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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 362)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Loss to owners of the Company: HK$422 million (2015: 249 million).
- Implementation of one-off impairment for the Group's assets. Excluding the impairment of goodwill and impairment of fixed assets of HK$38 million and HK$222 million, respectively, the underlying loss for the Reporting Period was HK$248 million, which showed an improvement as compared with the loss of HK$298 million in 2015.
- Gradual improvement in operating cash flow since the year 2013.
- Record of profit from Heat and Power Segment since the year 2013.
- An important milestone in 2016 that the Company targets to extend the heat supplying area from 1,400,000 square meters to 3,500,000 square meters in the year 2017.

RESULTS

The Board of Directors ("Board" or "Directors") of China Zenith Chemical Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2016 together with the comparative figures for the previous year as follows:

Consolidated Income Statement
for the year ended 30 June 2016

	Note	**2016** *HK$'000*	2015 *HK$'000*
Revenue	*4*	**68,300**	62,911
Cost of sales		**(47,203)**	(60,671)
Gross profit		**21,097**	2,240
Other income	*5*	**47,088**	24,772
Selling and distribution costs		**(12,553)**	(9,011)
Administrative expenses		**(92,053)**	(109,076)
Other operating expenses		**(147,706)**	(187,585)
Impairment of goodwill		**(37,904)**	—
Impairment of fixed assets		**(222,000)**	—
Loss from operations		**(444,031)**	(278,660)
Finance costs	*7*	**(68,945)**	(48,019)
Loss before tax		**(512,976)**	(326,679)
Income tax credit	*8*	**4,580**	28,418
Loss for the year	*9*	**(508,396)**	(298,261)
Attributable to:			
Owners of the Company		**(421,647)**	(248,517)
Non-controlling interests		**(86,749)**	(49,744)
		(508,396)	(298,261)
Loss per share			
— Basic	*11*	**(HK17.39 cents)**	(HK10.64 cents)
— Diluted		**N/A**	N/A

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2016

	2016	2015
	HK$'000	*HK$'000*
Loss for the year	**(508,396)**	(298,261)
Other comprehensive income after tax:		
Item that will not be reclassified to profit or loss:		
Gains on property revaluation	**55,613**	16,121
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(21,772)**	5,282
Other comprehensive income for the year, net of tax	**33,841**	21,403
Total comprehensive income for the year	**(474,555)**	(276,858)
Attributable to:		
Owners of the Company	**(401,535)**	(232,041)
Non-controlling interests	**(73,020)**	(44,817)
	(474,555)	(276,858)

Consolidated Statement of Financial Position
at 30 June 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Fixed assets		**2,679,295**	2,845,586
Land held under finance leases		**65,768**	66,451
Prepaid land lease payments		**378,241**	401,658
Goodwill		**—**	37,904
Other intangible assets		**613**	1,555
		3,123,917	3,353,154
Current assets			
Inventories		**48,918**	33,608
Trade receivables	*12*	**8,417**	5,965
Other loan receivables		**—**	700
Prepayments, deposits and other receivables		**74,811**	79,394
Financial assets at fair value through profit or loss		**169**	403
Bank and cash balances		**39,297**	41,376
		171,612	161,446
TOTAL ASSETS		**3,295,529**	3,514,600
Capital and reserves			
Share capital	*14*	**287,490**	238,290
Reserves		**1,405,854**	1,888,540
Equity attributable to owners of the Company		**1,693,344**	2,126,830
Non-controlling interests		**129,914**	164,033
Total equity		**1,823,258**	2,290,863

	Note	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Bank loans		**29,358**	31,761
Bonds payable		**416,960**	291,437
Deferred tax liabilities		**15,006**	17,539
		461,324	340,737
Current liabilities			
Trade payables	*13*	**72,906**	79,543
Bond interest payable		**9,219**	6,749
Other payables and accruals		**828,481**	586,089
Other loans		**46,579**	49,843
Due to a non-controlling shareholder of a subsidiary		**—**	43,453
Bank loans		**53,762**	117,323
		1,010,947	883,000
Total liabilities		**1,472,271**	1,223,737
TOTAL EQUITY AND LIABILITIES		**3,295,529**	3,514,600
Net current liabilities		**(839,335)**	(721,554)
Total assets less current liabilities		**2,284,582**	2,631,600

Notes:

1. BASIS OF PREPARATION

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

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

2. GOING CONCERN BASIS

The Group incurred a loss of approximately HK$508,396,000 for the year ended 30 June 2016 and as at 30 June 2016 the Group had net current liabilities of approximately HK$839,335,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In preparing the consolidated financial statements, the directors have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to achieve profitable and positive cash flows from operations in immediate and long terms. The directors have prepared cash flow forecasts for the period up to December 2017 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:

— On 15 July 2016, the Company entered into a sales and purchase agreement with an independent third party to dispose the entire equity interests of Better Day Bio-Chem Technology Limited, which in turn directly and indirectly holds the entire equity interest in Mudanjiang Gaoke Bio-Chem Co. Ltd. (the "Disposal"). The consideration for the Disposal is approximately HK$222,720,000.

— On 15 August 2016, the Company proposed to carry out the Open Offer, which involves the allotment and issue of 718,724,879 Offer Shares at a price of HK$0.10 per Offer Share. The gross proceeds of the Open Offer will be approximately HK$71,900,000.

— Heihe Longjiang Chemical Co. Ltd is currently on trial run and fine-tuning the plant and machinery with an aim to resume full production in the future.

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

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

(a) Amendments to HKFRSs and the new Interpretations that are mandatorily effective for the current year

The Group has applied the following new and revised HKFRSs issued by the HKICPA that are relevant for the preparation of the consolidated financial statements for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle
Amendments to HKAS 19 (2011)	Defined benefit plans: Employee contributions

The application of these new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Annual Improvement to HKFRSs 2010–2012 Cycle

The Annual Improvements to HKFRSs 2010–2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived in consistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel service to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The application of these amendments does not have a material effect on the Group's consolidated financial statements.

Annual Improvement to HKFRSs 2011–2013 Cycle

The Annual Improvements to HKFRSs 2011–2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of business combination under HKFRS 3.

The application of these amendments does not have a material effect on the Group's consolidated financial statements.

Amendments to HKAS 19 (2011) Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 (2011) clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The application of these amendments to HKAS 19 (2011) does not have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

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

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

HKFRSs (Amendments)	Improvements 2012–2014 Cycle[3]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKFRS 11	Accounting for acquisition of Interests in Joint operations[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[3]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between on Investors and its Associate or Joint Venture[4]
Amendments to HKAS 27	Equity method in Separate Financial Statements[3]
HKFRS 9 (2014)	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers[1]
HKFRS 16	Leases[2]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidated exception[3]

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 2016.

4 Effective for annual period 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 revision version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a "fair value through profit or loss and other comprehensive income" measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are with in 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.

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

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

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

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

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

HKFRS 16 Leases

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

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

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

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

4. REVENUE

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

5. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Government grants *(note)*	**42,798**	21,914
Bank interest income	**12**	24
Other interest income	**27**	442
Fair value gain on financial assets at fair value through profit or loss	**—**	256
Gain on disposal of financial assets at fair value through profit or loss	**—**	1,273
Rental income	**121**	230
Sundry income	**4,130**	633
	47,088	24,772

Note: Government grants for the years ended 30 June 2016 and 2015 were received as incentive for capital expenditure and subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.

6. SEGMENT INFORMATION

The Group has five reportable segments as follows:

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

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

Segment profits or losses do not include fair value gain/(loss) on financial assets at fair value through profit or loss, gain on disposal of financial assets at fair value through profit or loss, impairment of goodwill and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, other loan receivables, 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, amount due to a non-controlling shareholder of a subsidiary and other payables and accruals for general administrative use.

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

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

	Polyvinyl-chloride *HK$'000*	Vinyl acetate *HK$'000*	Heat and power *HK$'000*	Vitamin C, glucose and starch *HK$'000*	Calcium carbide *HK$'000*	Total *HK$'000*
Year ended 30 June 2016						
Revenue from external customers	**—**	**—**	**68,300**	**—**	**—**	**68,300**
Segment profit/(loss)	**(65,764)**	**(117,734)**	**4,379**	**(14,177)**	**(224,519)**	**(417,815)**
Interest revenue	**3**	**—**	**—**	**—**	**6**	**9**
Interest expense	**—**	**2,601**	**6,411**	**—**	**7,980**	**16,992**
Depreciation and amortisation	**13,171**	**12,742**	**11,151**	**11,398**	**66,618**	**115,080**
Other material items of income and expense:						
Government grants	**—**	**—**	**41,352**	**1,205**	**241**	**42,798**
Income tax credit	**—**	**—**	**—**	**—**	**4,580**	**4,580**
Other material non-cash items:						
(Reversal of)/allowance for receivables						
— trade receivables	**(117)**	**—**	**5,181**	**—**	**—**	**5,064**
— other receivables	**188**	**—**	**2,611**	**—**	**34,101**	**36,900**
Impairment of fixed assets	**47,000**	**99,000**	**—**	**—**	**76,000**	**222,000**
Additions to segment non-current assets	**842**	**—**	**299,405**	**—**	**2,979**	**303,226**
As at 30 June 2016						
Segment assets	**206,970**	**126,030**	**721,683**	**164,790**	**1,950,850**	**3,170,323**
Segment liabilities	**16,359**	**9,447**	**328,245**	**112,834**	**395,939**	**862,824**

	Polyvinyl-chloride *HK$'000*	Vinyl acetate *HK$'000*	Heat and power *HK$'000*	Vitamin C, glucose and starch *HK$'000*	Calcium carbide *HK$'000*	Total *HK$'000*
Year ended 30 June 2015						
Revenue from external customers	—	—	62,911	—	—	62,911
Segment loss	(22,658)	(20,205)	(19,870)	(21,210)	(163,118)	(247,061)
Interest revenue	—	—	—	—	9	9
Interest expense	—	2,705	4,464	—	13,353	20,522
Depreciation and amortisation	15,597	13,885	9,777	11,858	75,485	126,602
Other material items of income and expense:						
Government grants	—	—	20,411	1,252	251	21,914
Income tax expense/(credit)	(57)	—	35	—	(28,396)	(28,418)
Other material non-cash items:						
(Reversal of)/allowance for receivables						
— trade receivables	(286)	—	(1,868)	—	70,366	68,212
— other receivables	1,414	(63)	1,154	—	(402)	2,103
Additions to segment non-current assets	—	—	73,807	—	21,941	95,748
As at 30 June 2015						
Segment assets	291,599	270,732	464,263	206,706	2,124,214	3,357,514
Segment liabilities	20,042	39,797	154,611	122,637	335,662	672,749

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

	2016	2015
	HK$'000	*HK$'000*
Profit or loss		
Total profit or loss of reportable segments	**(417,815)**	(247,061)
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(234)**	256
Gain on disposal of financial assets at fair value through profit or loss	**—**	1,273
Impairment of goodwill	**(37,904)**	—
Corporate administrative expenses	**(52,433)**	(52,729)
Consolidated loss for the year	**(508,396)**	(298,261)
Assets		
Total assets of reportable segments	**3,170,323**	3,357,514
Goodwill	**—**	37,904
Bank and cash balances	**39,297**	41,376
Financial assets at fair value through profit or loss	**169**	403
Other loan receivables	**—**	700
Corporate assets	**85,740**	76,703
Consolidated total assets	**3,295,529**	3,514,600
Liabilities		
Total liabilities of reportable segments	**862,824**	672,749
Bonds payable	**416,960**	291,437
Bond interest payable	**9,219**	6,749
Bank loans	**83,120**	149,084
Other loans	**46,579**	49,843
Due to a non-controlling shareholder of a subsidiary	**—**	43,453
Other payables and accruals for general administrative use	**53,569**	10,422
Consolidated total liabilities	**1,472,271**	1,223,737

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

7. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on bank loans	**8,670**	16,802
Interest on other loans — wholly repayable within five years	**9,012**	3,534
Interest on bonds payable — not wholly repayable in five years	**51,263**	26,753
Interest on trade payables	**—**	930
Total borrowing costs	**68,945**	48,019

8. INCOME TAX CREDIT

	2016	2015
	HK$'000	*HK$'000*
Deferred tax credit	**(4,580)**	(28,418)

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 (2015: 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 (2015: 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.

A reconciliation of the tax expense applicable to loss before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

For the year ended 30 June 2016

	Hong Kong		**The PRC**		**Total**	
	HK$'000	***%***	***HK$'000***	***%***	***HK$'000***	***%***
Loss before tax	**(53,911)**		**(459,065)**		**(512,976)**	
Tax at the statutory tax rate	**(8,895)**	**(16.5)**	**(114,766)**	**(25.0)**	**(123,661)**	**(24.1)**
Expenses not deductible for tax	**1,899**	**3.5**	**—**	**—**	**1,899**	**0.4**
Unrecognised temporary differences	**217**	**0.4**	**19,945**	**4.3**	**20,162**	**3.9**
Tax losses not recognised	**6,779**	**12.6**	**92,566**	**20.2**	**99,345**	**19.4**
Utilisation of unrecognised tax losses	**—**	**—**	**(2,325)**	**(0.5)**	**(2,325)**	**(0.4)**
Tax credit at the Group's effective tax rate	**—**	**—**	**(4,580)**	**(1.0)**	**(4,580)**	**(0.8)**

For the year ended 30 June 2015

	Hong Kong		The PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before tax	(72,592)		(254,087)		(326,679)	
Tax at the statutory tax rate	(11,978)	(16.5)	(63,522)	(25.0)	(75,500)	(23.1)
Income tax exempted	(1)	—	—	—	(1)	—
Expenses not deductible for tax	784	1.1	87	0.1	871	0.3
Unrecognised temporary differences	191	0.2	4,395	1.7	4,586	1.4
Tax losses not recognised	11,004	15.2	33,084	13.0	44,088	13.5
Utilisation of unrecognised tax losses	—	—	(2,462)	(1.0)	(2,462)	(0.8)
Tax credit at the Group's effective tax rate	—	—	(28,418)	(11.2)	(28,418)	(8.7)

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$45,791,000 (2015: HK$47,982,000). 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.

9. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2016	2015
	HK$'000	*HK$'000*
Auditor's remuneration	**1,200**	1,400
Allowance for receivables		
— trade receivables	**5,064**	68,212
— other receivables	**37,786**	2,103
Amortisation of other intangible assets (included in administrative expenses)	**534**	1,916
Cost of inventories sold	**47,203**	60,671
Depreciation of fixed assets	**116,312**	117,171
Write off/loss on disposal of fixed assets	**133**	601
Minimum lease payments under operating leases for land and buildings	**11,582**	11,007
Factory overhead incurred during suspension of production (note)	**106,944**	106,378
Revaluation deficits on buildings	**—**	2,058
Fair value loss on financial assets at fair value through profit or loss	**234**	—
Staff costs (excluding directors' emoluments):		
Wages, salaries and benefits in kind	**14,474**	31,495
Employee share option benefits	**—**	16,083
Retirement benefits scheme contributions	**5,204**	3,048

Cost of inventories sold includes staff costs and depreciation of approximately HK$7,925,576 (2015: HK$8,745,000) and HK$4,985,000 (2015: HK$5,110,000) respectively, which are included in the amounts disclosed separately above.

Note: During the years ended 30 June 2015 and 2016, factory overhead was incurred during the temporary suspension of the production line of Polyvinyl-chloride segment, Vinyl acetate segment, Calcium carbide segment and Vitamin C, glucose and starch segment due to a substantial decrease in profit margin.

10. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2016 (2015: Nil).

11. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$421,647,000 (2015: HK$248,517,000) and the weighted average number of ordinary shares of 2,425,211,848 (2015: 2,335,631,026) in issue during the year.

Diluted loss per share

The exercise of the Group's outstanding share options for the years ended 30 June 2015 and 2016 would be anti-dilutive, therefore no diluted loss per share information is presented for the years ended 30 June 2015 and 2016.

12. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (2015: 60 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**56**	—
31 to 60 days	**1,044**	70
61 to 90 days	**484**	4,894
91 to 120 days	**2,453**	561
121 to 150 days	**839**	233
151 to 180 days	**3,541**	207
	8,417	5,965

As at 30 June 2016, an allowance of approximately HK$230,894,000 (2015: HK$232,581,000) was made for estimated irrecoverable trade receivables.

The reconciliation of allowance for trade receivables is as follows:

	2016	2015
	HK$'000	*HK$'000*
At beginning of year	**232,581**	164,375
Allowance made for the year	**5,064**	68,212
Exchange differences	**(6,751)**	(6)
At end of year	**230,894**	232,581

As of 30 June 2016, trade receivables of approximately HK$7,317,000 (2015: HK$5,895,000) were past due but not impaired. These mainly relate to an independent customer for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016	2015
	HK$'000	*HK$'000*
Up to 90 days	**484**	4,894
91 to 180 days	**6,833**	1,001
	7,317	5,895

The Group's trade receivables are denominated in RMB.

13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (2015: 30 to 120 days) from its suppliers.

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

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**9,674**	6,305
31 to 60 days	**10,881**	4,353
61 to 90 days	**413**	2,661
91 to 120 days	**282**	45
121 to 365 days	**31,805**	19,967
Over 365 days	**19,851**	46,212
	72,906	79,543

The Group's trade payables are denominated in RMB.

14. SHARE CAPITAL

	2016	2015
	HK$'000	*HK$'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
2,874,899,519 (2015: 2,382,899,519) ordinary shares of HK$0.10 each	**287,490**	238,290

	Number of ordinary shares issued	**Par value**
	'000	*HK$'000*
At 1 July 2014	2,324,899	232,490
Exercise of the share options	58,000	5,800
At 30 June 2015 and 1 July 2015	2,382,899	238,290
Placement of new shares	138,000	13,800
Issue of shares for acquisition of non-controlling interest	354,000	35,400
At 30 June 2016	2,874,899	287,490

15. CONTINGENT LIABILITIES

(a) On 19 November 2012, China Electricity Construction Consultant Group Dongbei Electricity Design College (translated from the Chinese name of 中國電力工程顧問集團東北電力設計院) (the "Plaintiff") filed a writ (the "Writ") at the high court of Heilongjiang Province in the PRC 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 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. To handle the claim from the Plaintiff, the local management has appointed an independent professional valuer to ascertain both the percentage of completion of the subject construction project and the quality of the construction work done in respect of the subject Contract at the moment. Thereafter, management is expected to have sufficient information to deal with the claims from the Plaintiff and will not rule out the possibility of filing a counterclaim. Management believes that sufficient provision for this legal claim was made at this stage.

(b) On 19 July 2013, the Company received a writ of summons in relation to an alleged exercise of unlisted warrants related to issuing of 20,000,000 shares of the Company by Mr. Ko Kin Hang (the "Claims"), a subscriber and holder of the unlisted warrants. The exercise money of the subject unlisted warrants amounted to approximately HK$3,800,000. By a consent order dated 7 April 2014, the proceeding was stayed and the Company is entitled to withhold the issue and allotment of shares until further order.

The Company is currently seeking legal advice in relation thereto. Further announcement will be made by the Company in compliance with the Listing Rules as and when appropriate. The directors consider that the Claims do not have any material adverse effect on the operation or financial position of the Group.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by Elite Partners CPA Limited, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 30 June 2016:

Basis for Qualified Opinion

Opening balances, corresponding figures and comparative financial statements

The corresponding figures and comparative financial statements in the current year's financial statements were derived from the financial statements for the year ended 30 June 2015 which contained a disclaimer of audit opinion, details of the qualifications were set out in the auditor's report dated 30 September 2015. We have not been able to obtain sufficient appropriate audit evidence as to whether (i) the opening balances, (ii) the corresponding figures and comparative financial statements were properly recorded and accounted for.

Any adjustments that might have been found to be necessary would have had a consequential impact on the net assets of the Group as at 30 June 2016, results of the Group for the year ended 30 June 2016 and the related disclosures thereof in the financial statements.

Qualified Opinion

In our opinion, except for the effects of the possible effects on the opening balances, corresponding figures and comparative financial statements, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2016 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of Matter

We draw attention to note 2 to the consolidated financial statements which indicates that the Group has net current liabilities of approximately HK$839,335,000 as at 30 June 2016. These conditions, along with other matters as set out in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The loss attributable to shareholders was mainly derived from the idle operating cost incurred which mainly comprised of depreciation and amortisation during the suspension of coal-related operation.

For the year ended 30 June 2016, revenue of the Group amounted to approximately HK$68 million, representing an increase of 9% compared with that of the financial year ended 30 June 2015. Loss attributable to owners of the Company amounted to approximately HK$422 million, representing an increase of approximately 70% compared with that of the last financial year.

During the financial year under review (the "Year"), the increase in the Group's revenue was primarily attributed by the increase in sales volume of our heat and power products.

The Group's selling and distribution costs for the Year was approximately HK$13 million, representing an increase of approximately 39% when compared with that of the last financial year. The increase in selling and distribution costs was resulted from the increase in the heat supplying areas during the Year.

The Group's administrative expenses for the Year was approximately HK$92 million, representing a decrease of approximately 16% when compared with that of the last financial year. The decrease resulted from effective administrative cost control of the Group.

Excluding the effect of factory overhead during the suspension of the production of coal-related chemical and bio-chemical products which amounted to approximately HK$101 million, the Group's other operating expenses for the year ended 30 June 2016 was approximately HK$47 million, representing an decrease of HK$54 million when compared with that of the last financial year. (Excluding the effect of factory overhead during the suspension of the production of coal-related chemical and bio-chemical products which amounted to approximately HK$107 million, the Group's other operating expenses for the year ended 30 June 2015 was approximately HK$81 million.).

Due to the continuous downcast of the coal-related business, the Group appointed an independent professional valuer to assess the market value of the Group's fixed assets. During the year, the Group recorded an impairment of goodwill and an impairment of fixed assets of HK$38 million and HK$222 million respectively, which was derived from the difference between the carrying amount less fair value of the assets.

Heat and power division

During the Year, the heat and power segment recorded a revenue of HK$68 million from external customers. The residential income for the Year was approximately HK$48 million, representing an increase of approximately 11% when compared with that of the last financial year. The increase was resulted from the increase of the supplying heat residential areas from 1,300,000 square meters to 1,400,000 square meters. Segment profit of approximately HK$4 million was attained compared with a segment loss of HK$20 million for the last financial year.

The local management had closely monitored the operation to reduce coal or energy consumption and avoid wastage so as to increase the profit from our heat and power generating facilities. Approximately ten months of operation and sales of electricity and heat was recorded during the Year.

Coal-related chemical production division

Coal related chemical production division included the polyvinyl-chloride segment (the "PVC"), the vinyl acetate segment (the "VA") and the calcium carbide segment (the "CC"). During the Year, no revenue was recorded for these segments from external customers. The segment loss of PVC, VA and CC were HK$66 million, HK$118 million and HK$225 million respectively, of which the segment loss was mainly derived from the impairment of fixed assets of HK$222 million. Excluding the effect of impairment of fixed assets, the segment loss of PVC, VA and CC were HK$19 million, HK$19 million and HK$149 million, represented a decrease of 17%, 7% and 9%, respectively, compared with that of the last financial year.

PROSPECT

The management believes that worst moment of the Group had passed and foresees a promising future in the coming years when the industry environment improves.

Heat and power division

During the year, the Company has nearly completed the construction of 25 kilometers pipelines which has a capacity to supply heat for approximately 1,400,000 square meters of residential areas. It is expected, by year 2017, the heat supplying area will increase by approximately 2,100,000 square meters. The increase in residential heat supplying areas will much enhance the profit margin in higher level. Hence, it is strongly believed that the heat and power division will be the gold driver of the Group provided that the coal price remains stably.

Coal-related chemical production division

Heihe

Heihe Longjiang Chemical Co. Ltd. ("HLCCL"), the Group's coal related chemical production in Heihe, the PRC was still incurring operating loss because of the suspension of calcium carbide production operation and HLCCL filed a writ against both the Heihe City Local Government and the State Grid Heilongjiang Electric Power Company Limited (the "Defendants") in relation to the electric supply for calcium carbide production. Calcium carbide production is highly sensitive to two factors — electricity and raw material (i.e. coal). However, having considered (i) the current downward trend of coal price; (ii) the tentative settlement offer from the Defendants which will supply electricity to HLCCL at a lower cost; and (iii) completion of the installation of gas fired kiln system for production of calcium carbide in the third quarter of 2015 which will further lower the production cost by 20%, the Directors are of the view that the profitability of HLCCL will improve. During the past few months HLCCL put in considerable efforts in achieving earlier stage for the resumption of production to bring the plant and equipment up and running. To resume full commercial production, numerous trial runs are needed to attain and maintain the stability of quality required for marketable products, and also the production logistics, including ordering and delivering of raw materials, need to be dealt with. HLCCL is currently on trial run and fine-tuning the plant and machinery with an aim to resume full production as soon as possible.

Mudanjiang

Although government policy on grant of preferential tariff was promulgated in recent years, the current low market prices of calcium carbide with an average of RMB2,200 per ton made production of the product unprofitable even with government tariff. The management estimates production of coal-related products in the Mudanjiang plant would only break even if calcium carbide price increases to not less than RMB2,850 per ton. The management will closely monitor the market conditions and resumption of full production will be initiated only after the market price of calcium carbide recovers and remains stable above the breakeven level.

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.

Acquisition of Logistics Centres Project

On 26 August 2015, the Company entered into a share acquisition framework agreement ("Framework Agreement") with Mudanjiang Transportation Group Investment Limited ("Mudanjiang Transportation Group"), a PRC state-owned enterprise which is controlled by the Transport Department of the People's Government of Mudanjiang City, Heilongjiang Province, the PRC in relation to the construction and operation of the international and domestic logistics centres in Mudanjiang City. The Framework Agreement has a term of 45 days from the date of execution and takes effect immediately upon signing. Pursuant to the Framework Agreement, the Company is going to acquire 70% equity interest of Mudanjiang Transportation Group which is undertaking the following projects:

(a) Phase 1 of the Mudanjiang International Transportation and Logistics Centre ("Logistic Centre") which was still under construction;

(b) Phase 2 of the Logistics Centre;

(c) the drop and pull transportation project; and

(d) the state-owned interest in the general commercial complex developed by the Mudanjiang Transportation Group.

The Company has been making progress and in-depth discussion with Mudanjiang Transportation Group and Government of Mudanjiang City for the cooperation of the logistic centres mentioned above. The negotiation of the acquisition is now entering into the final stage. The management understands that Phase 1 of the Logistic Centre has not commenced operation and Mudanjiang Transportation Group is in the course of applying various consents, licences and approvals from relevant government departments for commencement of operation of Phase 1 of the Logistics Centre. It is the intention of the parties that if those consents, licences and approvals for the operation of Phase 1 of the Logistics Centre are not obtained on or before 31 October 2016, the Framework Agreement will be terminated and no definitive agreements will be entered into by the parties.

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Liquidity and Financial Ratios

As at 30 June 2016, the Group had total assets of approximately HK$3,295.5 million (2015: HK$3,514.6 million) which were financed by current liabilities of approximately HK$1,010.9 million (2015: HK$883.0 million), non-current liabilities of approximately HK$461.3 million (2015: HK$340.7 million), non-controlling interests of approximately HK$129.9 million (2015: HK$164.0 million) and shareholders' equity of approximately HK$1,693.4 million (2015: HK$2,126.9 million).

As at 30 June 2016, the current assets of the Group amounted to approximately HK$171.6 million (2015: HK$161.4 million) comprising inventories of approximately HK$48.9 million (2015: HK$33.6 million), trade receivables of approximately HK$8.4 million (2015: HK$5.9 million), prepayments, deposits and other receivables of approximately HK$74.8 million (2015: HK$79.4 million), other loan receivables of approximately HK$Nil (2015: HK$0.7 million), financial assets at fair value through profit or loss of approximately HK$0.2 million (2015: HK$0.4 million), cash and cash equivalents of approximately HK$39.3 million (2015: HK$41.4 million). As at 30 June 2016, 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 0.2 (2015: 0.2), 0.1 (2015: 0.1), 44.7% (2015: 34.8%) and 86.9% (2015: 57.5%), respectively.

The Group maintained a fairly stable financial position throughout the Year. Although the Group was in net current liabilities position, the management has closed monitored the Group's liquidity position and has taken appropriate measures to ensure it had sufficient resources to meet its financial obligations.

Non-equity funding

Bank loans

As at 30 June 2016, the bank loans of the Group amounted to approximately HK$83.1 million (2015: HK$149.1 million). Based on agreed scheduled repayments set out in the loan agreements, bank loans of approximately HK$53.8 million (2015: HK$117.3 million) were repayable within 12 months, of which HK$2.4 million was denominated in Hong Kong Dollar and HK$51.4 million was denominated in Renminbi (2015: HK$2.4 million was denominated in Hong Kong dollar and HK$114.9 million was denominated in Renminbi).

Bonds

On 16 September 2015, the Company and Pico Zeman Securities (HK) Limited ("Pico Zeman") entered into the 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 placing agreements or such later date to be mutually agreed between the Company and Pico Zeman.

On 18 January 2016, the Company and Pico Zeman entered into the placing agreement pursuant to which Pico Zeman has conditionally agreed to procure, on a best endeavour basis, independent placees (which may include Pico Zeman and its associates) to subscribe in cash for one or multiple tranches of the 5% to 12%, 4 to 10 years term bonds in an aggregated principal amount of up to HK$200,000,000 within 180 days from the date of the placing agreement or such later day to be mutually agreed between the Company and Pico Zeman.

As at 30 June 2016, the aggregate bonds payable was HK$416,960,000 aiming at improving the working capital of the Group during the Year.

Significant investment held by the Company

As at 30 June 2016, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK$0.2 million. The Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$0.2 million during the Year.

Charges on the Group's assets

As at 30 June 2016, bank loans and other loans of approximately HK$83 million and HK$46 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

1. On 15 July 2016, the Company entered into a sales and purchase agreement with an independent third party to dispose the entire equity interests of Better Day Bio-Chem Technology Limited, which in turn directly and indirectly holds the entire equity interest in Mudanjiang Gaoke Bio-Chem Co. Ltd. (the "Disposal"). The consideration for the Disposal is RMB192,000,000 (equivalent to approximately HK$222,720,000) of which a non-refundable deposit of RMB10,000,000 (equivalent to approximately HK$11,600,000) had been received on signing of the Agreement. For further details, please refer to the circular of the Disposal dated 26 September 2016.

2. On 15 August 2016, the Company announced a proposed open offer on the basis of one offer share for every four existing shares and issue of bonus shares on the basis of one bonus share for every offer share taken up under the Open Offer (the "Open Offer"). The Open Offer involves the allotment and issue of 718,724,879 offer shares at a price of HK$0.10 per offer share. The gross proceeds of the Open Offer will be approximately HK$71,900,000.

   The Open Offer was underwritten by VC Brokerage Limited, (the "Underwriter"). Mr. Chan Yuen Tung, the substantial shareholder of the Company, has given an irrecoverable undertaking in favour of the Company and the Underwriter to subscribe for 104,457,407 offer shares to which Mr. Chan is entitled under the Open Offer. The Underwriter has agreed to fully underwrite the remaining 614,267,472 offer shares. For further details, please refer to the circular of the Open Offer dated 28 September 2016.

Contingent liabilities

As at 30 June 2016, 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 2016.

Number and Remuneration of Employees

As at 30 June 2016, the Group had 527 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, no share options were granted to senior management of Hong Kong and PRC subsidiaries of the Company. As at 30 June 2016, there were approximately 80 million share options outstanding. These comprise approximately 34 million share options with exercisable period up to 9 March 2018 at the exercise price of HK$0.425 per share and 46 million share options with exercisable period up to 10 May 2018 at the exercise price of HK$1.05 per share.

DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE REVIEW

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

SCOPE OF WORK OF ELITE PARTNERS CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 30 June 2016 have been agreed by the Group's auditors, Elite Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 30 June 2016. The work performed by Elite Partners CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Elite Partners CPA Limited on this announcement.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

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

Code Provision A.2.1

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

Hong Kong, 30 September 2016

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