pursuant to paragraph B.1.5 of the Code, the remuneration of the members of the senior management by band for the year ended 30 June 2018 is set out below:

Remuneration band (HK$)	Number of individuals
Nil to 1,000,000	6
1,000,001–1,500,000	1
1,500,001–2,000,000	1
2,000,001–2,500,000	1

Further particulars regarding Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 16 to the financial statements as set out on pages 87 to 88 of this annual report.

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

BOARD COMMITTEES (Continued)

Nomination committee

The Nomination Committee was established on 2 November 2007 and on 21 March 2012 it adopted specific written terms of reference in compliance with the Code. As at 30 June 2018, the Nomination Committee comprised one executive Director, namely Ms. Chan Yuk Foebe, and three independent non-executive Directors, namely Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit.

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

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(c) to assess the independence of independent non-executive Directors;

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer;

(e) to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board;

(f) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or applicable laws; and

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

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

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

Corporate governance functions

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

Company secretary

Mr. Ma Kin Ling was appointed as the company secretary of the Company since May 2016. Mr. Ma has confirmed that he has taken no less than 15 hours of relevant professional training during the year ended 30 June 2018. The Company is of the view that Mr. Ma has complied with Rules 3.29 of the Listing Rules.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

The independent auditor's report of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out on pages 37 to 42 of this annual report.

ACCOUNTABILITY AND AUDITOR'S REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 30 June 2018.

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

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

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

Type of services provided by the external auditor	**Fee paid/ payable** HK$'000
Audit services:	
Audit of annual financial statements	1,480

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

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

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

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

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

(a) The written requisition must state the purposes of the meeting, and must be signed by all the shareholders concerned and may consist of several documents in like form each signed by one or more shareholders concerned.

(b) The written requisition must be stated with the head office of the Company at Room 4007, 40/F., China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong, for the attention of the Directors or the Company Secretary.

(c) The written requisition will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the relevant resolution in the agenda for such general meeting. Such general meeting shall be held within two months after the deposit of such requisition.

(d) If within 21 days of such deposit, the Directors fail to proceed to convene such a general meeting, the requisitionist(s) himself (themselves) may themselves convene a meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors to do so shall be reimbursed to the requisitionist(s) by the Company.

During the Year, one general meetings were held. The 2017 annual general meeting was held on 7 December 2017. The attendance record of each director, on a named basis and by category, at the general meetings held during the Year under review is set out below:

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

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS (Continued)

No amendments were made to the Company's Bye-laws during the Year. The Company's Bye-laws is available on both the website of the Company and that of HKEx.

Shareholder services

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

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

Shareholders' enquiries to the Board

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION AND SCOPE OF ESG REPORT

This is the first Environmental, Social and Governance ("ESG") report and the Group is committed towards sustainability and understands the importance of sustainable development of its business and community. This report is prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out by The Stock Exchange of Hong Kong Limited on Main Board ("Main Board Listing Rule").

As this is the first ESG report of the Group it will present mainly policies, initiatives and performance and will also disclose material aspects identified and activities implemented for the year ended 30 June 2018. The Board is pleased to present our performance and progress and has reviewed and approved the report to ensure all material issues and impacts are fairly presented.

The Group understands the importance of ESG report and is committed to making continuous improvements in corporate social responsibility into our business in order to better meet the changing needs of an advancing society. The following will show the ESG issues that found material for the Group and the relation to the ESG Guide:

ESG Guide		ESG issues relevant to the Group
A.	**Environmental**	
A.1	Emissions	Pollutants emission management, waste micro dust management and solid waste management
A.2	Use of resources	Coal consumption
A.3	Environment and natural resources	Measures in reducing environmental impact
B.	**Social**	
B.1	Employment	Labour practices
B.2	Health and safety	Workplace health and safety
B.3	Development and training	Employee development and training
B.4	Labour standards	Child labour and forced labor
B.5	Supply chain management	Supplier management
B.6	Product responsibility	Product safety and quality
B.7	Anti-corruption	Anti-corruption and money laundering
B.8	Community investment	Community involvement

INFORMATION ABOUT THE GROUP

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the generation and supply of heat and power and the manufacture and sale of polyvinyl-chloride, vinyl acetate, vitamin C and calcium carbide.

This ESG report for the year ended 30 June 2018 is mainly focused on the segment of generating and supplying heat and power, as other segments of the Group have relatively low impact on the environment currently and only maintain minimal operation. The Group tries its very best to use less resources during the time of operation and provision of administrative work.

To reduce environmental impact and create value in community, the Group seeks every opportunity to incorporate sustainability standards and practices into all aspects of its business.

Also, social responsibility is the fundamental duty of the Group to contribute the society in which it is brought up. The Group believes that this is much more so for a group that participates actively to help the underprivileged.

A. ENVIRONMENTAL

A.1 Emissions

In 2018, the Group has proposed a reduction management policy in order to save energy resources, reduce energy waste and spend energy efficiently. All members of the Group would build up a saving habit on energy resources. The reduction policy has suggested some tactics to create a better and cleaner environment for the society.

The Group is governed by "Environmental Protection Law of the People's Republic of China"《中華人民共和國環境保護法》, "Emission Standard of Air Pollutants for Coal-fired Power Plants"《火電廠大氣污染物排放標準》, "Emission Standard of Air Pollutants for Industrial Furnaces and Kilns"《工業爐窯大氣污染物排放標準》and "Air Pollution Prevention and Control Law of the People's Republic of China"《中華人民共和國大氣污染防治法》, and other environmental protection regulatory standards issued by the central and local governments. Violating environmental regulations set by the government may result in temporary suspension of production.

Pollutants emission management

As the Group generates and supplies heat and power in the PRC, strict control has been taken for emission of air. It is the Group's policy to maintain the manufacturing process in an efficient and effective manner to continue minimizing environmental impact.

The Group tries to minimize pollution emitted by the existing coal-fired equipment and machines. To complete the low emission technical upgrades for coal-fired power in order to reduce the pollutants and greenhouse gases emission and to enhance the efficiency of the power generating units in order to reduce the consumption of raw materials.

For the generates and supplies heat and power in the PRC, during the reporting period, the main source of the operation's greenhouse gas emissions is derived from direct emission from the stationary and mobile combustion sources ("Scope 1"), indirect emission from acquired electricity missions ("Scope 2") and other indirect emissions ("Scope 3"). The greenhouse gas of Scope 1 was generated by furnaces operation and vehicles usage, Scope 2 was generated by electricity usage and Scope 3 was generated by paper used, water consumption and business travel by employees. The total greenhouse gases emissions from Scope 1, Scope 2 and Scope 3 for the year ended 30 June 2018 were about 555,008,973 kg, 5,393,285 kg and 109,428 kg respectively.

For the business operation of manufacture calcium carbide segment, this segment operating a new furnace and repairing the pipeline framework to recycling the calcium carbide furnace gas. In order to reduce and cleanse greenhouse gas emission, after desulphurization the flue gas will be reused as fuel gas to recycle. During the reporting period, the greenhouse gas emissions from Scope 1, Scope 2 and Scope 3 were about 26,206,574 kg, 78,640,813 kg and 27,343 kg respectively.

For the municipal engineering in PRC, which is new operated as at 1st January 2018. During the reporting period, greenhouse gas emission of the business is derived from direct emission from the mobile combustion sources ("Scope 1"), Scope 2 and Scope 3. Emission under Scope 1 was generated by vehicles usage, Scope 2 and Scope 3 were the same as above-mentioned. The total emission of Scope 1, Scope 2 and Scope 3 were about 29,947 kg, 4,748 kg and 7,304 kg respectively.

Furthermore, the main source of the Hong Kong office's greenhouse gas emissions classification is similar as the municipal engineering in PRC. The total emission of Scope 1, Scope 2 and Scope 3 were about 16,247 kg, 26,000 kg and 11,089 kg respectively.

The Group repairs and maintains the equipment and machines regularly and thoroughly from time to time in order to ensure the equipment and machines under a good condition for operation. The Group is dedicated to upgrade the equipment and machines and invests in chemical treatment machines to reduce the discharge of chemical pollutants. It also develops technological innovation to strive for breakthroughs in the area of clean energy and low carbon emission technology.

Waste micro dust management

The Group burns coals during the production process and emits smoke which contains micro dust. Therefore, the Group installs dedusting, desulphurization and denitration facilities and purchases coals with less pollutant contents, controlling the emission of airborne pollutants effectively. The Group possess the Administration of Pollutant Discharge License and follows the PRC's discharge standard strictly.

In respect of the air emission, nitrogen oxides ("NOx"), sulphur oxides ("SOx") and respiratory suspended particles ("RSP", also known as Particulate Matter ("PM")) was about 3,739 g, 240 g and 277 g respectively, which were mainly produced as a result of company vehicles usage.

For the manufacture calcium carbide business during the reporting period, the NOx, SOx and PM emission were about 8,058 g, 826 g and 639 g respectively.

For the municipal engineering in PRC business during the reporting period, the NOx, SOx and PM emission were about 1,767 g, 172 g and 139 g respectively.

For the business operation in Hong Kong, during the reporting period, the NOx, SOx and PM emission were about 1,433 g, 88 g and 106 g respectively.

Solid wastes management

The Group reduces wastes discharge with the establishment of a comprehensive residue and ash disposal system and in strict compliance with the "Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes"《一般工業固體廢物貯存、處置場污染控制標準》. The Group will fully explore and realize the potential application of waste coal ashes to recycle and reuse wherever possible.

For the manufacture of calcium carbide business, in the generating process, the lime powered and coke powered will be collected as raw materials. The residual calcium carbide slag will be used as building materials. And the broken calcium carbide slag will be recycled after remove the dust. The solid wastes mention above will be disposed of 100%.

The Group has constantly updated with the local legislation and standards for environmental protection and assessed whether these legislations and standards are related to the business of the Group and the Group's compliance status. During the year ended 30 June 2018, the Group has complied with environmental laws and regulations applicable to the Group's business. The Group will continue looking for ways to reduce carbon dioxide emission.

A.2 Use of resources

The Group are proactively seeking opportunities to minimize the impact of business activities on the environment. In order to reduce the use of resources, the Group actively implemented measures in energy conservation and pollution reduction. Basically, measures were introduced to reducing the use of paper by printing on double side and recycling paper. The Group also encourages and pushes a paperless office, and use digital copy rather than hard copy. Moreover, the Group switched fluorescent light to energy efficient lightbulb, and switched off lights and air-condition when not in use.

Coal consumption

The Group utilizes resources effectively and responsibly to achieve sustainable development. The Group can not only fulfil its market mandate but also greatly support green activities and actively implement effective policies aimed at emission reduction. The use of coal directly impacts the environment. When the Group conducts heat and power business, it exerts an impact on the environment through the consumption of coal. The Group has tried its very best to reduce the consumption of energy.

The Group has implemented many environmentally friendly measures to control use of resources in operations. It also monitors closely the technology advancements in the machinery, infrastructures and systems that the Group uses to achieve better resources efficiently. The Group will consider acquiring more environmentally friendly machinery to replace the existing machinery when it retires from production. Environmental protection and energy-saving upgrades and transformation are conducted in a planned manner on existing regular coal-fired equipment and machines, increasing the overall utilization rate of coal resources. Meanwhile, the Group continues to enhance its management of coal sourcing by purchasing quality coal. The environmentally friendly measures assist the reduction of resources consumption comprehensively, creating environmental and financial benefits to the Group.

Water consumption

For the generating of calcium carbide business, water is required to cool down as the primary function. Based on the increasing operating efficiency and reduce the use of resources, the wastewater in generation process is cooling circulating water, most of which are recycled, and a small part is an overflow. The sewage of the business is domestic sewage and process overflow sewage. The wastewater release is properly processed so as to meet the third-class effluent standard of the "Comprehensive Sewage Discharge Standard"《污水綜合排放標準》(GB8978-1996). After the treatment the sewage is transferred to the Heihe Sewage Treatment Plant to be processed to meet the first level A of "Discharge Standard of Pollutants for Municipal Wastewater"《城鎮污水處理廠污染物排放標準》(GB18918-2002) and released to Heilongjiang.

During the reporting period, the generates and supplies heat and power business' total consumption data was recorded as follow:

- Electricity Consumption: 4,826,258 kWh
- Water Consumption: 114 Tons
- Paper Consumption: 413 Kg
- Petrol Consumption: 15,389 Litres
- Diesel Consumption: 214,963 Litres
- Coal Consumption: 60,000 Tons

For the manufacture calcium carbide business, during the reporting period, the total consumption data were:

- Electricity Consumption: 70,397,290 kWh
- Water Consumption: 13 Tons
- Paper Consumption: 929 Kg
- Petrol Consumption: 25,092 Litres
- Diesel Consumption: 149,318 Litres
- Coal Consumption: 12,075 Tons

For the municipal engineering in PRC business, during the reporting period, the total consumption data were:

- Electricity Consumption: 4,250 kWh
- Petrol Consumption: 5,741 Litres
- Diesel Consumption: 5,435 Litres

For the business operation in Hong Kong, during the reporting period, the total consumption data were:

- Electricity Consumption: 32,912 kWh
- Water Consumption: 296 Litres
- Paper Consumption: 17 Kg
- Petrol Consumption: 6,000 Litres

A.3 Environment and natural resources

Measures in reducing environmental impact

This ESG report covers the general disclosures and compliance status that are based on Appendix 27 of the Environmental, Social and Governance (ESG) Reporting Guide of HKEX.

The Group continues to increase its investments in environmental protection and upgrade in the coal-fired power generating machines in its power plant, installing denitration and desulphurization facilities for its coal-fired power generating machines.

The Group practically enhances the maintenance and operation management of its environmental protection facilities to ensure that discharge of pollutants complies with the required standards. Control of discharge of airborne pollutants has been effectively improved.

The Group strictly monitors and reviews the data from time to time, minimizing the negative effect to the environment and maximizing its business development and operation at the same time.

The Group adopted an advanced technology and equipment to process an automation and scale production. Enhanced the utilisation of raw materials and resources. While improving the Group economic efficiency, achieving the goal of environmental protection.

B. SOCIAL

B.1 Employment

Labour practices

A good workplace prevents discrimination and promotes equal opportunities for all people despite age, gender, race, colour, sexual orientation, disability or marital status. The Group provides a good working environment for employees because it regards every single staff member as a valuable asset to the Group.

The Group guarantees the rights and interests of employees relating to compensation and dismissal, recruitment and promotion, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfares. The Group explains the details of the employment rights to employees clearly during orientation for their staff.

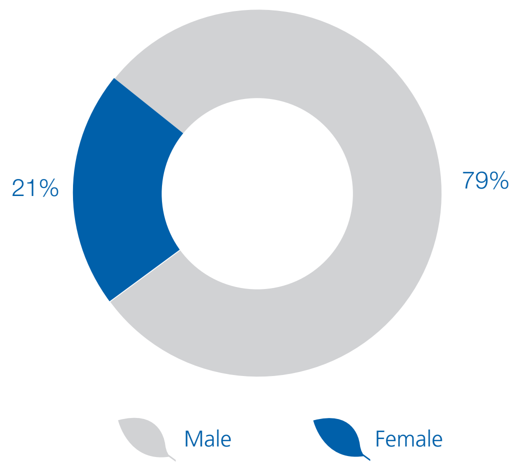
The Group has an annual review of the employment policy and strikes a balance between employee remuneration and business growth, which can benefit the development of the Group.

Anti-discrimination and equal opportunity

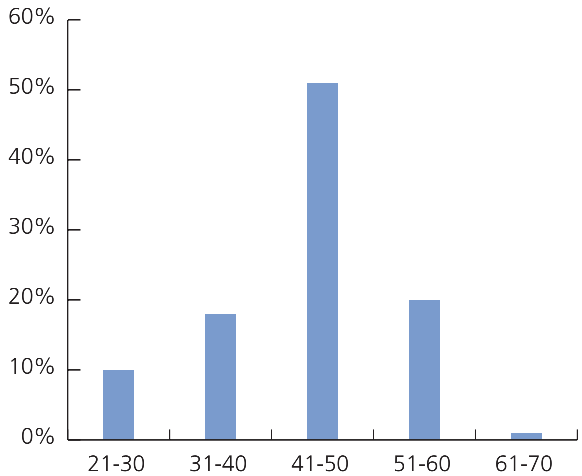
The Group will diversify its staff by means of gender and age to balance the culture and communications between staffs. The Group is committed to having a workplace environment free from discrimination and equal opportunities for all despite age, gender, race, colour, sexual orientation, disability or marital status. The Group encourages labour diversity and welcomes all manpower, thus putting the principle of fairness into practices.

The charts below show the gender and age of staffs:

Gender Profile



Age Profile



As at the year ended 30 June 2018, the Group employed over 717 employees. The male/female composition ratio of the Group is 8:2. Due to the laborious nature of the operation the positions offered by the Group, especially at factory sites, were not favored by the female workforce. The Group has a policy to welcome any age range of people to join the Group as long as they are keen to learn and participate. The Group had no reported incidents of non-compliance with regulations concerning employment during the year.

B.2 Health and Safety

Workplace health and safety

Protecting employee's occupational health and safety is critical for the Group. The Group respects occupational safety and health and other applicable regulations for a safe and comfortable working environment that protects employees from occupational hazards.

The health and safety of employees have always been the Group's priority of productions. Every worker is required to follow the safety instruction and train for using equipment or plant safety. Safety monitoring mechanism has been established and staff in each of production stage has been assigned to monitor the compliance of safety rule.

For the business operation in Heihe, All staff have to pass safety training, fire safety training and occupational health training, then they will be officially employed.

The Group has taken up responsibilities to improve the working environment and created a safe and comfortable workplace for employees. No fatal industrial incidents from workplace has been incurred during year ended 30 June 2018. But there are 102 lost days due to work injury (in relation to less than 10 industrial incidents) in total. Each of incidents were formally investigated and reports were prepared and made available for future reference. The Group has an on-going effort to improve their safety manual and implement additional guidelines and measures as deemed necessary. Moreover, the Group provides accident insurance for employees.

B.3 Development and Training

Employee development and training

Keeping employees trained is part of a fundamental role in business growth. The Group encourages employees for continuous development and improves their skill set through training. The Group understands that training is the most sustainable way for long term development, which is beneficial for both the Group and the employees. The Group also encourages the employees to identify their own personal objectives for development, allowing them to develop according their own needs and pace.

The Group also provides various internal trainings for developing the workforce, including orientation and on-board trainings for new staff to adapt to the operation of the Group efficiently and strengthen the skill and knowledge required at work. It is important for employees to perform tasks safely, follow safe work procedures and operate machines and equipment carefully.

The Group evaluates the training programs from time to time and reviews the effectiveness of the training. The Group puts effort to improve employees' knowledge and technical skills for discharging duties at work.

Moreover, the Group encourages mutual communication between management and employees. The Group respects and cares about employees' opinions and suggestions. At the same time, the Group delivers the latest corporate news to all employees in a timely manner.

B.4 Labour Standards

Child labour and forced labor

Any individuals hired under legal working age and without any identification documents are disqualified from employment. It is the Group's policy to disqualify the person from employment if he or she is found to be hired against the requirements of the Labour Contract Law.

The Group makes good use of the Human Resource Department to ensure their employment practice comply with laws and regulations. The Human Resource Department takes up the responsibilities to review and confirm employment practices, avoiding child and forced labour. In case of any unlawful labour is discovered, the Group would immediately assist the employee and cooperate with relevant labour authorities.

The Group follows the laws and regulations prohibiting child labour and forced labour, which mainly include:

- Employment Ordinance of HKSAR
- Labor Law of the PRC
- Labor Contract Law of the PRC
- Law of the PRC on Protection of Minors
- Regulations on Prohibiting Use of Child Labor (State Council Order No.364)

For the year ended 30 June 2018, there was no violation regarding age of employment and any labour dispute within the Group.

B.5 Supply Chain Management

Supplier management

The Group develops a fair and impartial working relationship with suppliers. Contracts and agreements are performed in compliance with contractual requirements and all suppliers are treated with respect and equality.

Where ever possible, the Group compares the price with the different suppliers, evaluates the quality of the raw materials or machinery and confirms the qualifications of the suppliers before making contracts, in order to ensure the quality of the raw materials and machinery under an acceptable price. The group strives to ensure that their suppliers uphold similar stance in sustainability. The Group also tends to maintain long-term relationship with its suppliers for ensuring a stable supply of materials or goods. During this year, the Group carried out a regular review on their current suppliers and assess other alternative potential suppliers. Where ever possible, the Group would tend to suspend cooperation with suppliers if significant deterioration was found in the supplier's quality: this ensures that suppliers conform to the Group's standard.

B.6 Product Responsibility

Product safety and quality

The Group puts product and service quality as its first priority. The Group is dedicated to the building of a reliable and stable power generation system to ensure safer, more economical and more sustainable electric power supply.

The Group stabilises the supply of heat and power and maintains the temperature of heat based on the Government regulations. There is a 24 hours hotline for customer to report if the temperature is too low and the Group will provide checking and maintenance services. The Group strives to provide clients with quality and safe products to establish good credibility and reputation.

B.7 Anti-Corruption

Anti-corruption and money laundering

The Group operation complies with local and national legislation strictly, such as the Prevention of Bribery Ordinance of Hong Kong, Criminal Law of the People's Republic of China《中華人民共和國刑法》, and the Anti-Unfair Competition Law of the People's Republic of China《中華人民共和國反不正當競爭法》and other relevant legislation on anti-corruption of mainland China.

The Group strives to maintain a system with moral integrity and an anti-corruption mechanism, which is the cornerstone for sustainable and healthy development. To effectively strengthen the Group integrity, it continues to improve the internal supervision and anti-corruption management.

The Group also requests our employees to follow the code of conducts to eliminate corruption such as bribery, extortion, fraud and anti-money laundering in any circumstance. Any suspected criminal offence will be promptly whistle-blown and reported to relevant authorities. For the year ended 30 June 2018, no such events took place in the Group.

B.8 Community investment

Community involvement

The Group has made significant investment in the past years for the heat and power supply to the community and the Group aims to provide safe and affordable heat and power supply to the community in a long-term view.

Contributing to society is a part of the Group's sustainable development strategy. The Group is committed to providing career opportunities to locals and promoting the development of the community's economy.

The Group believes the public welfare is indivisible from the development of the Group. The Group participates in volunteer activities and environmental protection activities when the country suffers from a tragedy, like earthquakes, in order to raise community awareness and concern, inspiring more and more employees to participate in community service.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Ms. Chan Yuk Foebe (陳昱), aged 49, is the chairman and chief executive officer of the Group and joined the Group in January 2004. Ms. Chan is responsible for the overall management and business development of the Group. Ms. Chan holds a bachelor's degree in Accountancy from the Queensland University of Technology in Australia. Ms. Chan has more than 10 years' experience in the areas of corporate finance and management. Ms. Chan is a non-executive director of Heng Tai Consumables Group Limited ("Heng Tai") (Stock Code: 197), whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the"Stock Exchange") until 21 December 2016. Save as disclosed herein, Ms. Chan did not hold any other directorships in listed public companies in the last three years. Ms. Chan was appointed as the Chairman and a member of nomination committee with effect from 2 February 2012.

Mr. Law Tze Ping Eric (羅子平), aged 38, is an executive director of the Company. Prior to the joining of the Group, Mr. Law worked as a business consultant and provided consultancy services for listed and non-listed companies in Hong Kong. Save as disclosed herein, Mr. Law did not hold any other directorships in listed public companies in the last three years. Mr. Law was appointed as an executive director of the Company with effect from 3 March 2015.

Mr. Yu Defa (于德發), aged 51, is an executive director of the Company. He is currently the chief operation director of Heihe LongJiang Chemical Co. Ltd., a subsidiary of the Company. Mr. Yu had been the sales and operating general manager of medium-sized enterprises with more than ten years of extensive experiences in sales operation and management.

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

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan (馬榮欣), aged 52, is an independent non-executive Director and is also the chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Ma is the finance director of Union Sun International Group Limited, a non-listed company with affiliates dealing in property development in the PRC. He was an independent director of Celestial Nutrifoods Limited (the shares of which are listed on the main board of Singapore Exchange Securities Trade Limited (the "Singapore Exchange")) until 18 July 2011. He has approximately 20 years of experience in the areas of audit, financial management and operational management. Mr. Ma is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Ma was appointed as an independent non-executive director of the Company in February 2001.

Mr. Tam Ching Ho (譚政豪), aged 47, appointed on 30 June 2007, is an independent non-executive Director and is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Tam is a certified public accountant (practising) registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He has worked in a reputable international accounting firm for about eight years and specialised in providing assurance services for pre-listing, listed and multinational companies. He has also held senior positions in several companies, including mainly the financial controller of a company listed on the main board of the Stock Exchange and another company listed on the Main Board of the Singapore Exchange Limited for a total of about seven years. Mr. Tam has accumulated extensive experience in corporate finance and administration, listing compliance, investor relations, accounting and auditing. Mr. Tam holds a bachelor's degree of arts with honors in accountancy. He is an associate member of the HKICPA and a fellow member of The Association of Chartered Certified Accountants. Mr. Tam is also an independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited (Stock Code: 682), the shares of which are listed on the main board of the Stock Exchange. Save as disclosed herein, Mr. Tam did not hold any other directorships in listed companies in the last three years.

Mr. Hau Chi Kit (侯志傑), aged 46, appointed on 18 December 2013, is an independent non- executive Director and also a member of the Audit committee, Remuneration committee and Nomination committee of the Company. He was a barrister-at-law in private practice in Hong Kong from 2001 to 2008. Prior to becoming a barrister, he worked at the Securities and Futures Commission. Mr. Hau is currently a solicitor and is an independent non-executive director of e-Force Holdings Limited (Stock Code: 943), a company listed on the Main Board of the Stock Exchange, Trillion Grand Corporate Company Limited (Stock Code: 8103) and Code Agriculture (Holdings) Limited (Stock Code: 8153), companies listed on GEM of the Stock Exchange. In the past three years, he was an independent non-executive director of Celebrate International Holdings Limited (Stock Code: 8212) from May 2015 to November 2015, being a company listed on GEM of the Stock Exchange. Save as disclosed herein, Mr. Hau did not hold any other directorships in listed companies in the last three years.

SENIOR MANAGEMENT

Mr. Ma Kin Ling (馬健凌), aged 36, is the chief financial officer and the company secretary of the Group. Mr. Ma is responsible for the financial reporting and company's secretarial functions of the Group. Mr. Ma graduated from City University of Hong Kong with a bachelor's degree in Accountancy and Law. Mr. Ma joined the Group in May 2016. Prior to joining the Group, he worked in a reputable international accounting firm and has over 10 years of professional experience in accounting, auditing and financial management. Mr. Ma is a member of the HKICPA. Mr. Ma is also an independent non-executive director of SunCorp Technologies Limited (Stock Code: 1063), the shares of which are listed on the main board of the Stock Exchange. Save as disclosed herein, Mr. Ma did not hold any other directorships in listed companies in the last three years.

Mr. Tian Yu (田雨), aged 61, is the Vice General Manager of the Mudanjiang Better Day Power Limited of the Group, and is mainly responsible for the production technology of power and steam. He joined the Group in December 2006. Mr. Tian has over 20 years' extensive experience in the production, management and project construction aspects of enterprises which generate and supply power and steam. He further studied and graduated from Heilongjiang Province Economic Cadre Institute (黑龍江省經濟幹部學院) in 2000, majoring in economic management.

Mr. Sun Jianfei (孫劍飛), aged 46, is the Vice General Manager of the Heihe Longjiang Chemical Company Limited. Mr. Sun has over 10 years' experience in the production management of chemical enterprises. He joined the Group in September 2005 and was promoted to Vice General Manager of the Mudanjiang Daytech Chemical Ltd. Mr. Sun completed a program of chemical technology from Mudanjiang Vocational University (牡丹江職工大學) in July 1995.

SENIOR MANAGEMENT REMUNERATION SYSTEM

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

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Group for the year ended 30 June 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 23 to the financial statements.

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 June 2018 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 43 to 118 of this annual report.

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

SUMMARY FINANCIAL INFORMATION

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

Results

	Year ended 30 June				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**367,632**	186,110	68,300	62,911	163,477
LOSS FROM OPERATIONS	**(143,287)**	(91,744)	(429,842)	(257,450)	(308,630)
Finance costs	**(82,594)**	(60,078)	(68,945)	(48,019)	(32,667)
LOSS BEFORE TAX	**(225,881)**	(151,822)	(498,787)	(305,469)	(341,297)
Income tax credit	**7,267**	20,945	4,580	28,418	79,697
LOSS FOR THE YEAR FROM CONTINUING OPERATION	**(218,614)**	(130,877)	(494,207)	(277,051)	(261,600)
PROFIT/(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATION	**–**	192,195	(14,189)	(21,210)	(329,037)
PROFIT/(LOSS) FOR THE YEAR	**(218,614)**	61,318	(508,396)	(298,261)	(590,637)
Attributable to:					
Owners of the Company	**(199,324)**	68,481	(421,647)	(248,517)	(559,532)
Non-controlling interests	**(19,290)**	(7,163)	(86,749)	(49,744)	(31,105)
	(218,614)	61,318	(508,396)	(298,261)	(590,637)

SUMMARY FINANCIAL INFORMATION (Continued)

Assets, liabilities and equity

	At 30 June				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**2,819,057**	2,919,362	3,123,917	3,353,154	3,364,546
Current assets	**357,732**	231,442	171,612	161,446	302,961
TOTAL ASSETS	**3,176,789**	3,150,804	3,295,529	3,514,600	3,667,507
Non-current liabilities	**1,113,572**	937,770	461,324	340,737	299,289
Current liabilities	**386,302**	344,750	1,010,947	883,000	861,474
TOTAL LIABILITIES	**1,499,874**	1,282,520	1,472,271	1,223,737	1,160,763
TOTAL EQUITY	**1,676,915**	1,868,284	1,823,258	2,290,863	2,506,744
Attributable to:					
Owners of the Company	**1,583,802**	1,758,756	1,693,344	2,126,830	2,297,894
Non-controlling interests	**93,113**	109,528	129,914	164,033	208,850
	1,676,915	1,868,284	1,823,258	2,290,863	2,506,744

Note: The results of the Group for the year ended 30 June 2018 and the assets, liabilities and equity of the Group as at 30 June 2018 are those set out in the audited financial statements on pages 43 to 45 and pages 46 to 47 of this annual report, respectively.

The results of the Group for the years ended 30 June 2014, 2015, 2016 and 2017 have been extracted from the audited financial statements of the Company for the respective years and have been restated as appropriate.

The assets, liabilities and equity of the Group as at 30 June 2014, 2015, 2016 and 2017 have been extracted from the audited financial statements of the Company for the respective years.

FIXED ASSETS

Details of movements in the Group's fixed assets and prepaid land lease payments are set out in notes 19 and 20 to the financial statements respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there was no restrictions against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Group and of the Company during the year under review are set out in the consolidated statement of changes in equity on page 48 of this annual report and note 29(b) to the financial statements as set out on page 106 of this annual report, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the sales to the Group's five largest customers accounted for approximately 56% of the Group's total sales for the year and the sales to the largest customer included therein amounted to approximately 29%.

Purchases from the Group's five largest suppliers accounted for approximately 52% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 13%.

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

DIRECTORS

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

Executive Directors:

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

Independent Non-executive Directors:

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

In accordance with clause 99 of the Company's Bye-laws, Mr. Law Tze Ping Eric and Mr. Hau Chi Kit will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and senior management of the Group are set out on pages 27 to 28 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Ms. Chan Yuk Foebe has entered into a service contract with the Company commencing from 22 November 2004, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's Bye-laws, continue until terminated by either party giving not less than three months' notice in writing to the other. Mr. Yu Defa has entered into a letter of appointment with the Company for an initial term of two years commencing from 5 May 2014, which shall, subject to his re-appointment as a director of the Company in accordance with the Company's Bye-laws, continue until terminated by either party giving not less than three months' notice in writing to the other. The term of his appointment was since renewed for a further term of two years commencing from 5 May 2016 and 5 May 2018. Mr. Law Tze Ping Eric have entered into a letter of appointment with the Company for an initial term of two years commencing from 3 March 2015, which shall, subject to the reappointment as a director of the Company in accordance with the Company's Bye-laws, continue until terminated by either party giving not less than three months' notice in writing to the other. The term of his appointment was since renewed for a further term of two years commencing from 3 March 2017.

Mr. Ma Wing Yun Bryan was appointed for a term of two years as an independent non-executive director of the Company commencing from 28 February 2001. The term of his appointment was renewed for a further two-year term commencing from 28 February 2003. Upon expiry of his appointment on 27 February 2005, the Company did not renew the service contract with Mr. Ma Wing Yun Bryan until 24 March 2006. The Company renewed the service contract with Mr. Ma Wing Yun, Bryan for a further term of three years, commencing from 1 April 2006. The term of his appointment was since renewed for a further term of two years commencing from 1 April 2009, 1 April 2011, 1 April 2013, 1 April 2015 and 1 April 2017, respectively.

DIRECTORS' SERVICE CONTRACTS (Continued)

The Company entered into a service contract with Mr. Tam Ching Ho commencing from 30 June 2007 to the then following annual general meeting (i.e. 6 December 2007) of the Company. On 7 December 2007, the Company renewed the service contract with Mr. Tam Ching Ho for a term of two years as an independent non-executive director of the Company commencing from 7 December 2007. Moreover, the term of his appointment was renewed for a further term of two years commencing from 7 December 2009, 7 December 2011, 7 December 2013, 7 December 2015 and 7 December 2017, respectively.

The Company entered into a service contract with Mr. Hau Chi Kit for a term of two years commencing from 18 December 2013 as an independent non-executive director. Moreover, the term of his appointment was renewed for a further term of two years commencing from 18 December 2015 and 18 December 2017, respectively.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the interests of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

Interests in the Shares and Underlying Shares

Name of director	Type of interest	Number of Shares held (long position)	% of issued capital of the Company	Share options held	% of issued capital of the Company
Ms. Chan Yuk Foebe	Beneficial Interest	7,170,000	0.65%	10,780,000	0.97%
Mr. Law Tze Ping Eric	Beneficial Interest	0	0%	10,780,000	0.97%

Save as disclosed herein, as at 30 June 2018, none of the Directors and chief executives of the Company and their respective associates had or was deemed to have any interests or short positions in any Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As far as the directors of the Company are aware, as at 30 June 2018, the following persons, other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

Name	Number of Ordinary shares	Capacity (subject to the notes below)	Approximate percentage interest
Mr. Chan Yuen Tung	Long position 288,721,111	Beneficial owner	26.00%

Save as disclosed above, as far as the directors of the Company are aware, as at 30 June 2018, no other person had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEME OF THE GROUP

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

A share option scheme is in place to provide appropriate long-term incentive to key staff of the Group including Executive Directors. Details of the share option scheme of the Company are set out in note 28 to the financial statements in this annual report.

BASIS OF DETERMINING EMOLUMENT TO DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, there is sufficient public float of more than 25% of the Company's shares in the market as required under the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

AUDIT COMMITTEE REVIEW

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDITOR

A resolution to re-appoint the retiring auditor, Elite Partners CPA Limited, will be put to a vote at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Chan Yuk Foebe
Chairman and Executive Director

Hong Kong
27 September 2018

INDEPENDENT AUDITOR'S REPORT

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

TO THE MEMBERS OF CHINA ZENITH CHEMICAL GROUP LIMITED
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Zenith Chemical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 118, which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

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

KEY AUDIT MATTERS

Key audit matters are those matters that in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 30 June 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How the matter was addressed in our audit
1. Impairment assessment of plant and machinery in relation to polyvinyl-chloride, Vinyl acetate, and calcium carbide segments	
As at 30 June 2018, the carrying amount of the Group's plant and machinery is HK$832,083,000 from the polyvinyl-chloride, Vinyl acetate, and calcium carbide segment. Significant effort was spent auditing the impairment assessment of the plant and machinery carried out by the Group because certain operations of polyvinyl-chloride, Vinyl acetate, and calcium carbide segments were suspended for a considerable length of time. The impairment assessment required the consideration of the obsolescence, excess capacity and replacement costs of these plant and machinery in the suspended segments. Under the impairment assessments, with the assistance of the independent professional valuer, the recoverable amounts were calculated by the valuer using depreciated replacement cost method. The depreciated replacement cost calculations required the use of the significant judgements and estimates from valuer and management, including assumptions and determination of the appropriate method of depreciation of the replacement cost of plant and machinery, sources of replacement costs for similar plant and machinery and adjustment factors on the replacement cost. Therefore, we have identified the impairment assessment of plant and machinery in relation to polyvinyl-chloride, Vinyl acetate, and calcium carbide segments as a key audit matter.	Our major audit procedures in relation to these matters included the following: — We performed the physical inspection of these plant and machinery to determine whether they were in good working conditions. — We discussed with management and independent external valuer engaged by the Company and assessed the methodology and assumptions used in arriving at the valuation (e.g. adjustment depreciation factors and useful lives, etc.) to see whether the methodology and assumptions applied in valuing the plant and machinery and impairment assessments were reasonable; — We checked, on a sample basis, the accuracy and reliability of the input data used; and — We evaluated the competency and capabilities of the independent external valuer taking into account of its experience and qualifications.

KEY AUDIT MATTERS (Continued)

Key audit matters	How the matter was addressed in our audit
2. Valuation of buildings The Group's building held for use in production or for administration purpose are stated at revalued amount of HK$680,900,000 as at year ended 30 June 2018. Significant effort was spent auditing the assessment of the valuation on the buildings recognised by the Group due to the suspended operations, involving the consideration of the obsolescence, capacity and replacement cost of these buildings. The Group appointed an independent professional valuer to determine the fair value of the buildings as at year ended 30 June 2018. Under the fair value assessments, with the assistance of the independent professional valuer, the amount of fair value was assessed by the valuer using depreciated replacement cost method. The approach adopted required significant judgements and estimates on the new replacement cost of the buildings, the deductions to be made on the value, including ages, conditions, functional obsolescence, etc. Therefore, we have identified the valuation of the buildings as a key audit matter.	Our major audit procedures in relation to these matters included the following: — We discussed with management as to whether there was any indicator of impairment; — We performed the physical inspection of these buildings as to whether there are in good conditions; — We discussed with management and independent external valuer engaged by the Company and assessed the methodology and assumptions used in arriving at the valuation (e.g. adjustment depreciation factor and useful life, etc.) to see whether the methodology and assumptions applied in valuing buildings and impairment assessments were reasonable; — We checked, on a sample basis, the accuracy and reliability of the input data used; and — We evaluated the competency and capabilities of the independent external valuer taking into account of its experience and qualifications.

KEY AUDIT MATTERS (Continued)

Key audit matters	How the matter was addressed in our audit
3. Acquisition of subsidiary During the year ended 30 June 2018, the Group completed the acquisition of Mudanjiang Jinyang Municipal Engineering Co. Ltd, which is engaged in provision of municipal engineering construction service, at consideration of RMB64,000,000 (equivalent to approximately HK$76,704,000). We had identified business acquisition as a key audit matter because significant management judgement for purchase price allocation (i.e. intangible asset and remaining goodwill balance) and special attention on accounting treatment were required.	Our major audit procedures to address the business acquisition included the following: — We examined the sales and purchase agreement for the acquisition and enquired the management the basis determination of completion date of the acquisition and tested the supporting thereof; — We tested the purchase price allocation in which we especially focused on the valuation of net assets amount and the intangible asset amount; — We discussed with management and the independent external valuer engaged by the Company in relation to the methodology and assumptions adopted in arriving to see whether the methodology and assumptions were reasonable; — We checked on a sample basis the accuracy and reliance of the input data used; — We assessed the competency of the independent external valuer taking into account its experience and qualifications; and — We tested the adequacy of the related disclosures.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Siu Jimmy with Practising Certificate number P05898.

Elite Partners CPA Limited
Certified Public Accountants

10/F, 8 Observatory Road,
Tsim Sha Tsui, Kowloon,
Hong Kong

27 September 2018

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2018

	Note	2018 HK$'000	2017 HK$'000
Continuing operations			
Revenue	9	**367,632**	186,110
Cost of sales		**(299,216)**	(152,270)
Gross profit		**68,416**	33,840
Gain on bargaining purchase on acquisition of a subsidiary		**27,491**	–
Other income	10	**50,844**	94,820
Selling and distribution costs		**(18,064)**	(12,695)
Administrative expenses		**(191,577)**	(107,574)
Other operating expenses		**(60,421)**	(84,488)
Impairment of fixed assets		**(4,218)**	(15,647)
Deficits on property revaluation		**(15,758)**	–
Loss from operations		**(143,287)**	(91,744)
Finance costs	12	**(82,594)**	(60,078)
Loss before tax		**(225,881)**	(151,822)
Income tax credit	13	**7,267**	20,945
Loss for the year from continuing operations		**(218,614)**	(130,877)
Discontinued operations			
Profit for the year from discontinued operations	14	**–**	192,195
(Loss)/Profit for the year	15	**(218,614)**	61,318

CONSOLIDATED INCOME STATEMENT (CONTINUED)

for the year ended 30 June 2018

	Note	2018 HK$'000	2017 HK$'000
Attributable to:			
Owners of the Company			
— From continuing operations		**(199,324)**	(123,714)
— From discontinued operations		**–**	192,195
		(199,324)	68,481
Non-controlling interests			
— From continuing operations		**(19,290)**	(7,163)
(Loss)/Profit for the year		**(218,614)**	61,318
(Loss)/Earnings per share			
From continuing and discontinued operations			
— Basic	18(a)	**HK(17.98) cents**	HK6.57 cents
— Diluted	18(a)	**HK(17.98) cents**	HK6.57 cents
From continuing operations			
— Basic	18(b)	**HK(17.98) cents**	HK(11.86) cents
— Diluted	18(b)	**HK(17.98) cents**	HK(11.86) cents
From discontinued operations			
— Basic	18(c)	**N/A**	HK18.43 cents
— Diluted	18(c)	**N/A**	HK18.43 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Fixed assets	19	**2,480,315**	2,572,893
Prepaid land lease payments	20	**325,861**	346,383
Investment in a joint venture	21	**3,614**	–
Intangible assets	22	**9,267**	86
		2,819,057	2,919,362
Current assets			
Inventories	24	**28,231**	19,914
Trade receivables	25	**6,748**	25,719
Prepayments, deposits and other receivables		**258,574**	92,605
Financial assets at fair value through profit or loss		**1,939**	45
Bank and cash balances	26	**62,240**	93,159
		357,732	231,442
TOTAL ASSETS		**3,176,789**	3,150,804
Capital and reserves			
Share capital	27	**111,043**	107,809
Reserves	30	**1,472,759**	1,650,947
Equity attributable to owners of the Company		**1,583,802**	1,758,756
Non-controlling interests		**93,113**	109,528
Total equity		**1,676,915**	1,868,284

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Bank loans	34	**24,259**	44,087
Bonds payable	35	**820,458**	633,475
Other payables		**251,313**	243,191
Deferred tax liabilities	31	**17,542**	17,017
		1,113,572	937,770
Current liabilities			
Trade payables	32	**100,171**	42,128
Other payables and accruals		**159,276**	195,952
Other loans	33	**53,339**	65,131
Bank loans	34	**73,516**	41,539
		386,302	344,750
Total liabilities		**1,499,874**	1,282,520
TOTAL EQUITY AND LIABILITIES		**3,176,789**	3,150,804
Net current liabilities		**(28,570)**	(113,308)
Total assets less current liabilities		**2,790,487**	2,806,054

Approved and authorised for issued by the board of directors on 27 September 2018.

Chan Yuk Foebe
Chairman

Law Tze Ping Eric
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Attributable to owners of the Company								
	Issued share capital HK$'000	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	(Accumulated losses)/ Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2016	287,490	1,837,370	97,402	13,614	292,941	(835,473)	1,693,344	129,914	1,823,258
Profit/(Loss) for the year	–	–	–	–	–	68,481	68,481	(7,163)	61,318
Other comprehensive income:									
– gains on property revaluation	–	–	12,966	–	–	–	12,966	11,671	24,637
– exchange differences	–	–	–	–	(86,595)	–	(86,595)	(24,894)	(111,489)
Total comprehensive income for the year	–	–	12,966	–	(86,595)	68,481	(5,148)	(20,386)	(25,534)
Issue of shares on open offer	71,872	(1,312)	–	–	–	–	70,560	–	70,560
Issue of bonus shares	71,873	(71,873)	–	–	–	–	–	–	–
Cancellation of paid-up capital	(323,426)	–	–	–	–	323,426	–	–	–
Capital reorganisation	–	(1,764,185)	–	–	–	1,764,185	–	–	–
Share options benefits – cancellation of share options	–	–	–	(2,892)	–	2,892	–	–	–
At 30 June 2017 and 1 July 2017	107,809	–	110,368	10,722	206,346	1,323,511	1,758,756	109,528	1,868,284
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(199,324)**	**(199,324)**	**(19,290)**	**(218,614)**
Other comprehensive income:									
– deficits on property revaluation	**–**	**–**	**(32,951)**	**–**	**–**	**–**	**(32,951)**	**(3,281)**	**(36,232)**
– exchange differences	**–**	**–**	**–**	**–**	**34,522**	**–**	**34,522**	**6,093**	**40,615**
Total comprehensive income for year	**–**	**–**	**(32,951)**	**–**	**34,522**	**(199,324)**	**(197,753)**	**(16,478)**	**(214,231)**
Cancellation of share options	**–**	**–**	**–**	**(10,722)**	**–**	**10,722**	**–**	**–**	**–**
Employee share option benefits	**–**	**–**	**–**	**12,837**	**–**	**–**	**12,837**	**–**	**12,837**
Exercise of share options	**3,234**	**–**	**–**	**(4,026)**	**–**	**10,817**	**10,025**	**–**	**10,025**
Disposal of fixed assets	**–**	**–**	**(18,613)**	**–**	**–**	**18,550**	**(63)**	**63**	**–**
At 30 June 2018	**111,043**	**–**	**58,804**	**8,811**	**240,868**	**1,164,276**	**1,583,802**	**93,113**	**1,676,915**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax:		
Loss from continuing operations	**(225,881)**	(151,822)
Profits from discontinued operations	**–**	192,195
Adjustments for:		
Finance costs	**82,594**	60,078
Interest income	**(1,262)**	(58)
Depreciation	**109,376**	107,524
Write off of other paybales due to deregistration	**–**	(3,197)
Waiver of loan interest payments	**–**	(3,730)
Amortisation of prepaid land lease payments	**6,559**	7,112
Amortisation of intangible assets	**29,436**	513
Net allowance for trade and other receivabes	**(9,995)**	5,604
Loss on disposal of fixed assets	**44**	131
Fair value loss on financial assets at fair value through profit or loss	**1,063**	124
Share option benefits	**12,837**	–
Deficits on property revaluation	**15,758**	–
Gain on bargaining purchase on acquisition of subsidiary	**(27,491)**	–
Impairment of fixed assets	**4,218**	15,647
Gain on disposal of subsidiary	**–**	(194,871)
Gain on disposal of prepaid land lease	**7,085**	(50,878)
Operating profits/(loss) before working capital changes	**4,341**	(15,628)
Decrease in inventories	**3,192**	28,056
Decrease/(Increase) in trade receivables	**22,476**	(47)
Decrease/(Increase) in prepayments, deposits and other receivables	**164,206**	(41,414)
Increase in financial assets at fair value through profit or loss	**(2,957)**	–
Increase/(Decrease) in trade payables	**60,334**	(29,491)
Decrease in other payables and accruals	**(225,849)**	(329,792)
Cash generated from/(used in) operations	**25,743**	(388,316)
Interest received	**1,262**	58
Interest paid	**(22,159)**	(40,419)
Tax paid	**(172)**	–
Net cash generated from/(used in) operating activities	**4,674**	(428,677)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

for the year ended 30 June 2018

	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(25,089)	(92,355)
Proceeds from disposal of fixed assets	593	58
Proceeds from disposal of prepaid land lease	–	110,387
Invested in a joint venture	(3,727)	–
Acquisition of a subsidiary	(24,189)	222,713
Net cash (used in)/generated from investing activities	(52,412)	240,803
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of shares capital	–	70,560
Exercise of share options	10,025	–
Issue of bonds	126,548	147,879
(Repayment to)/Proceeds from of bank loans	(83,731)	3,795
(Repayment to)/Proceeds from of other loans	(11,792)	18,542
Net cash generated from financing activities	41,050	240,776
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(6,688)	52,902
Effect of foreign exchange rate changes	(24,231)	960
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	93,159	39,297
CASH AND CASH EQUIVALENTS AT END OF YEAR	62,240	93,159
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	62,240	93,159

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

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 Canon's Court, 22 Victoria Street, Hamilton HM12, 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 principal activities of its subsidiaries are set out in Note 23 to the consolidated financial statements.

2. GOING CONCERN BASIS

As at 30 June 2018 the Group had net current liabilities of approximately HK$28,570,000 (2017: HK$113,308,000) and incurred a loss of HK$218,614,000 (2017: HK$130,877,000) from continuing operations during the year then ended. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In preparing the consolidated financial statements, the directors have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to achieve profitable and positive cash flows from operations in immediate and lone terms. The directors have prepared cash flow forecasts for the period up June 2018 after taking into account of the measures below. In order to strengthen the Group's capital base and maintain sufficient financing necessary for future business development, the directors of the Company have taken the following measures:

– After the end of reporting period, the Group had issued corporate bonds with aggregate principal amount of approximately HK$135,000,000. These bonds are repayable over 5 years.

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

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

3. BASIS OF PREPARATION

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

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

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

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

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

Amendments to HKAS 7 Disclosure Initiative

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

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

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

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

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

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

3 Effective for annual periods beginning on or after 1 January 2021

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

HKFRS 9 Financial Instruments

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

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

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

HKFRS 9 Financial Instruments (Continued)

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Under HKFRS 9, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may take an irrecoverable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liabilities designated as at fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types on hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedge accounting. In additions, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

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

HKFRS 15 Revenue from Contracts with Customers and the related Amendments

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

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to the performance obligations; and

(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

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

HKFRS 16 Leases

HKFRS16, which upon the effective date will supersede Hong Kong Accounting Standard ("HKAS") 17 "Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

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

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

4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

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

HKFRS 16 Leases (Continued)

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

5. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(a) Consolidation

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

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

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

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

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

(b) Business combinations and goodwill

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combinations and goodwill (Continued)

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation (Continued)

(iii) Translation on consolidation

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

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in statement of comprehensive income and accumulated in the exchange reserve.

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

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

(d) Fixed assets

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Fixed assets (Continued)

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

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

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

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

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

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

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

(e) Operating leases

(i) The Group as lessee

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Operating leases (Continued)

(ii) The Group as lessor

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

(f) Research and development expenditure

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

– An asset is created that can be identified (such as new products);

– It is probable that the asset created will generate future economic benefits; and

– The development cost of the asset can be measured reliably.

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

(g) Other intangible assets

(i) Technical know-how

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

(ii) Trade name and exclusive right

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

(iii) Construction contracts

Construction contracts are measured initially at fair value and are amortised on a straight-line basis over the contract period of 1–2 years.

(h) Inventories

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Recognition and derecognition of financial instruments

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

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

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

(j) Financial assets

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Trade and other receivables

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

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

(l) Cash and cash equivalents

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

(m) Financial liabilities and equity instruments

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

(i) Borrowings

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

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

(ii) Trade and other payables

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

(iii) Equity instruments

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Revenue recognition

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

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

Revenue from supply of heat and electricity are recognised when the heat or electricity are provided.

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

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

Revenue from facilities construction services are recognised when services are provided.

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefits schemes

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

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

(iii) Termination benefits

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Share-based payments

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

(q) Borrowing costs

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

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

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

(r) Government grants

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Taxation

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

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

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

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

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

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or a parent of the Group.

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Impairment of non-financial assets

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

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

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

(v) Impairment of financial assets

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Provisions and contingent liabilities

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

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

(x) Events after the reporting period

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

6. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Critical judgements in applying accounting policies

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

(a) Going concern basis

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

(b) Legal titles of certain buildings

As stated in note 19 to the consolidated financial statements, the legal titles of certain buildings were not yet obtained as at 30 June 2018. Despite the fact that the Group has not obtained the relevant legal titles, the directors have determined to recognise those buildings as fixed assets on the grounds that they expect the legal titles should be obtained in future with no major difficulties and the Group is in substance controlling those buildings.

Key sources of estimation uncertainty

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

6. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Key sources of estimation uncertainty (Continued)

(a) Fixed assets and depreciation

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

The carrying amount of fixed assets as at 30 June 2018 was approximately HK$2,480,315,000 (2017: HK$2,572,893,000).

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, income tax credit of approximately HK$7,267,000 (2017: HK$20,945,000) was recognised in profit or loss based on the estimated deferred tax liabilities.

(c) Useful lives of other intangible assets

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

(d) Fair value of certain fixed assets

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

(e) Fair value of buildings

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

The carrying amount of buildings as at 30 June 2018 was approximately HK$680,900,000 (2017: HK$739,160,000).

6. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Key sources of estimation uncertainty (Continued)

(f) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. As at 30 June 2018, the accumulated impairment loss for bad and doubtful debts was approximately HK$161,908,000 (2017: HK$160,832,000).

(g) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. No allowance for slow-moving inventories was made for the year ended 30 June 2018 (2017: HK$Nil).

7. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi ("RMB") which are the functional currencies of the principal operating entities of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Price risk

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

At 30 June 2018, if the prices of the Group's investments increase/decrease by 10%, loss after tax for the year would have been approximately HK$193,900 (2017: HK$4,500) lower/higher.

7. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk

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

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

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

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

(d) Liquidity risk

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

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

7. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

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

	On demand HK$'000	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 30 June 2018					
Term loan subject to a repayment on demand clause	34,548	–	–	–	–
Other bank loans	–	40,017	2,661	8,329	13,777
Trade payables	–	100,171	–	–	–
Bond payables	–	8,387	18,957	556,118	891,557
Other payable and accruals	–	159,276	251,313	–	–
Other loans	26,266	33,189	–	–	–
At 30 June 2017					
Term loan subject to a repayment on demand clause	39,039	–	–	–	–
Other bank loans	–	2,552	20,502	8,156	16,614
Trade payables	–	42,128	–	–	–
Bond payables	–	7,778	17,778	483,365	463,880
Other payable and accruals	–	195,951	243,191	–	–
Other loans	36,341	30,042	–	–	–

7. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

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

	Contractual undiscounted cash flows	
	Less than 1 year	**Between 1 and 2 years**
	HK$'000	HK$'000
At 30 June 2018	**36,839**	**–**
At 30 June 2017	40,086	–

(e) Interest rate risk

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

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

At 30 June 2018, if interest rates at that date had been 1% lower/higher with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$736,000 (2017: HK$914,000) lower/higher, arising mainly as a result of lower/higher interest expense on bank loans and other loans.

(f) Categories of financial instruments

	2018	2017
	HK$'000	HK$'000
Financial assets:		
Financial assets at fair value through profit or loss:		
Held for trading	**1,939**	45
Loans and receivables (including cash and cash equivalents)	**214,404**	144,564
Financial liabilities:		
Financial liabilities at amortised cost	**1,482,332**	1,249,541

(g) Fair values

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

8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

(a) Disclosures of level in fair value hierarchy:

At 30 June 2018

	Fair value measurements using:		Total
Description	**Level 1** HK$'000	**Level 3** HK$'000	**2018** **HK$'000**
Recurring fair value measurements:			
Financial assets at fair value through profit or loss			
Listed securities in Hong Kong	1,939	–	**1,939**
Fixed assets			
Properties in Hong Kong	–	11,900	**11,900**
Properties in PRC	–	669,000	**669,000**
Other fixed assets (note)	–	345,321	**345,321**
	–	1,026,221	**1,026,221**
Total recurring fair value measurements	1,939	1,026,221	**1,028,160**

8. FAIR VALUE MEASUREMENTS (Continued)

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

At 30 June 2017

Description	Fair value measurements using: Level 1 HK$'000	Level 3 HK$'000	Total 2017 HK$'000
Recurring fair value measurements:			
Financial assets at fair value through profit or loss			
Listed securities in Hong Kong	45	–	45
Fixed assets			
Properties in Hong Kong	–	12,170	12,170
Properties in PRC	–	726,990	726,990
Other fixed assets (note)	–	407,178	407,178
	–	1,146,338	1,146,338
Total recurring fair value measurements	45	1,146,338	1,146,383

During the year, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3 (2017: Nil).

Note: For the purpose of impairment assessment, the recoverable amount of other fixed assets is fair value less costs of disposal. In the absence of current prices in an active market for similar other fixed assets, the Group considers information by reference to the valuation performed by an independent valuer based on the depreciated replacement cost ("DRC") approach. The DRC approach requires a valuation of the market value of the other fixed assets in its existing use and an estimate of the new replacement cost of the other fixed assets from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimisation.

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

The movements of the properties under Level 3 fair value measurements during the year are presented in note 19 to the consolidated financial statements under the heading of "Buildings". Fair value adjustments on properties are recognised in the line item "deficits on property revaluation" in the consolidated statement of comprehensive income.

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

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

8. FAIR VALUE MEASUREMENTS (Continued)

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

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

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value
					HK$'000
At 30 June 2018					
Fixed assets					
Properties in Hong Kong	Direct comparison	Adjusted market price (HK$/square feet)	HK$36,000/ square feet	Increase	11,900
Properties in PRC	Depreciated replacement cost	Depreciated replacement cost (RMB/square feet) Building/ Structure life	RMB56 – RMB5,293/ square feet 15–40 years	Increase	669,000
At 30 June 2017					
Fixed assets					
Properties in Hong Kong	Direct comparison	Adjusted market price (HK$/square feet)	HK$32,000/ square feet	Increase	12,170
Properties in PRC	Depreciated replacement cost	Depreciated replacement cost (RMB/square feet) Building/ Structure life	RMB60 – RMB7,000/ square feet 15–40 years	Increase	726,990

9. 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 year.

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

10. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Continuing operations:		
Conveyance service income (Note 1)	8,185	17,750
Gain on disposal of prepaid land lease payments	7,085	50,878
Gain on disposal of fixed assets	430	42
Write off of other payables due to deregistration	3,327	3,197
Waiver of loan interest payments	–	3,730
Government grants (Note 2)	3,609	–
Reversal of trade receivables	3,684	17,193
Bank interest income	14	8
Other interest income	1,248	50
Rental income	16,036	88
Sundry income	210	1,884
Reversal of prepayment, deposit and other receivables	6,311	–
Realised gain on financial assets through profit or loss	705	–
	50,844	94,820

10. OTHER INCOME (Continued)

Notes:

1. Conveyance service income represents the income from provision of the service for connecting the transition of steam to corporate customers.

2. Government grants for the year ended 30 June 2018 were received as subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.

11. SEGMENT INFORMATION

The Group has six reportable segments as follows:

Polyvinyl-chloride	—	manufacture and sale of polyvinyl-chloride;
Vinyl acetate	—	manufacture and sale of vinyl acetate;
Heat and power	—	generation and supply of heat and power;
Calcium carbide	—	manufacture and sale of calcium carbide;
Construction services	—	construct and monitor of public facilities construction; and
Vitamin C, glucose and starch	—	manufacture and sale of vitamin C, glucose and starch.

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

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

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

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

11. SEGMENT INFORMATION (Continued)

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

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

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

11. SEGMENT INFORMATION (Continued)

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

	Continuing operations					Discontinued operations	
	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Calcium carbide HK$'000	Sub-total HK$'000	Vitamin C, glucose and starch HK$'000	Total HK$'000
Year ended 30 June 2017							
Revenue from external customers	–	–	134,810	51,300	186,110	–	186,110
Segment profit/(loss)	(7,867)	(9,287)	18,032	(54,760)	(53,882)	192,195	138,313
Interest revenue	–	–	–	2	2	–	2
Interest expense	–	2,462	2,398	5,591	10,451	–	10,451
Depreciation and amortisation	13,296	13,699	11,322	71,561	109,878	433	110,311
Other material items of income and expense:							
Gain on disposal of prepaid land lease payment	–	–	–	50,878	50,878	–	50,878
Income tax credit	4,281	7,236	5,969	3,459	20,945	–	20,945
Other material non-cash items:							
(Reversal of)/allowance for receivables							
– trade receivables	(4,684)	(456)	(333)	(11,720)	(17,193)	–	(17,193)
– other receivables	635	–	13,386	754	14,775	–	14,775
Impairment of fixed assets	–	–	–	15,647	15,647	–	15,647
Additions to segment non-current assets	–	–	89,463	1	89,464	–	89,464
As at 30 June 2017							
Segment assets	222,220	131,583	904,382	1,715,986	2,974,171	–	2,974,171
Segment liabilities	16,898	27,859	165,143	279,634	489,534	–	489,534

11. SEGMENT INFORMATION (Continued)

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

	2018 HK$'000	2017 HK$'000
Profit or loss		
Total profit or (loss) of reportable segments	(113,396)	138,313
Fair value loss on financial assets at fair value through profit or loss	(1,063)	(124)
Corporate administrative expenses	(104,155)	(76,871)
Consolidated (loss)/profit for the year	(218,614)	61,318
Assets		
Total assets of reportable segments	3,005,532	2,974,171
Bank and cash balances	62,240	93,159
Investment in a joint venture	3,614	–
Financial assets at fair value through profit or loss	1,939	45
Corporate assets	103,464	83,429
Consolidated total assets	3,176,789	3,150,804
Liabilities		
Total liabilities of reportable segments	525,389	489,534
Bonds payable	820,458	633,475
Bank loans	97,775	85,626
Other loans	53,339	65,131
Other payables and accruals for general administrative use	2,913	8,754
Consolidated total liabilities	1,499,874	1,282,520

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

12. FINANCE COSTS

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

13. INCOME TAX CREDIT

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

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil).

Tax charge on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC enterprise income tax at a rate of 25% during the year (2017: 25%).

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

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

13. INCOME TAX CREDIT (Continued)

A reconciliation of the tax expense (or credit) applicable to profit/(loss) before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense (or credit) at the effective tax rates are as follows:

	2018 HK$'000	2017 HK$'000
Profit/(Loss) before tax		
Continuing operations	(225,881)	(151,822)
Discontinued operations	–	192,195
	(225,881)	40,373
Tax at the statutory tax rate	(47,102)	1,433
Income not subject to tax	(7,078)	(36,512)
Expenses not deductible for tax	28,038	2,953
Unrecognised temporary differences	–	(16,858)
Tax losses not recognised	30,880	28,604
Utilisation of unrecognised tax losses	(12,005)	(565)
Tax credit at the Group's effective tax rate	(7,267)	(20,945)

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately HK$28,706,000 (2017: HK$25,133,000). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

14. DISCONTINUED OPERATIONS

On 26 December 2016, the Company disposed of its entire equity interest in Better Day Bio-Chem Technology Limited and its subsidiaries ("Better Day Bio-Chem Group"). With effect from completion of the Disposal, the Group ceased to carry on the business of Vitamin C, glucose and starch services.

For the year ended 30 June 2017

Profit/(Loss) from Discontinued Operations

The analysis of the profit/(loss) from the Better Day Bio-Chem Group presented as discontinued operations in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" is as follows:

	2017 HK$'000
Revenue	–
Cost of sales	–
Gross profit	–
Other income	–
Administrative expenses	(2,676)
Other operating expenses	–
Loss before taxation	(2,676)
Taxation	–
Loss for the year	(2,676)
Gain on disposal of discontinued operations	194,871
Profit for the year from discontinued operations	192,195

15. (LOSS)/PROFIT FOR THE YEAR

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

	Continuing operations		Discontinued operations		Total	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Auditor's remuneration	**1,480**	1,320	**–**	–	**1,480**	1,320
(Reversal of)/Allowance for receivables						
– trade receivables	**(3,684)**	(17,193)	**–**	–	**(3,684)**	(17,193)
– other receivables	**(6,311)**	22,797	**–**	–	**(6,311)**	22,797
Amortisation of other intangible assets (included in administrative expenses)	**29,436**	513	**–**	–	**29,436**	513
Cost of inventories sold	**198,785**	152,270	**–**	–	**198,785**	152,270
Depreciation of fixed assets	**109,376**	107,091	**–**	433	**109,376**	107,524
Write off/loss on disposal of fixed assets	**44**	131	**–**	–	**44**	131
Minimum lease payments under operating leases for land and buildings	**9,158**	8,724	**–**	–	**9,158**	8,724
Factory overhead incurred during suspension of production (note)	**60,421**	82,213	**–**	–	**60,421**	82,213
Revaluation deficits on buildings	**15,758**	–	**–**	–	**15,758**	–
Fair value loss on financial assets at fair value through profit or loss	**1,063**	124	**–**	–	**1,063**	124
Staff costs (excluding directors' emoluments):						
Wages, salaries and benefits in kind	**31,313**	22,794	**–**	–	**31,313**	22,794
Employee share option benefits	**10,269**	–	**–**	–	**10,269**	–
Retirement benefits scheme contributions	**7,334**	5,934	**–**	–	**7,334**	5,934

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

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

16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Fees		Basic salaries, housing benefits, other allowances and benefits in kind		Retirement benefits scheme contributions		Share option benefits		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Executive directors										
Ms. Chan Yuk Foebe	**–**	–	**120**	120	**–**	–	**1,494**	–	**1,614**	120
Mr. Yu Defa	**–**	–	**362**	225	**–**	–	**–**	–	**362**	225
Mr. Law Tze Ping Eric	**–**	–	**300**	285	**15**	15	**1,342**	–	**1,657**	300
Independent non-executive directors										
Mr. Ma Wing Yun Bryan	**180**	150	**–**	–	**–**	–	**–**	–	**180**	150
Mr. Tam Ching Ho	**180**	150	**–**	–	**–**	–	**–**	–	**180**	150
Mr. Hau Chi Kit	**180**	150	**–**	–	**–**	–	**–**	–	**180**	150
	540	450	**782**	630	**15**	15	**2,836**	–	**4,173**	1,095

The five highest paid individuals in the Group during the year included 2 (2017: 1) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2017: 4) individuals are set out below:

	2018 HK$'000	2017 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**960**	1,585
Post-employment benefits	**18**	18
Employee share option benefits	**4,330**	–
	5,308	1,603

16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Nil to HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–
	3	4

The Company granted 32,340,000 share options and 43,120,000 share options to employees on 17 July 2017 and 26 July 2017 (2017: Nil). The fair value of share options are HK$4,026,000 and HK$5,975,000, respectively.

No emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in both years.

17. DIVIDEND

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

18. (LOSS)/EARNINGS PER SHARE

(a) From continuing and discontinued operations

Basic loss/earnings per share

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

Diluted loss/earnings per share

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

18. (LOSS)/EARNINGS PER SHARE (Continued)

(b) From continuing operations

Basic loss per share

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

Diluted earnings per share

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

(c) Earnings/loss per share from discontinued operations

Basic earnings/loss per share

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

Diluted earnings per share

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

19. FIXED ASSETS

	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture, office equipment and motor vehicle HK$'000	Pipelines and trench HK$'000	Total HK$'000
Cost or revaluation							
At 1 July 2016	780,519	846,371	2,220,957	4,234	28,989	71,473	3,952,543
Additions	696	27,498	12,757	–	171	48,342	89,464
Disposal/write off	–	–	(149)	–	(1,849)	–	(1,998)
Disposals of subsidiary	(73,233)	(459)	(573,414)	–	(2,308)	–	(649,414)
Revaluation	21,228	–	–	–	–	–	21,228
Exchange differences	9,950	(21,210)	(36,358)	–	(407)	(777)	(48,802)
At 30 June 2017 and 1 July 2017	739,160	852,200	1,623,793	4,234	24,596	119,038	3,363,021
Additions	–	17,197	5,675	–	1,497	720	25,089
Disposal	(798)	–	(1,521)	–	(453)	–	(2,772)
Revaluation	(82,073)	–	–	–	–	–	(82,073)
Transfer	–	(73,159)	38,308	–	–	34,851	–
Additions through acquisition of subsidiary	–	–	–	–	143	–	143
Exchange difference	24,611	26,563	39,052	–	754	3,518	94,498
At 30 June 2018	680,900	822,801	1,705,307	4,234	26,537	158,127	3,397,906
Accumulated depreciation							
At 1 July 2016	–	–	1,222,589	2,786	23,093	24,780	1,273,248
Charge for the year	30,453	–	69,493	408	1,556	5,614	107,524
Disposal/write off	–	–	(62)	–	(1,747)	–	(1,809)
Disposal of subsidiaries	(2,841)	–	(538,549)	–	(2,449)	–	(543,839)
Impairment loss	–	–	15,647	–	–	–	15,647
Write back on revaluation	(25,798)	–	–	–	–	–	(25,798)
Exchange differences	(1,814)	–	(32,384)	–	(262)	(385)	(34,845)
At 30 June 2017 and 1 July 2017	–	–	736,734	3,194	20,191	30,009	790,128
Charge for the year	29,530	–	70,932	358	945	7,611	109,376
Disposal	(427)	–	(1,445)	–	(263)	–	(2,135)
Impairment loss	–	–	4,218	–	–	–	4,218
Write back on revaluation	(30,430)	–	–	–	–	–	(30,430)
Exchange difference	1,327	–	43,448	–	661	998	46,434
At 30 June 2018	–	–	853,887	3,552	21,534	38,618	917,591

19. FIXED ASSETS (Continued)

	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture, office equipment and motor vehicle HK$'000	Pipelines and trench HK$'000	Total HK$'000
Carrying amount							
At 30 June 2018	**680,900**	**822,801**	**851,420**	**682**	**5,003**	**119,509**	**2,480,315**
At 30 June 2017	739,160	852,200	887,059	1,040	4,405	89,029	2,572,893
Analysis of cost or revaluation at 30 June 2018:							
At cost	–	822,801	1,705,307	4,234	26,537	158,127	2,717,006
At revaluation	680,900	–	–	–	–	–	680,900
	680,900	822,801	1,705,307	4,234	26,537	158,127	3,397,906
Analysis of cost or revaluation at 30 June 2017:							
At cost	–	852,200	1,623,793	4,234	24,596	119,038	2,623,861
At revaluation	739,160	–	–	–	–	–	739,160
	739,160	852,200	1,623,793	4,234	24,596	119,038	3,363,021

At 30 June 2018, the carrying amount of certain buildings amounted to approximately HK$352,000,000 (2017: HK$360,000,000) for which relevant legal titles have not yet been obtained. At the date of approval of these consolidated financial statements, the application for obtaining the aforesaid legal titles is still in progress.

At 30 June 2018, the carrying amount of buildings and plant and machinery pledged as security for the Group's bank loans and other loans amounted to approximately of HK$526,230,000 (2017: HK$566,580,000) and HK$697,265,000 (2017: HK$720,099,000), respectively.

At 30 June 2018, the Group's buildings were revalued on the depreciated replacement cost basis/direct comparison approach by Sino-Infinite Appraisal Limited, independent firm of chartered surveyors, at approximately HK$680,900,000 (2017: HK$739,160,000).

19. FIXED ASSETS (Continued)

The carrying amount of the Group's buildings would have been approximately HK$416,511,000 (2017: HK$426,851,000) had they been stated at cost less accumulated depreciation and impairment losses.

During the year ended 30 June 2018, the Group carried out reviews of the recoverable amount of plant and machinery used in the Polyvinylchloride, Vinyl acetate and Calcium carbide segment, having regard to the condition of product lines and the market conditions of the products. The reviews led to the recognition of an impairment loss of approximately HK$4,218,000 (2017: HK$15,647,000) for the year ended 30 June 2018 that has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the depreciated replacement cost basis, details of which has been set out in note 8(c) to the consolidated financial statements.

20. PREPAID LAND LEASE PAYMENTS

	HK$'000
Cost	
As at 1 July 2016	526,274
Disposal	(104,255)
Exchange difference	(4,323)
As at 30 June 2017 and 1 July 2017	417,696
Disposal	(22,859)
Exchange difference	6,513
As at 30 June 2018	401,350
Accumulated amortisation	
As at 1 July 2016	82,265
Charge for the year	7,112
Disposal	(17,671)
Exchange difference	(393)
As at 30 June 2017 and 1 July 2017	71,313
Charge for the year	6,559
Disposal	(3,483)
Exchange difference	1,100
As at 30 June 2018	75,489
Carrying amount	
As at 30 June 2018	325,861
As at 30 June 2017	346,383

20. PREPAID LAND LEASE PAYMENTS (Continued)

The Group's prepaid land lease payments are held under long leases located in Hong Kong and held under medium-term leases located in PRC.

At 30 June 2018, the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans and other loans amounted to approximately HK$246,764,000 (2017: HK$265,113,000).

21. INVESTMENT IN A JOINT VENTURE

Reconciliations of the Group's investment in joint venture accounted for using the equity method are as follows:

	2018 HK$'000	2017 HK$'000
At 1 July	**–**	–
Additions	**3,727**	–
Exchange realignment	**(113)**	–
At 30 June	**3,614**	–

Details of the Group's joint venture:

Name of joint venture	**Principal activity**	**Place of incorporation and principal place of business**	**Proportion of ownership interest/voting right held by the Group**	
			2018	2017
Zhongshan Dongjing Property Consultant Limited* (中山市東鏡房地產顧問有限公司) ("Zhongshan Dongjing")	Property agency service	PRC	**51%**	–

Summarised financial information of the joint venture is set out below. The amounts presented below are after adjustments made to equity-account the joint venture.

* *for identification only*

21. INVESTMENT IN A JOINT VENTURE (Continued)

	2018 **HK$'000**	2017 HK$'000
At 30 June:		
Current assets	**7,330**	–
Current liabilities	**–**	–
Year ended 30 June:		
Revenue	**–**	–
Profit for the year	**–**	–

Commitments

	2018 **HK$'000**	2017 HK$'000
Capital investment to a joint venture	**2,313**	–

The Group and independent third party ("JV investor") entered into an agreement ("JV agreement") for formation of a joint venture company, Zhongshan Dongjing. It is intended that the Zhongshan Dongjing would be held as to 51% by the Group and 49% by JV investor. According to the JV agreement, Zhongshan Dongjing would jointly operating by the Group and JV investor. Sharing of result of Zhongshan Dongjing would be 50% by the Group and 50% by JV investor.

22. INTANGIBLE ASSETS

	Exclusive right HK$'000	Trade name HK$'000	Technical know-how HK$'000	Construction contracts HK$'000	Total HK$'000
Cost					
At 1 July 2016	72,347	33,459	17,861	–	123,667
Exchange difference	–	–	(242)	–	(242)
At 30 June 2017 and 1 July 2017	72,347	33,459	17,619	–	123,425
Acquired in a business combination	–	–	–	38,606	38,606
Exchange difference	–	–	516	(425)	91
At 30 June 2018	72,347	33,459	18,135	38,181	162,122
Accumulated amortisation and Impairment losses					
At 1 July 2016	72,347	33,459	17,248	–	123,054
Amortisation for the year	–	–	513	–	513
Exchange differences	–	–	(228)	–	(228)
At 30 June 2017 and 1 July 2017	72,347	33,459	17,533	–	123,339
Amortisation for the year	–	–	90	29,346	29,436
Exchange differences	–	–	512	(432)	80
At 30 June 2018	72,347	33,459	18,135	28,914	152,855
Carrying amount					
At 30 June 2018	**–**	**–**	**–**	**9,267**	**9,267**
At 30 June 2017	–	–	86	–	86

23. PARTICULARS OF SUBSIDIARIES

Name	Place of incorporation/ registration and operation	Issued and paid up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Dragon Boom Investments Limited	British Virgin Islands ("BVI")	Ordinary US$1	100%	–	Investment holding
Ever Strength Investments Limited	BVI	Ordinary US$1	100%	–	Inactive
Gold Capture Investments Inc.	BVI	Ordinary US$1	100%	–	Investment holding
Prosper Path Limited	BVI	Ordinary US$1	100%	–	Investment holding
Quality Gain Investments Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Better Day Power Ltd.	BVI	Ordinary US$2	100%	–	Investment holding
Master King Group Limited	Hong Kong	Ordinary HK$1	100%	–	Inactive
Daytech Group Limited	BVI	Ordinary US$2	–	100%	Investment holding
Powerful Rise Group Limited	BVI	Ordinary US$1	–	100%	Inactive
Racing Dragon Group Limited ("Racing Dragon")	BVI (Note (a))	Ordinary US$100	–	90%	Investment holding
Mudanjiang Better Day Power Limited ("Mudanjiang BD Power")	PRC (Note (b))	RMB110,000,000	–	100%	Generation and supply of heat and power
Mudanjiang Daytech Chemical Limited ("Mudanjiang Daytech Chemical")	PRC (Note (c))	RMB558,844,178	–	100%	Manufacture and sale of calcium carbide
Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Dongbei Chemical")	PRC (Note (d))	RMB110,910,000	–	63.11%	Manufacture and sale of vinyl acetate
Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. ("Mudanjiang Dongbei Gaoxin")	PRC (Note (e))	HK$230,000,000	–	100%	Manufacture and sale of polyvinyl-chloride
Heihe LongJiang Chemical Limited ("Heihe LongJiang Chemical")	PRC (Note (f))	RMB265,000,000	–	90%	Manufacture and sale of calcium carbide, polyvinyl-chloride and vinyl acetate
Jinyang Municipal	PRC (Note (g))	RMB23,900,000	–	100%	Provision of municipal engineering construction services
China Zenith Construction Materials Limited	Cayman Islands	Ordinary HK$0.01	–	100%	Inactive
STB Company Limited	Hong Kong	Ordinary HK$2	–	100%	Inactive
Success Eagle Investment Limited	Hong Kong	Ordinary HK$1	–	100%	Provision of administrative and consultancy services

Notes:

(a) The Group acquired further equity interests in the subsidiary on 17 June 2016, and the percentage of equity interests attributable to Company increased from 67% to 90%.

(b) Mudanjiang BD Power is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 9 June 2006.

(c) Mudanjiang Daytech Chemical is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 30 December 2006.

(d) Mudanjiang Dongbei Chemical is a Sino-foreign equity joint venture established in the PRC for an operating period of 50 years commencing from the approval date of 27 May 2004.

(e) Mudanjiang Dongbei Gaoxin is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 26 April 2005.

(f) Heihe LongJiang Chemical is a wholly foreign-owned enterprise established in the PRC for an operating period of 20 years commencing from the approval date of 5 June 2008.

(g) Jinyang Municipal is a limited liability company established in the PRC with indefinite operating period.

23. PARTICULARS OF SUBSIDIARIES (Continued)

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

	Mudanjiang Dongbei Chemical		Racing Dragon	
	2018	2017	**2018**	2017
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC	**PRC/BVI**	PRC/BVI
% of ownership interest/voting rights held by NCI	**36.89%**	36.89%	**10%**	10%
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 30 June:				
Non- current assets	**100,834**	132,447	**1,193,383**	1,217,831
Current assets	**299,609**	332,821	**50,656**	532,867
Non- current liabilities	**–**	–	**(221,821)**	(221,821)
Current liabilities	**(81,464)**	(118,468)	**(1,267,802)**	(1,712,948)
Net assets/(liabilities)	**318,979**	346,800	**(245,584)**	(184,071)
Accumulated NCI	**117,671**	127,935	**(24,558)**	(18,407)
Year ended 30 June:				
Revenue	**–**	–	**74,661**	51,300
Loss	**(31,415)**	(16,583)	**(77,005)**	(10,459)
Total comprehensive income	**(27,821)**	(49,455)	**(61,512)**	(21,416)
Loss allocated to NCI	**(11,589)**	(6,117)	**(7,701)**	(1,046)
Total comprehensive income allocated to NCI	**(10,264)**	(18,244)	**(6,151)**	(2,142)
Dividends paid to NCI	**–**	–	**–**	–
Net cash generated from/(used in) operating activities	**(926)**	(19)	**23,336**	(32,330)
Net cash generated from/(used in) investing activities	**–**	–	**(7,869)**	47,220
Net cash generated from/(used in) financing activities	**–**	–	**(35,813)**	17,969
Effect of foreign exchange rate changes	**928**	19	**3,035**	(15,408)
Net increase/(decrease) in cash and cash equivalents	**2**	–	**(17,311)**	17,451

24. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**28,231**	19,914

25. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade Receivables	**168,656**	186,551
Impairment	**(161,908)**	(160,832)
	6,748	25,719

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (2017: 60 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	2018 HK$'000	2017 HK$'000
Within 30 days	**77**	274
31 to 60 days	**6,660**	268
61 to 90 days	**1,975**	2,491
91 to 120 days	**2,992**	2,880
121 to 150 days	**240**	2,806
151 to 180 days	**129**	17,000
181 to 365 days	**–**	2,270
Over 365 days	**156,583**	158,562
At end of year	**168,656**	186,551

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

25. TRADE RECEIVABLES (Continued)

The reconciliation of allowance for trade receivables is as follows:

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

As of 30 June 2018, trade receivables of approximately HK$5,336,000 (2017: HK$25,177,000) were past due but not impaired. These mainly relate to a number of independent customers (2017: a number of independent customers) for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
Up to 90 days	**1,975**	2,491
91 to 180 days	**3,361**	22,686
At end of year	**5,336**	25,177

The Group's trade receivables are denominated in RMB.

26. BANK AND CASH BALANCES

As at 30 June 2018, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$3,089,000 (2017: HK$23,425,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27. SHARE CAPITAL

	2018 **HK$'000**	2017 HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each (Note 2)	**500,000**	500,000
Issued and fully paid:		
1,110,427,319 (2017: 1,078,087,319) ordinary shares of HK$0.10 each	**111,043**	107,809

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2018 and 2017 is as follows:

	No. of ordinary shares issued '000	**Par value** HK$'000
At 1 July 2016	2,874,899	287,490
Issue of shares under Open Offer (Note 1)	718,725	71,872
Issue of bonus shares (Note 1)	718,725	71,873
Share consolidation (Note 2)	(3,234,262)	–
Cancellation of paid-up capital (Note 2)	–	(323,426)
At 30 June 2017 and 1 July 2017	1,078,087	107,809
Exercise of share options (Note 3)	32,340	3,234
At 30 June 2018	1,110,427	111,043

Note 1: On 1 December 2016, 718,724,879 ordinary shares of HK$0.1 each were issued at par by way of an open offer on the basis of one offer share for every four shares held and 718,724,879 ordinary shares of HK$0.1 each were issued as bonus shares for every offer share taken up under the open offer. Of the net proceeds received, an amount of approximately HK$35,000,000 were used to settle the promissory note and the remaining HK$35,560,000 were used as general working capital for the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on that date.

Note 2: On 15 May 2017, the Group implemented the Share Consolidation whereby every four issued and unissued existing shares of HK$0.1 each were consolidated into one shares of HK$0.4 each. Following the Share Consolidation, the issued share capital of the Company was reduced through a cancellation of the paid-up capital of the Company to the extent of HK$0.30 on each of the issued shares such that the par value of each issued share was reduced from HK$0.40 to HK$0.10; and the par value of all shares in the authorised share capital of the Company was reduced from HK$0.40 each to HK$0.10 each resulting in the reduction of authorized share capital of the Company from HK$500,000,000 to HK$125,000,000 divided into 1,250,000,000 shares of par value of HK$0.10 each. Simultaneously, the authorised share capital of the Company was increased from HK$125,000,000 to HK$500,000,000 by creation of 3,750,000,000 shares of HK$0.10 each and such new shares, upon issue, shall rank *pari passu* in all respects with the existing shares of the Company.

Note 3: On 20 July 2017, the subscription rights attaching to 32,340,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$0.31 per share, resulting in the issue of 32,340,000 shares of HK$0.1 each for the total cash consideration of approximately HK$10,025,000 was used for general working capital.

27. SHARE CAPITAL (Continued)

Capital management

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes had been made in the objectives, policies and processes during the two years ended 30 June 2017 and 2018.

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

28. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 20 December 2012 for a period of 10 years. The purpose of the Scheme is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution to the Group. Under the Scheme, the directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares. The offer for a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and in any event not later than 10 years from the date of grant of share options, subject to the provisions for early termination thereof.

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

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

28. SHARE OPTION SCHEME (Continued)

Details of the specific categories of options are as follows:

	Option A	**Option B**
Grant date	17 July 2017	26 July 2017
Vesting period (Note (a))	17 July 2017	26 July 2017
Exercise period	17 July 2017 to 16 July 2020	26 July 2017 to 25 July 2020
Exercise price at date of grant	0.31	0.345
Price of the Company's shares at the date of grant (Note (b))	0.31	0.345

Notes:

(a) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(b) The price of the Company's shares disclosed as at the date of the grant of the share options is the higher of the closing price of the shares of the Company on the date of grant of the share options and the average Stock Exchange closing price for the five business days immediately preceding the date of the grant of the share options.

At 30 June 2018, 64,680,000 share options (2017: 12,980,198 share options) remains outstanding under the Scheme, representing 6% (2017: 1%) of the ordinary shares of the Company in issue at that date. The Scheme allows the Directors of the Company, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable. The share options granted so far by the Company have been imposed with just a service condition. The exercise price is determined by the Directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. HK$1 is payable by each eligible participant to the Company on acceptance of an offer of options, to be paid within 1 month from the date of the offer.

28. SHARE OPTION SCHEME (Continued)

The movement of share options granted and weighted average exercise prices of share options

	Director		Employee	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
		HK$		HK$
Outstanding at 1 July 2016	–	–	80,000,000	0.784
Surrender of the share options by the grantees	–	–	(34,000,000)	0.425
Adjustment upon the completion of open offer	–	–	5,920,792	0.93
Adjustment upon the completion of share consolidation	–	–	(38,940,594)	3.72
Outstanding at 30 June 2017 and 1 July 2017	–	–	12,980,198	3.72
Forfeited during the year	–	–	(12,980,198)	3.72
Granted during the year	21,560,000	0.328	75,460,000	0.33
Exercised during the year	–	–	(32,340,000)	0.31
Outstanding at 30 June 2018	21,560,000	0.328	43,120,000	0.345

The share options outstanding at 30 June 2018 have exercise prices ranging from HK$0.31 to HK$0.345 per option (2017: HK$3.72 per option) and a weighted average remaining contractual life of 2.06 years (2017: 0.86 years).

28. SHARE OPTION SCHEME (Continued)

For share options granted during the year ended 30 June 2018 (2017: Nil), the share options were measured at fair value at grant date with reference to a valuation report prepared by Sino-Infinite Appraisal Limited, calculated using Black-Scholes Pricing Model with the following key assumptions:

	2018	
	Option A	**Option B**
Share price	0.31	0.345
Exercise price	0.31	0.345
Expected volatility (note below)	85%	85%
Expected options life	3 years	3 years
Expected dividends	0%	0%
Risk-free interest rate (per annum)	0.907%	0.934%
Fair value of a share option at grant date	0.124	0.139

Note: The expected volatility is based on the historic volatility based on data available for the past 1.5 years. Changes in the subjective input assumptions could materially affect the fair value estimates.

The total expense recognised in profit or loss for the current year in respect of the Scheme amounted to HK$12,837,000 (2017: HK$Nil).

Share options were granted with a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

29. STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVE OF THE COMPANY

(a) Statement of financial position of the Company

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Investment in subsidiaries	23	**45,341**	8,742
Current assets			
Due from subsidiaries		**1,266,798**	1,160,839
Other receivables		**11,364**	13,540
Bank and cash balances		**28,238**	42,097
		1,306,400	1,216,476
TOTAL ASSETS		**1,351,741**	1,225,218
Capital and reserves			
Share capital	27	**111,043**	107,809
Reserves	29(b)	**149,570**	255,719
Total equity		**260,613**	363,528
Non-current liabilities			
Bonds payable		**820,458**	633,475
Current liabilities			
Due to subsidiaries		**267,779**	219,484
Other payables and accruals		**2,891**	8,731
		270,670	228,215
Total liabilities		**1,091,128**	861,690
TOTAL EQUITY AND LIABILITIES		**1,351,741**	1,225,218
Net current assets		**1,035,730**	988,261
Total assets less current liabilities		**1,081,071**	997,003

Approved and authorised for issued by the board of directors on 27 September 2018.

Chan Yuk Foebe
Chairman

Law Tze Ping Eric
Executive Director

29. STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVE OF THE COMPANY (Continued)

(b) Reserves movement of the Company

	Share premium account HK$'000	Share option reserve HK$'000	(Accumulated losses)/ Retained profits HK$'000	Total HK$'000
At 1 July 2016	1,837,370	13,614	(1,712,074)	138,910
Loss for the year	–	–	(133,432)	(133,432)
Issue of shares on open offer	(1,312)	–	–	(1,312)
Issue of bonus share	(71,873)	–	–	(71,873)
Cancellation of paid-up capital	–	–	323,426	323,426
Capital reorganisation	(1,764,185)	–	1,764,185	–
Cancellation of share options	–	(2,892)	2,892	–
At 30 June 2017 and 1 July 2017	–	10,722	244,997	255,719
Loss for the year	–	–	(125,777)	(125,777)
Cancellation of share options	–	(10,722)	10,722	–
Employee share option benefits	–	12,837	–	12,837
Exercise of share option	–	(4,026)	10,817	6,791
At 30 June 2018	–	8,811	140,759	149,570

30. RESERVES

(a) Group

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

(b) Nature and purpose of reserves of the Group

(i) Share premium account

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

(ii) Fixed asset revaluation reserve

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

(iii) Share option reserve

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

(iv) Exchange reserve

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

31. DEFERRED TAX

The movement in deferred tax liabilities account is as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	**(17,017)**	(15,006)
Credit to profit or loss (Note 13)	**7,336**	20,945
Charge to equity	**2,656**	(22,389)
Acquired in a business combination	**(9,652)**	–
Exchange differences	**(865)**	(567)
At end of year	**(17,542)**	(17,017)

31. DEFERRED TAX (Continued)

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

Deferred tax	Accelerated tax depreciation HK$'000	Other temporary differences HK$'000	Revaluation of buildings HK$'000	Total HK$'000
At 1 July 2016	65,270	45,957	(126,233)	(15,006)
(Charge)/Credit to profit or loss	21,742	4,160	(4,957)	20,945
Charge to equity	–	–	(22,389)	(22,389)
Disposal of subsidiaries	(22,886)	(19,212)	42,098	–
Exchange differences	(97)	(27)	(443)	(567)
At 30 June 2017 and 1 July 2017	64,029	30,878	(111,924)	(17,017)
Credit to profit or loss	7,336	–	–	7,336
Charge to equity	–	–	2,656	2,656
Acquired in a business combination	(9,652)	–	–	(9,652)
Exchange differences	1,875	904	(3,644)	(865)
At 30 June 2018	63,588	31,782	(112,912)	(17,542)

Other temporary differences on deferred tax liabilities represent the tax effect on allowance of account and other receivables.

32. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (2017: 30 to 120 days) from its suppliers. The ageing analysis of trade payables, based on the date of receipt of goods, is as follow:

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

The Group's trade payables are denominated in RMB.

33. OTHER LOANS

A loan of the Group of approximately HK$23,706,000 (2017: HK$23,032,000) granted from an independent third party is interest bearing at 12% p.a. (2017: 12% p.a.), secured by the pledge of the Group's fixed assets and prepaid land lease payments and is repayable on demand.

At 30 June 2018, a loan of approximately HK$29,633,000 (2017: HK$28,790,000) is interest bearing at 4.35% p.a. (2017: 4.35% p.a.), secured by the pledge of the Group's fixed assets and prepaid land lease payments and is repayable within one year.

At 30 June 2017, a loan of approximately HK$13,309,000 is interest bearing at 3.6% p.a., unsecured and is repayable on demand.

34. BANK LOANS

The Group's bank loans are repayable as follows:

	2018 HK$'000	2017 HK$'000
Term loans subject to a repayment on demand clause	**35,559**	39,039
Within one year	**37,957**	2,500
In the second year	**2,606**	19,827
In the third to fifth years inclusive	**8,158**	7,988
After five years	**13,495**	16,272
	97,775	85,626
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(73,516)**	(41,539)
	24,259	44,087

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

	2018 HK$'000	2017 HK$'000
Hong Kong dollars	**26,812**	29,313
RMB	**70,963**	56,313
	97,775	85,626

At 30 June 2018, bank loans were arranged at floating rates ranging from 2.10% to 8.50% p.a. (2017: 2.10% to 8.50% p.a.), thus exposed the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets, land held under finance leases and prepaid land lease payments.

35. BONDS PAYABLE

The movement of the bonds payable is as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	633,475	416,960
Issuance of bonds	126,548	147,879
Interest charge for the year	69,722	68,636
Interest paid for the year	(9,287)	–
At the end of year	820,458	633,475

During the year, the Group and the Company issued fixed rate corporate bonds with total principal amount of approximately HK$1,084,900,000 (2017: HK$739,950,000).

As at 30 June 2018, the Group's total outstanding bonds were repayable as follows:

	2018 HK$'000	2017 HK$'000
In the second to fifth years inclusive	549,311	472,241
After five years	887,607	457,117
	1,436,918	929,358

The bonds payables are unsecured and interest bearing at coupon rates ranging from 3% to 12%.

The bonds payable are measured at amortised cost, using the effective interest method, and the effective rates are ranging from 3% to 18.92% p.a. (2017: 3% to 18.92% p.a.) after taking into account the transaction costs directly attributable to the issuance of the bonds.

36. BUSINESS COMBINATION

Business combination that took place in the year

On 7 January 2018, a subsidiary of the Company acquired 100% voting equity interest in Jinyang Municipal, at consideration of RMB64,000,000 (equivalent to approximately HK$76,704,000), in order to continue the Group's expansion of the "Construction services" operation. The acquisition has been treated as a business combination. The details are as follows:

	Principal activity of the acquiree	**The Group's equity interest and voting power acquired**
Jinyang Municipal	Provision of municipal engineering construction service	100%

Consideration transferred

	HK$'000
Cash paid during the year	24,794

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

	HK$'000
Property, plant and equipment	143
Intangible assets	38,606
Inventories	12,327
Accounts receivable	352
Prepayments, deposits and other receivables	329,922
Bank and Cash Balances	605
Accounts payable	(156)
Other payables and accruals	(171,970)
Tax payable	(102)
Short-term bank loan	(95,880)
Deferred tax	(9,652)
Net assets acquired	104,195

36. BUSINESS COMBINATION (Continued)

Gain on bargaining purchase arising on acquisition

	HK$'000
Consideration	76,704
Less: Identifiable net assets acquired	(104,195)
Gain on bargaining purchase	(27,491)

Net cash flow effect arising from the acquisition

	HK$'000
Cash consideration paid	(24,794)
Cash and cash equivalents acquired	605
Net cash outflow	(24,189)

Performance of the acquiree from the date of acquisition up to the end of the reporting period

Included in the Group's profit for the year was HK$16,013,000 generated by Jinyang Municipal since the date of acquisition. The Group's revenue for the year included HK$108,009,000 generated by Jinyang Municipal since the date of acquisition.

Had the business combination been effected on 1 July 2017, the revenue of the Group from continuing operations would have been HK$445,865,000, and the loss for the year from continuing operations would have been HK$205,607,000. These amounts have been determined based on the following assumptions:

— the annual depreciation of property, plant and equipment was determined based on the fair value of the property, plant and equipment at the date of acquisition; and

— the annual amortisation of intangible assets was determined based on the fair value at the date of acquisition.

Management of the Group considers that these 'pro-forma' numbers are just for reference only which the acquiree may or may not achieve these results in the future.

37. DISPOSAL OF SUBSIDIARIES

On 26 December 2016, the Group completed the disposal of the entire issued capital of Better Day Bio-Chem Technology Limited for a cash consideration RMB192,000,000 (equivalent to approximately HK$ 222,720,000).

	HK$'000
Property, plant and equipment	105,575
Prepaid land lease payments	25,374
Prepayment, deposit and other receivables	4,318
Cash and cash equivalents	7
Other payable and accruals	(90,487)
Net assets disposed	44,787
Consideration satisfied by cash	(222,720)
Written back of exchange reserve recognised	(16,938)
Gain on disposal	(194,871)
Analysis of the net inflow of cash and cash equivalents:	
Total cash consideration	222,720
Cash and cash equivalents disposed	(7)
Net cash inflow	222,713

38. CONTINGENT LIABILITIES

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

Mudanjiang BD Power had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of Mudanjiang BD Power (the "Contract"). Owing to the alleged delay in the progress of the construction, the Plaintiff claimed (i) the payment of the contract sum in the amount of approximately RMB42,700,000 and the interest thereof; (ii) the grant of the first priority right to receive payment from Mudanjiang BD Power in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13,300,000 for alleged termination of the Contract; and (iv) the legal fees arising from this legal case. The Company has been seeking legal advice in respect of the Writ on the dispute in the payment for the Contract since December 2012. According to 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.

38. CONTINGENT LIABILITIES (Continued)

(a) (Continued)

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

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

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

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

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

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

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

39. CAPITAL COMMITMENTS

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

	2018 **HK$'000**	2017 HK$'000
Contracted but not provided for		
Buildings and construction in progress	**593,461**	576,670
Capital investment in joint venture	**2,313**	–
	595,774	576,670

The Company did not have any capital commitments as at 30 June 2018 (2017: Nil).

40. LEASE COMMITMENTS

At 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**2,424**	2,424
In the second to fifth years inclusive	**1,414**	3,759
	3,838	6,183

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for a lease term of 3 years (2017: 3 years) and rentals are fixed over the lease terms and do not include contingent rentals.

The Company did not have any operating lease arrangements as at 30 June 2018 (2017: Nil).

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

The payable for business combination of HK$51,910,000 was outstanding as at 30 June 2018.

The proceeds from disposal of prepaid land lease payments of HK$25,080,000 were settled with the other payable of HK$25,080,000.

42. RELATED PARTY TRANSACTIONS

Except as disclosed in Note 16 to the financial statements, the Group did not have any related party transaction during the years ended 30 June 2017 and 2018.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2018	2017
	HK$'000	HK$'000
Short-term employee benefits	**2,070**	1,820
Post-employment benefits	**33**	15
Employee share option benefits	**5,672**	–
	7,775	1,835

43. EVENTS AFTER THE REPORTING PERIOD

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

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

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

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 September 2018.