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China Zenith Chemical Group Limited

中國天化工集團有限公司

*(formerly known as Xinyang Maojian Group Limited 信陽毛尖集團有限公司)
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)*

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE YEAR ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of China Zenith Chemical Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 30 June 2022 (the “**Year**”) together with the comparative figures for the previous year. The auditing process for the final results has not been completed yet, as explained in the section headed “Audit Committee Review” of this announcement.

Unaudited Consolidated Statement of Profit or Loss
for the year ended 30 June 2022

	<i>Notes</i>	2022 HK\$'000 (Unaudited)	2021 <i>HK\$'000</i> (Audited) (Restated) (Represented)
Continuing operations			
Revenue	3	369,628	229,021
Cost of sales		<u>(395,348)</u>	<u>(179,127)</u>
Gross (loss)/profit		(25,720)	49,894
Other income and other gains or losses	5	56,782	4,328
Loss of reclassification from assets held for sale		(5,393)	–
Provision of allowance for receivables and written off of prepayment, net			
– trade receivables		(3,311)	(6,774)
– prepayment, deposits and other receivables		(22,813)	(34,985)
Selling and distribution costs		(19,876)	(27,117)
Administrative expenses		(126,353)	(106,433)
Other operating expenses		(64,842)	(114,078)
Share of result of an associate		(137)	266
Impairment of property, plant and equipment		(646,212)	–
Impairment of right-of-use assets		(46,526)	(1,522)
Loss on deconsolidation of a subsidiary		–	(4,394)
Gain on disposal of a subsidiary		<u>10,220</u>	–
Loss from operations		(894,181)	(240,815)
Finance costs	6	<u>(179,464)</u>	<u>(126,030)</u>
Loss before tax		(1,073,645)	(366,845)
Income tax expense	7	<u>–</u>	<u>(890)</u>
Loss for the year from continuing operations		<u>(1,073,645)</u>	<u>(367,735)</u>
Discontinued operations			
Loss for the year from discontinued operation		<u>(176)</u>	<u>(91,851)</u>
Loss for the year	8	<u>(1,073,821)</u>	<u>(459,586)</u>

	<i>Notes</i>	2022 HK\$'000 (Unaudited)	2021 <i>HK\$'000</i> (Audited) (Restated) (Represented)
Attributable to:			
Owners of the Company			
Continuing operations		(1,064,030)	(358,502)
Discontinued operation		(176)	(91,851)
		<u>(1,064,206)</u>	<u>(450,353)</u>
Non-controlling interests			
Continuing operations		(9,615)	(9,233)
		<u>(1,073,821)</u>	<u>(459,586)</u>
Loss per share			
	10		
From continuing and discontinued operations			
– Basic (<i>HK cents</i>)		(49.06)	(31.34)
		<u>(49.06)</u>	<u>(31.34)</u>
– Diluted (<i>HK cents</i>)		(49.06)	(31.34)
		<u>(49.06)</u>	<u>(31.34)</u>
From continuing operations			
– Basic (<i>HK cents</i>)		(49.05)	(24.95)
		<u>(49.05)</u>	<u>(24.95)</u>
– Diluted (<i>HK cents</i>)		(49.05)	(24.95)
		<u>(49.05)</u>	<u>(24.95)</u>
From discontinued operation			
– Basic (<i>HK cents</i>)		(0.01)	(6.39)
		<u>(0.01)</u>	<u>(6.39)</u>
– Diluted (<i>HK cents</i>)		(0.01)	(6.39)
		<u>(0.01)</u>	<u>(6.39)</u>

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2022

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited) (Restated) (Represented)
Loss for the year	<u>(1,073,821)</u>	<u>(459,586)</u>
Other comprehensive income after tax:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	1,752	50,139
(Release)/share of other comprehensive income of an associate	<u>(777)</u>	<u>871</u>
Other comprehensive income for the year, net of tax	<u>975</u>	<u>51,010</u>
	<u>(1,072,846)</u>	<u>(408,576)</u>
Total comprehensive expense for the year		
Continuing operations	(1,072,670)	(316,725)
Discontinued operation	<u>(176)</u>	<u>(91,851)</u>
	<u>(1,072,846)</u>	<u>(408,576)</u>
Attributable to:		
Owners of the Company		
Continuing operations	(1,061,843)	(313,169)
Discontinued operation	<u>(176)</u>	<u>(91,851)</u>
	<u>(1,062,019)</u>	<u>(405,020)</u>
Non-controlling interests		
Continuing operations	<u>(10,827)</u>	<u>(3,556)</u>
	<u>(1,072,846)</u>	<u>(408,576)</u>

Unaudited Consolidated Statement of Financial Position

as at 30 June 2022

	Notes	As at 30 June		As at 1 July
		2022	2021	2020
		HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Audited)	(Audited)
			(Restated)	
Non-current assets				
Property, plant and equipment		840,473	1,455,539	1,450,695
Right-of-use assets		247,791	280,173	297,376
Investment in an associate		–	10,108	–
Investment in joint venture		–	–	8,971
Other intangible assets		–	–	–
		<u>1,088,264</u>	<u>1,745,820</u>	<u>1,757,042</u>
Current assets				
Inventories		22,197	5,735	7,538
Trade receivables	11	29,759	23,020	27,300
Prepayments, deposits and other receivables		55,823	105,096	130,282
Amount due from a deconsolidated subsidiary		17,980	32,000	–
Financial assets at fair value through profit or loss (“FVTPL”)		1,971	564	678
Bank and cash balances		12,874	46,775	8,143
		<u>140,604</u>	<u>213,190</u>	<u>173,941</u>
Assets classified as held for sale		<u>9,379</u>	<u>112,343</u>	<u>–</u>
		<u>149,983</u>	<u>325,533</u>	<u>173,941</u>
Total assets		<u>1,238,247</u>	<u>2,071,353</u>	<u>1,930,983</u>
Capital and reserves				
Share capital	12	266,056	160,371	133,993
Reserves		<u>(1,139,224)</u>	<u>(130,807)</u>	<u>168,569</u>
Equity attributable to owners of the Company		<u>(873,168)</u>	29,564	302,562
Non-controlling interests		<u>48,318</u>	<u>59,145</u>	<u>60,984</u>
Total (deficit)/equity		<u>(824,850)</u>	<u>88,709</u>	<u>363,546</u>

		As at 30 June		As at 1 July
		2022	2021	2020
	Notes	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Audited)	(Audited)
			(Restated)	
Non-current liabilities				
Bank loans		13,267	16,281	18,777
Bonds payable		916,770	635,596	975,627
Convertible bonds		16,538	45,339	–
Other payables		–	–	175,204
Lease liabilities		–	1,483	3,758
		<u>946,575</u>	<u>698,699</u>	<u>1,173,366</u>
Current liabilities				
Trade payables	13	57,638	52,077	55,393
Tax payable		815	878	–
Other payables and accruals		747,748	666,966	209,819
Other loans		120,400	68,676	65,716
Bank loans		9,115	42,885	48,527
Bonds payable		149,384	450,188	12,641
Lease liabilities		1,483	2,275	1,975
Convertible bonds		29,939	–	–
		<u>1,116,522</u>	<u>1,283,945</u>	<u>394,071</u>
Total liabilities		<u>2,063,097</u>	<u>1,982,644</u>	<u>1,567,437</u>
Total equity and liabilities		<u>1,238,247</u>	<u>2,071,353</u>	<u>1,930,983</u>
Net current liabilities		<u>(966,539)</u>	<u>(958,412)</u>	<u>(220,130)</u>
Total assets less current liabilities		<u>121,725</u>	<u>787,408</u>	<u>1,536,912</u>
Net (liabilities)/assets		<u>(824,850)</u>	<u>88,709</u>	<u>363,546</u>

Notes to the Unaudited Consolidated Financial Statements

1. GENERAL INFORMATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) *Going concern*

The Group incurred a loss of approximately HK\$1,073,821,000 (2021: HK\$459,586,000) for the year ended 30 June 2022. As at 30 June 2022, the Group had net current liabilities of approximately HK\$966,539,000 (2021: HK\$958,412,000) and net liabilities of approximately HK\$824,850,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In preparing the consolidated financial statements, the Management has given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to achieve positive cash flows from operations in immediate and long terms. The Directors have reviewed the Group's cash flow forecast prepared by management, which cover the period up to 30 June 2023. The Directors are of the opinion that, taking into account of the plans and measures below, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2022. In order to strengthen the Group's capital base and maintain sufficient financing necessary for future business development, the Directors have taken the following measures:

- On 26 August 2022 (the “**Effective Date**”), the operation of Mudanjiang Better Day Power Limited (“**Mudanjiang BD Power**”) was temporarily taken-over (the “**Taking Over**”) by Mudanjiang Authority of Housing and Urban-Rural Development (the “**Authority**”). Upon the cease of control over Mudanjiang BD Power and Mudanjiang BD Power shall be deemed as deconsolidated (the “**Deconsolidation**”) from the consolidated financial statements of the Group and be classified as a discontinued operation as from the Effective Date. In view that the net liabilities of Mudanjiang BD Power are in the approximate sum of HK\$390 million as at 30 June 2022, the Group would expect to have a net gain of HK\$390 million upon the Deconsolidation. Up to now, the Group is liaising with the Authority relating to the Notice and the control and operation of Mudanjiang BD Power;
- The Company is in the process of negotiating for a settlement of a bond payable to several bondholders in the amount of HK\$80 million. In the event that a settlement is reached between the Company and bondholders, the Company expects the relevant bond payable in the amount of HK\$60 million to be deferred or discounted;
- Other loans of the Group of HK\$45 million out of HK\$120 million as at 30 June 2022 has been refinanced in August 2022;
- The Group had several idle right-of-use assets and buildings located in Mudanjiang City, Heilongjiang Province, the PRC and Hong Kong with a total carrying amount of approximately HK\$112 million and HK\$63 million respectively. These right-of-use assets and buildings are available to be disposed of, which have a total market value of approximately HK\$201 million with reference to the estimated market approach analysis of the right-of-use assets carried out by an independent third-party valuer, in the event the Group requires further financing;
- On 4 July 2022, the convertible bonds with carrying amount of approximately HK\$29,939,000 was converted into 354,000,000 ordinary shares;
- On 28 December 2020, Heihe Longjiang Chemical Limited (“**HLCL**”) entered into an agreement (the “**Disposal Agreement**”) with Heihe Longhe Investment Management Limited (“**HLIML**”) pursuant to which HLCL had agreed to transfer the land use rights of certain lands located in the People's Republic of China (“**PRC**”) at an aggregate consideration of RMB156,440,000, comprising RMB139,440,000 with land compensation of RMB17,000,000 (the “**Land Disposal**”).

Although the Land Disposal was suspended due to the resumption of operation of the HLCL, the management is in the view that the other payables of RMB139,440,000 (equivalent to HK\$163,479,000) due to HLIML will not be recalled in case HLCL is under normal operation;

- The Group will consider equity fund raising activities to meet the financial requirement; and

- The Group will apply cost cutting measures to reduce administrative expenses and cash outflows for the next twelve months.

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

(b) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing on 1 July 2021:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021

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

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

A number of new and amended standards have been published that are not yet effective for reporting period beginning on 1 July 2021 and have not been early adopted by the Group. These new and revised HKFRSs include the following which may be relevant to the Group:

Amendments to HKFRS 3	Reference to the Conceptual Framework ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018–2020 ¹

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ Effective for annual periods beginning on or after a date to be determined

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

2.2 Retrospective restatement

The Group's consolidated financial statements for the year ended 30 June 2021 have been restated to correct prior period errors. The accounting error is related to the classification of investment in Mudanjiang Xusheng Limited ("MXL") which has been classified as joint venture with carrying amount of approximately HK\$10,108,000 as at 30 June 2021 as set out in the notes 5(d) and 20 to the Group's published audited consolidated financial statements for the year ended 30 June 2021 (the "FY2021 Financial Statements").

After reviewing the cooperation agreement and board composition relevant to the investment in MXL, it was noted that the right of appointing management members in MXL, including but not limited to, legal representative, sales representative and financial representative are controlled by the counter investor instead of the unanimous consent of the Group and the counter investor which is unable to meet the definitions of joint venture as set out in Hong Kong Accounting Standard 28 – Investments in Associate and Joint Venture and is not in conformity with the classification as disclosed in notes 5(d) and 20 to the FY2021 Financial Statements.

In view of the above, the management was of the opinion that the classification of the investment in MXL should be reclassified as investment in an associate accordingly in the Group's consolidated financial statements in appropriate reporting period.

As both investments in associate and joint venture are using equity method, other than the reclassification from investment in joint venture to investment in an associate and the reclassification from the share of result of joint venture to investment in an associate, there are no other impact or effects of the retrospective restatement on the assets and liabilities, the profit and loss and other comprehensive income, the changes in equity and the cash flows of the consolidated financial statements for the year ended 30 June 2022 and 2021.

Amendments has been applied retrospectively and resulted in changes in the consolidated amounts reported in the consolidated financial statements as follows:

In the Unaudited Consolidated Statement of Financial Position

	As at 30 June		As at 1 July
	2022	2021	2020
	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Audited)
		(Restated)	
Increase in investment in an associate	–	10,108	–
Decrease in investments in joint venture	–	(10,108)	–

In the Unaudited Consolidated Statement of Profit or Loss

	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
		(Restated)
Increase in share of result of an associate	(137)	(266)
Decrease in share of result of joint venture	137	266

Subsequently to above reclassification of the investment in MXL, the Group entered into a conditional sale and purchases agreement with an independent third party to dispose of an associate during the year ended 30 June 2022. The Directors expect it is highly probable that an associate will be completed disposal within twelve months and classified interest in an associate as assets held for sale and presented separately in the consolidated statement of financial position.

3. REVENUE

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

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited)
Continuing operations:		
<i>Revenue from contracts with customers within the scope of HKFR15</i>		
Heat supplying services	158,973	181,855
Electricity supplying services	11,991	15,755
Sales of calcium carbide	184,966	–
Sales of lime powder	13,698	23,424
Sales of wine	–	7,987
	<u>369,628</u>	<u>229,021</u>

All revenue above are recognised at a point in time.

4. SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the Group's Chief Operating Decision Maker for the purpose of resource allocation and assessment of segment performance for the year.

The Group has three reportable segments as follows:

Heat and power	–	generation and supply of heat and power;
Calcium carbide	–	manufacture and sale of calcium carbide and lime powder; and
Construction services	–	construction and monitor of public facilities construction.

The Group's reporting segment of construction services has been presented as discontinued operation following the construction services segment was disposed on 16 June 2022.

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

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

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			Discontinued operation	Total HK\$'000 (Unaudited)
	Heat and power HK\$'000 (Unaudited)	Calcium carbide HK\$'000 (Unaudited)	Unallocated HK\$'000 (Unaudited)	Construction services HK\$'000 (Unaudited)	
Year ended 30 June 2022					
Revenue from external customers	170,964	198,664	-	-	369,628
Segment loss	<u>(818,961)</u>	<u>(85,721)</u>	<u>-</u>	<u>(176)</u>	<u>(904,858)</u>
Gain on fair value of financial assets at FVTPL, net					1,765
Gain on disposal of financial assets at FVTPL, net					191
Share of result of an associate					(137)
Gain on disposal of a subsidiary					10,220
Corporate administrative expenses					<u>(181,002)</u>
Consolidated loss for the year					<u><u>(1,073,821)</u></u>
Bank interest income	32	22	11	-	65
Finance costs	(13,434)	(665)	(165,365)	-	(179,464)
Depreciation of property, plant and equipment	(16,056)	(54,591)	(2,730)	-	(73,377)
Depreciation of right-of-use assets	(1,593)	(3,297)	(4,163)	-	(9,053)
Other material items of income and expense:					
Government grants	5,830	-	112	-	5,942
Other material non-cash items:					
(Provision)/reversal of allowance for receivables and written off of prepayment, net					
- trade receivables	(7,315)	4,004	-	-	(3,311)
- prepayment, deposits and other receivables	4,655	(18,889)	(8,579)	(160)	(22,973)
Reversal of impairment of inventories	-	3,726	-	-	3,726
Impairment of property, plant and equipment	(641,841)	-	(4,371)	-	(646,212)
Impairment of right-of-use assets	(46,526)	-	-	-	(46,526)
Forfeiture of deposit received for partial disposal of a subsidiary	30,238	-	-	-	30,238
Additions to segment non-current assets	39,490	3,737	-	-	43,227
As at 30 June 2022					
Consolidated total assets	36,094	990,012	212,141	-	1,238,247
Consolidated total liabilities	<u>(355,787)</u>	<u>(370,055)</u>	<u>(1,337,255)</u>	<u>-</u>	<u>(2,063,097)</u>

The Group's majority of revenue and non-current assets are derived from customers based in PRC and accordingly, no geographical information is presented.

	Represented			Discontinued operation Construction services	Total HK\$'000 (Audited) (Restated)
	Continuing operations		Unallocated		
	Heat and power HK\$'000 (Audited)	Calcium carbide HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Audited)	
Year ended 30 June 2021					
Revenue from external customers	197,610	23,424	7,987	–	229,021
Segment loss	<u>(73,031)</u>	<u>(119,834)</u>	<u>(14,343)</u>	<u>(91,851)</u>	<u>(299,059)</u>
Loss on fair value of financial assets at FVTPL, net					(3,980)
Gain on disposal of financial assets at FVTPL, net					992
Share of result of an associate					266
Corporate administrative expenses					<u>(157,805)</u>
Consolidated loss for the year					<u><u>(459,586)</u></u>
Bank interest income	–	1	6	–	7
Finance costs	(3,160)	(1,295)	(121,575)	(91)	(126,121)
Depreciation of property, plant and equipment	(13,876)	(51,031)	(7,609)	–	(72,516)
Depreciation of right-of-use assets	(1,543)	(1,582)	(5,977)	–	(9,102)
Other material items of income and expense:					
Government grants	2,786	–	288	–	3,074
Other material non-cash items:					
(Provision)/reversal of allowance for receivables and written off of prepayment, net					
– trade receivables	(8,440)	2,969	(1,303)	894	(5,880)
– prepayment, deposits and other receivables	(14,754)	(19,641)	(590)	(84,058)	(119,043)
Written-off of inventories	(64)	(107)	–	–	(171)
Written-off of property, plant and equipment	–	(400)	–	–	(400)
Impairment of right-of-use assets	(1,522)	–	–	–	(1,522)
Additions to segment non-current assets	16,399	2,368	–	–	18,767
As at 30 June 2021					
Consolidated total assets	742,302	932,436	396,613	2	2,071,353
Consolidated total liabilities	<u>(296,830)</u>	<u>(275,648)</u>	<u>(1,365,386)</u>	<u>(44,780)</u>	<u>(1,982,644)</u>

The Group's majority of revenue and non-current assets are derived from customers based in PRC and accordingly, no geographical information is presented.

Information about major customers

During the year ended 30 June 2022, the sales to the Group's five largest customers accounted for approximately 57% of the Group's total sales for the year ended 30 June 2022 and the sales to the largest customer included therein of approximately HK\$180,106,000 amounted to approximately 49% from the segment of calcium carbide (2021: No customer contributing over 10% of the total sales of the Group).

5. OTHER INCOME AND OTHER GAINS OR LOSSES

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited) (Restated) (Represented)
Continuing operations:		
Conveyance service income (<i>Note (a)</i>)	–	2,733
Government grants (<i>Note (b)</i>)	5,942	3,074
Bank interest income	65	7
Other interest income	–	944
Gain/(loss) on fair value of financial assets at FVTPL, net	1,765	(3,980)
Gain on disposal of financial assets at FVTPL, net	191	992
Written-off of property, plant and equipment	–	(400)
Fair value gain on investment in associate reclassified to assets held for sale	185	–
Reversal of impairment of inventories	3,726	–
Forfeiture of deposit received for partial disposal of a subsidiary	30,238	–
Consideration received for disposal of Deconsolidated Subsidiary	3,800	–
Gain on redemption on bonds	10,321	–
Sundry income	549	958
	<u>56,782</u>	<u>4,328</u>
Discontinued operation:		
(Provision)/reversal of allowance for receivables and written off of prepayment, net		
– trade receivables	–	894
– prepayment, deposits and other receivables	(160)	(84,058)
	<u>(160)</u>	<u>(83,164)</u>

Notes:

- (a) Conveyance service income represents the income from provision of the service for connecting the transition of steam to corporate customers.
- (b) Government grants for the years were received as incentive for capital expenditure and subsidy for operating costs. There are no unfulfilled conditions or contingencies attached to the grants.

6. FINANCE COSTS

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited) (Restated) (Represented)
Continuing operations:		
Interest on bank loans	1,065	1,734
Interest on other loans		
– wholly repayable within five years	9,678	9,919
Default interest on borrowing	9,676	–
Interest on bonds payable		
– repayable within five years	155,489	107,724
– repayable over five years	–	1,597
Interest on convertible bonds	3,197	4,397
Interest on lease liabilities	359	659
	<u>179,464</u>	<u>126,030</u>
Discontinued operation:		
Interest on bank loans	–	91

7. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited)
Continuing operations:		
Current tax		
– PRC Enterprise Income tax	–	855
– Hong Kong Profits tax	–	35
	<u>–</u>	<u>890</u>

Provision for Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax has been made for the year ended 30 June 2022 as the Group had no assessable profits arising in Hong Kong for the year.

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 (2021: 25%).

8. LOSS FOR THE YEAR

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

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited) (Represented)
Continuing operations:		
Auditor's remuneration	1,100	1,200
Cost of inventories sold (<i>Note (a)</i>)	395,348	179,127
Reversal of impairment on inventories	(3,726)	–
Written off of inventories	–	171
Depreciation of property, plant and equipment	73,377	72,516
Depreciation of right-of-use assets	9,053	9,102
Factory overhead incurred during suspension of production (<i>Note (b)</i>)	–	20,220
Impairment on property, plant and equipment	646,212	–
Impairment on right-of-use assets	46,526	1,522
Written off of property, plant and equipment	–	400
Provision of allowance for receivables and written off of prepayment, net		
– trade receivables	3,311	6,774
– prepayment, deposits and other receivables	22,813	34,985
Gain on settlements of bonds	(10,321)	–
Provision of litigation claims, net (included in other operating expenses)	14,476	62,559
Staff costs (excluding directors' emoluments):		
Wages, salaries and benefits in kind	19,563	25,667
Employee share option benefits	–	9,236
Retirement benefits scheme contributions	4,347	4,520
	<u> </u>	<u> </u>
Discontinued operation:		
Provision of litigation claims	–	8,524
Provision/(reversal) of allowance for receivables and written off of prepayment, net		
– trade receivables	–	(894)
– prepayment, deposit and other receivables	160	84,058
	<u> </u>	<u> </u>

Notes:

- (a) Cost of inventories sold includes staff costs and depreciation of approximately HK\$7,600,000 (2021: HK\$9,761,000) and HK\$8,487,000 (2021: HK\$6,150,000) respectively, which are included in the amounts disclosed separately above.
- (b) During the year ended 30 June 2021, factory overhead was incurred during the temporary suspension of the production line of Calcium carbide segment due to a substantial decrease in profit margin. The amount was included in other operating expenses.

9. DIVIDEND

The Directors do not recommend the payment of dividend for the year ended 30 June 2022 (2021: Nil).

10. LOSS PER SHARE

From continuing and discontinued operations

Loss per share

From continuing and discontinued operations

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$1,064,206,000 (2021: HK\$450,353,000) and on the weighted average number of approximately 2,169,103,000 ordinary shares in issue during the year (2021: 1,436,876,000 ordinary shares).

From continuing operations

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$1,064,030,000 (2021: HK\$358,502,000) and on the weighted average number of approximately 2,169,103,000 ordinary shares in issue during the year (2021: 1,436,876,000 ordinary shares). As there is a corresponding change in the resources with the change in the number of shares. No adjustment to the weighted average number of shares is required for the purpose of calculating the basic loss per share due to the fact that the exercise price of the rights issue (note 12(e)) was not lower than the market price immediately before the exercise of the right.

From discontinued operation

Basic loss per share of the discontinued operation is HK0.01 cents per share (2021: HK6.67 cents per share) based on the loss for the year from the discontinued operation of HK\$176,000 (2021: HK\$91,851,000) and the denominators detailed above for basic loss per share from continuing operations.

Diluted loss per share

The computation of diluted loss per share for the years did not assume the exercise of outstanding share options and convertible bonds of the Company since these options have no dilutive effect and convertible bonds were anti-diluted during the years ended 30 June 2022 and 2021.

11. TRADE RECEIVABLES

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited)
Trade receivables from contracts with customers	51,478	42,373
Less: allowance for expected credit losses ("ECL")	<u>(21,719)</u>	<u>(19,353)</u>
	<u>29,759</u>	<u>23,020</u>

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 15 to 30 days (2021: 15 to 30 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited)
Within 30 days	6,444	1,252
31 to 60 days	310	1,226
61 to 90 days	1,659	2,944
91 to 120 days	3,937	1,592
121 to 150 days	3,405	1,623
151 to 180 days	3,407	3,812
181 to 365 days	10,597	10,571
Over 365 days	–	–
	<u>29,759</u>	<u>23,020</u>

The Group's trade receivables are denominated in RMB.

As at 30 June 2022, an allowance of approximately HK\$21,719,000 (2021: HK\$19,353,000) was made for estimated irrecoverable trade receivables.

The movement in allowance of ECL for trade receivables is as follows:

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited)
At beginning of year	19,353	12,147
Provision of allowance	3,311	5,880
Exchange differences	(945)	1,326
	<u>21,719</u>	<u>19,353</u>

As of 30 June 2022, trade receivables of approximately HK\$23,315,000 (2021: HK\$21,768,000) were past due but not impaired. These mainly relate to a number of independent customers that are either active and or have a good track record and established creditworthiness with the Group for whom there is no recent history of default.

12. SHARE CAPITAL

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited)
Authorised:		
5,000,000,000 ordinary shares of HK\$0.10 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
2,660,560,978 (2021: 1,603,707,319) ordinary shares of HK\$0.10 each	<u>266,056</u>	<u>160,371</u>

	Number of ordinary shares issued '000	Par value HK\$'000
At 1 July 2020 (audited)	1,339,927	133,993
Exercise of share options (<i>Note (a)</i>)	71,280	7,128
Conversion of convertible bonds (<i>Note (b)</i>)	92,500	9,250
Placing of shares (<i>Note (c)</i>)	100,000	10,000
At 30 June 2021 and 1 July 2021 (audited)	1,603,707	160,371
Placing of shares (<i>Note (d)</i>)	170,000	17,000
Rights issue (<i>Note (e)</i>)	886,854	88,685
At 30 June 2022 (unaudited)	2,660,561	266,056

Notes:

- (a) On 6 July 2020, 5 August 2020, 26 August 2020, 7 September 2020, 8 October 2020, 10 November 2020 and 26 April 2021, the subscription rights attaching to 71,280,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription prices of HK\$0.325, HK\$0.345 and HK\$0.38 per shares, resulting in the issue of 71,280,000 shares of HK\$0.1 each for the total cash consideration of approximately HK\$24.1 million, which was used for general working capital.
- (b) On 23 December 2020 and 16 February 2021, a total of 92,500,000 shares with exercise price of HK\$0.40 per share were issued upon conversion of convertible bonds.
- (c) On 10 June 2021, a total of 100,000,000 shares with subscription price of HK\$0.30 per share were issued under general mandate pursuant to the subscription agreement dated 1 June 2021. The net proceed of approximately HK\$29.2 million was used for working capital for resumption of production of the Group.
- (d) On 3 September 2021, a total of 170,000,000 shares with subscription price of HK\$0.25 per share were issued under general mandate pursuant to the subscription agreement dated 24 August 2021. The net proceed of approximately HK\$40,951,000 was used for repayment of debts and general working capital of the Group.
- (e) On 7 January 2022, a total of 886,853,659 rights shares with subscription price of HK\$0.12 per rights share were allotted and issued pursuant to the underwriting agreement entered on 23 November 2021. The net proceeds of approximately HK\$106,422,000 was used for repayment of the Group's indebtedness and general working capital.

13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days (2021: 30 to 120 days) from its suppliers.

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

	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited)
Within 30 days	9,745	8,264
31 to 60 days	3,023	279
61 to 90 days	1,780	513
91 to 120 days	3,170	3,910
121 to 365 days	8,515	5,976
Over 365 days	31,405	33,135
	<u>57,638</u>	<u>52,077</u>

14. CONTINGENT LIABILITIES

Litigation with China Electricity Construction Consultant Group Dongbei Electricity Design College

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 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 against Mudanjiang BD Power (i) the payment of the contract sum in the amount of approximately RMB42,700,000 and the interest thereon; (ii) the grant of the first priority right to receive payment from Mudanjiang BD Power in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13,300,000 for alleged termination of the Contract; and (iv) the legal fees arising from 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.

During the year ended 30 June 2019, the Heilongjiang High Court had adjudged that Mudanjiang BD Power was liable to compensate the Plaintiff of approximately RMB61,400,000. Upon the end of the year ended 30 June 2021, Mudanjiang BD Power was negotiating with the Plaintiff to continue the construction of the coal-powered electricity generating facilities. Once performance of the Contract was resumed under the mutual agreement between Mudanjiang BD Power and the Plaintiff, part of the damages granted may be absorbed in the cost of construction.

Despite the above, the management has made sufficient provision for this legal claim at the end of each reporting periods and believes that a favorable settlement could be reached with the Plaintiff.

15. EVENTS AFTER THE REPORTING PERIOD

(a) Taking over and Deconsolidation of Mudanjiang Better Day Power Limited (“Mudanjiang BD Power”)

On 26 August 2022, 牡丹江市住房和城鄉建設局 (English is for identification purpose only, Mudanjiang Authority of Housing and Urban-Rural Development) (the “**Authority**”) issued a notice (the “**Notice**”) to Mudanjiang BD Power, an indirect wholly-owned subsidiary of the Company on 26 August 2022 (the “**Effective Date**”) stating that in order to ensure the stability of the heat supply to the local residents in Mudanjiang in the coming winter, the Authority has temporarily taken over (the “**Taking Over**”) the operations of Mudanjiang BD Power so as to safeguard the public interest of the local residents. Since then, the Group has lost control over Mudanjiang BD Power from the Effective Date until the notice shall no longer take effect.

In view of the escalating coal price resulting in huge operating costs of Mudanjiang BD Power, the Group had not been able to meet the requirements on coal storage, maintenance of the plants and the capital requirements imposed by the Authority. The Group had been discussing with the Authority in the past few months to deliver the operation of Mudanjiang BD Power to the Authority. The Authority had issued the Notice to the Group for the Taking Over subsequent to such discussion.

(b) Conversion of convertible bonds

On 21 June 2022, the Company issued convertible bonds in an aggregate principal amount of HK\$35,400,000 with the rights to converted into 354,000,000 shares at conversion price of HK\$0.1. On 4 July 2022, the convertible bonds with carrying amount of HK\$29,939,000 was converted into 354,000,000 ordinary shares of the Company.

(c) Litigation with 遼源金剛水泥 (集團) 有限公司, in English, for identification purpose only, Liao Yuan Jingang Cement Group Limited (“Liao Yuan Jingang”)

On 26 August 2022, 牡丹江龍拓新能源有限公司 (in English for identification purpose only, Mudianjiang Long Tou New Energy Company Limited), a wholly owned subsidiary of the Company (“**Mudianjiang Long Tou**”) commenced a legal proceeding in Jilin against Liao Yuan Jingang demanding it to return 51% of the equity interest of Mudianjiang BD Power which had been pledged to Liao Yuan Jingang as security for a loan in the principal sum of RMB60 million (the “**Loan**”) at an interest rate of 9% per annum pursuant to a loan agreement and a share transfer agreement dated 28 September 2021 and 30 September 2021 respectively. Liao Yuan Jingang is in breach of the said agreements by failing to advance the Loan to the Group as per the terms of the said agreement. As at the date of the announcement, the Group has been informed by its PRC legal advisers that Jilin has accepted the legal proceedings.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year, revenue of the Group amounted to approximately HK\$370 million (2021: approximately HK\$229 million), representing an increase of approximately 62% compared with that of the last financial year. Loss attributable to the owners of the Company amounted to approximately HK\$1,064 million (2021: approximately HK\$450 million), representing an increase of 136% compared with that of the last financial year.

The increase in the Group's revenue was mainly derived from the increase in revenue of the calcium carbide segment.

The Group's selling and distribution costs for the Year was approximately HK\$20 million (2021: approximately HK\$27 million), representing a decrease of approximately 26% compared with that of the last financial year. The decrease in selling and distribution costs was mainly due to the implementation of stricter cost control over the heat and power segment.

The Group's administrative expenses for the Year was approximately HK\$126 million (2021 (restated): approximately HK\$106 million), representing an increase of approximately 19% compared with that of the last financial year. The increase in administrative expenses was mainly due to the resumption of calcium carbide production during the Year.

The Group's other operating expenses for the Year was approximately HK\$65 million (2021 (restated): approximately HK\$114 million), representing a decrease of approximately 43% compared with that of the last financial year. The decrease in other operating expenses was due to the decrease in provision of litigation claims during the Year.

Heat and power division

During the Year, the heat and power segment recorded a revenue of approximately HK\$171 million (2021: approximately HK\$198 million) from external customers, representing a decrease of approximately 14% compared with that of the last financial year. Income from supply of heat for the Year was approximately HK\$159 million (2021: approximately HK\$182 million), representing a decrease of approximately 13% when compared with that of the last financial year. The decrease was mainly due to the decrease in revenue was derived from the decrease in heat supply in the industrial sector during the Year. Due to the escalating coal price during the Year, the heat and power segment record a gross loss of HK\$58 million (2021: Gross profit of HK\$48 million). The huge gross loss resulted an overall gross loss in the consolidated statement of profit or loss even there is a gross profit in the calcium carbide segment. Segment loss for the Year was approximately HK\$819 million (2021: HK\$73 million), representing an increase of approximately 1,022% compared with that of the last financial year. The increase in segment loss was mainly due to the escalating coal price resulting in huge operating loss and impairment loss on property, plant and equipment and right-of-use assets. In view of the peak coal price in the foreseeable future, the management of the Group had ceased the operation of heat and power segment.

Coal-related chemical production division

The coal-related chemical production division includes the calcium carbide segment (the “**CC segment**”), the polyvinyl-chloride segment and the vinyl acetate segment. During the Year, the CC segment recorded a revenue of approximately HK\$199 million (2021: approximately HK\$23 million) from external customers, representing an increase of approximately 765% compared with that of the last financial year. The increase in sales of CC segment was mainly due to the resumption of production since September 2021.

Construction services division

During the Year, the construction services division was disposed at a consideration of approximately RMB1.2 million (equivalent to approximately HK\$1.5 million). Due to (i) the slump of economic environment, (ii) reduction of capital consumption on infrastructure and (iii) the outbreak of COVID-19 resulting in travelling restriction, the management of the Group expected the construction services division will continue to make loss in the foreseeable future. Thus, the Group had disposed the construction services division during the year to reduce the burden of the Group.

PROSPECT

Although the COVID-19 pandemic still has impact on the PRC economies and market price of coal is at its peak, the Board overcome several barriers to resume the production of calcium carbide in Heihe Longjiang Chemical Co., Ltd. (“**HLCL**”), a subsidiary of the Company. The Board believes that HLCL will continue to be the growth driver of the Group in the forthcoming years.

Coal-related chemical production division

During the Year, HLCL has commenced the production of calcium carbide. Although the outbreak of COVID-19 resulting the suspension of production in early 2022, HLCL has reached the production of approximately 88,000 tonnes during the Year. Despite the decrease in market selling price of calcium carbide as compared with last year, the business in sales and production of calcium carbide is still profitable. The management expects the profit margin will reach a record high figure once there is a rebound on the economic environment. The management will closely monitor the situation and will consider to resume the lower stream operation as well as the Polyvinyl-chloride and Vinyl acetate production lines.

Heat and power division

During the Year, the heat and power division was suffered a huge loss from the escalating coal price. Therefore, the Group keep discussing with the Mudanjiang Local Government to deliver the heat and power division under the control of Mudanjiang Local Government. On 26 August 2022, the Group has received a notice (the “**Notice**”) issued by 牡丹江市住房和城乡建设局 (in English, for identification purpose only, Mudanjiang Authority of Housing

and Urban-Rural Development) (the “**Authority**”) stating that in order to ensure the stability of the heat supply to the residents of Mudanjiang in the coming winter, the Authority has temporarily taken over the operations of Mudanjiang BD Power. Upon the effective of the Notice, Mudanjiang BD Power shall be deemed as deconsolidated from the consolidated financial statements of the Group and be classified as a discontinued operation. On the other hand, the Group is liaising with the Authority relating to the Notice and the control and operation of Mudanjiang BD Power.

FINANCIAL REVIEW

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Liquidity and financial ratios

As at 30 June 2022, the Group had total assets of approximately HK\$1,238 million (2021: approximately HK\$2,071 million), which were financed by current liabilities of approximately HK\$1,117 million (2021: approximately HK\$1,284 million), non-current liabilities of approximately HK\$947 million (2021: approximately HK\$699 million), non-controlling interests of approximately HK\$48 million (2021: approximately HK\$59 million) and shareholders’ equity of deficit by approximately HK\$873 million (2021: surplus by approximately HK\$30 million). As at 30 June 2022, the current assets of the Group amounted to approximately HK\$150 million (2021: approximately HK\$326 million), comprising inventories of approximately HK\$22 million (2021: approximately HK\$6 million), trade receivables of approximately HK\$30 million (2021: approximately HK\$23 million), prepayments, deposits and other receivables of approximately HK\$74 million (2021: approximately HK\$137 million), financial assets at fair value through profit or loss of approximately HK\$2 million (2021: approximately HK\$1 million), and cash and cash equivalents of approximately HK\$13 million (2021: approximately HK\$47 million).

As at 30 June 2022, the Group’s current ratio (current assets/current liabilities), quick ratio (current assets – inventory)/current liabilities), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/shareholders’ equity) of the Group were approximately 0.1 (2021: approximately 0.3), approximately 0.1 (2021: approximately 0.2), approximately 167% (2021: approximately 96%) and deficit by approximately 250% (2021: surplus by approximately 2,235%), respectively. The higher gearing ratio was mainly attributable to the impairment of assets of Mudanjiang BD Power, whilst the total debts of the Group remained stable. Throughout the Year, the management had taken several measures to improve the liquidity position and financial position of the Group.

Although the Group was in a net current liabilities position and net liabilities position as at 30 June 2022, the management has closely monitored the Group's liquidity position and has taken appropriate measures to ensure it had sufficient resources to meet its financial obligations.

Non-equity funding

Bank loans

As at 30 June 2022, the bank loans of the Group amounted to approximately HK\$22 million (2021: approximately HK\$59 million). Based on the agreed repayment schedule set out in the loan agreements, bank loans of approximately HK\$9 million (2021: approximately HK\$43 million) were repayable within 12 months, of which HK\$16 million was denominated in Hong Kong dollars and approximately HK\$6 million was denominated in RMB (2021: approximately HK\$19 million was denominated in Hong Kong dollars and approximately HK\$40 million was denominated in RMB, respectively).

Bonds

As at 30 June 2022, the aggregate amount of bonds payable was approximately HK\$1,066 million (2021: approximately HK\$1,086 million). The net proceeds raised from the placing of bonds were applied to enhance the working capital of the Group.

Equity funding

On 6 January 2022, the Company completed a rights issue. The net proceeds raised from the rights issue by issuing 886,853,659 shares at HK\$0.12 on the basis of one right share for every two existing shares held were HK\$101.13 million. As at the date of this announcement, approximately HK\$94.1 million was used to repayment of the Group's indebtedness and interest expenses and approximately HK\$7.03 million was used as general working capital of the Group.

Details of the rights issue were disclosed in the announcements of the Company dated 23 November 2021 and 6 January 2022.

On 21 June 2022, the Company completed the issue of the zero-coupon convertible bonds due 2023 in the principal amount of HK\$35,400,000 (the "**Convertible Bonds**") to two individual subscribers, Mr. Chiau Che Kong (Mr. Chiau) and Ms. Wong Chui Bing (Ms. Wong). The conversion price of the Convertible Bonds is HK\$0.1 per conversion share. The closing price of the shares of the Company (the "**Shares**") on 21 June 2022 was HK\$0.067. The subscription monies payable by Mr. Chiau in the sum of HK\$18,600,000 under the Subscription Agreement shall be satisfied by setting off the Indebted Amount A due from the Company to Mr. Chiau while the subscription monies payable by Ms. Wong in the sum of HK\$16,800,000 under the Subscription Agreement shall be satisfied by setting off the Indebted Amount B due from the Company to Ms. Wong.

Details of the issue of the Convertible Bonds were disclosed in the announcements of the Company dated 21 June 2022.

Significant investment held by the Company

As at 30 June 2022, the Company did not have any significant investments, except for the financial assets at fair value through profit or loss of approximately HK\$2 million (2021: approximately HK\$1 million). During the Year, the Company had recorded a fair value gain on financial assets at fair value through profit or loss, net of approximately HK\$2 million (2021: fair value loss of approximately HK\$4 million) and gain on disposal of financial assets FVTPL, net of approximately HK\$0.1 million (2021: approximately HK\$1 million).

Charges on the Group's assets

As at 30 June 2022, bank loans and other loans of approximately HK\$22 million (2021: approximately HK\$59 million) and approximately HK\$120 million (2021: approximately HK\$69 million), respectively, were secured by charges over the Group's certain property, plant and equipment and right-of-use assets and 51% of equity shares of a PRC wholly owned subsidiary.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Termination of disclosable transaction in relation to the disposal of 40% equity interests in a subsidiary

On 4 September 2020, Mudanjiang Longtuo New Energy Co., Ltd. ("**Mudanjiang New Energy**", an indirect wholly-owned subsidiary of the Company) entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with Mr. Lv Wangsheng ("**Mr. Lv**"), an independent third party, to dispose of 40% of the equity interest (the "**Disposal**") in Mudanjiang BD Power. As at 28 December 2021, the Disposal has not been completed and Mudanjiang New Energy had only received an aggregate of RMB25 million from Mr. Lv. Given that Mr. Lv has failed to commit further payment in settling the whole consideration of RMB70 million in accordance with the manner stipulated in the Equity Transfer Agreement, the Board announces that the Vendor has exercised its right to terminate the Equity Transfer Agreement on 20 December 2021. Mudanjiang New Energy did not proceed to completion of the Disposal nor execute any Transactions. Mudanjiang New Energy had forfeited the aggregate of RMB25 million received from Mr. Lv upon termination.

Disclosable and connected transaction in relation to the disposal of 100% equity interests in a deconsolidated subsidiary

On 7 October 2021, Prosper Path and Mr. Sze entered into the Share Transfer Agreement in respect of the disposal of the 70% of the entire issued shares of the Deconsolidated Subsidiary by Prosper Path to Mr. Sze at cash consideration of HK\$3,800,000.

Mr. Sze held 30% of the entire issued shares of the Deconsolidated Subsidiary and was a director of the Deconsolidated Subsidiary. Accordingly Mr. Sze was a connected person and the Disposal constituted a connected transaction under Chapter 14A of the Listing Rules. As (i) Mr. Sze was a connected person of the Company at the subsidiary level; (ii) the Board had approved the Disposal; and (iii) the independent non-executive Directors had confirmed that the Disposal is on normal commercial terms and its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 15 of the consolidated financial statements, the Group did not have any significant event after June 2022.

CONTINGENT LIABILITIES

As at 30 June 2022, save as disclosed in note 14 of the consolidated financial statements, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

Although most of the Group's operations were carried out in the PRC in which transactions were denominated in RMB, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations, despite of the devaluation of RMB during the Year. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the Year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument as at 30 June 2022.

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

CHANGE OF COMPANY NAME

Subsequent to the passing of the special resolution approving the proposed change of company name by the shareholders of the Company at the annual general meeting of the Company held on 9 December 2021, the Certificate of Incorporation on Change of Name and the Certificate of Secondary Name were issued by the Registrar of Companies in Bermuda on 1 February 2022, certifying the change of primary name of the Company from "Xinyang Maojian Group Limited" to "China Zenith Chemical Group Limited" and the change of secondary name of the Company from "信陽毛尖集團有限公司" to "中國天化工集團有限公司". The Registrar of Companies in Hong Kong issued the Certificate of Registration of Alteration of Name of Registered Non Hong Kong Company on 18 March 2022, confirming the registration of the Company's new English and Chinese names of "China Zenith Chemical Group Limited" and "中國天化工集團有限公司", respectively, in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

With effect from 9:00 a.m. on 14 April 2022, the stock short name changed from “XINYANG MAOJIAN” to “C ZENITH CHEM” in English and from “信陽毛尖” to “中國天化工” in Chinese for the purpose of trading in the Shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The stock code of the Company on the Stock Exchange remained unchanged as “362”. The corporate website address of the Company changed from xinyangmaojian.com.hk to chinazenith.com.hk with effect from 25 April 2022.

Details of the change of name of the Company were set out in the circular of the Company dated 16 November 2021 and the announcements of the Company dated 5 July 2021, 11 April 2022 and 25 April 2022, respectively.

NUMBER AND REMUNERATION POLICIES

As at 30 June 2022, the Group had 496 full time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance-related commissions.

The Company also operated a share option scheme (the “**Scheme**”) for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group. The Scheme was proposed by the Board on 29 November 2012 and approved by its shareholders on 20 December 2012. As at 30 June 2022, there were 99,135,542 Share options outstanding. The Share options with exercisable period up to 2 November 2023 at the adjusted exercise price of HK\$0.397 per Share.

DIVIDEND

The Directors do not recommend the payment of dividend for the Year (2021: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the Year, complied with the Corporate Governance Code and Corporate Governance Report (the “**Code**”) as set out in Appendix 14 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for the deviation as summarised below:

Code Provision A.2.1

The code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Throughout the Year, the roles of Chairman and Chief Executive Officer were performed by the same individual, Ms. Chan Yuk Foebe, and were not separated. The Board meets regularly to consider issues related to corporate matters affecting operations of the Group and considers that this deviation will not impair the balance of power and authority of the Board and the Company’s management and thus, the Board believes the current structure will enable effective planning and implementation of corporate strategies and decisions of the Group. Notwithstanding the above, the Board will review the current structure from time to time and shall make necessary amendments at the appropriate time.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE REVIEW

The auditing process for the final results of the Group for the Year has not been completed due to the outbreak of COVID-19 and the corresponding restriction on travel and mandatory quarantine measures imposed by the PRC authorities. The unaudited consolidated results contained herein have not been agreed by the auditors of the Company (the “**Auditors**”) as required under Rule 13.49(2) of the Listing Rules. The audited consolidated results announcement of the Company for the Year will be made once the auditing process is completed pursuant to the Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants and other applicable laws and regulations. For details, please refer to the announcement dated 28 September 2022 of the Company.

Nonetheless, the Board currently expects that the Auditors’ report to be issued shall contain a paragraph relating to “Uncertainty Related to Going Concern” and “Deconsolidation of a subsidiary” in relation to the disclaimer opinion brought forward from the 2021 Audited Annual Result. However, the Auditors are not yet in a position to conclude whether there will be any modification in the opinion included in the Auditors’ report in this regard. The Board considers that it is appropriate to prepare the consolidated results on a going concern basis, taking into account the facts and assumptions as disclosed in note 2 of the consolidated financial statements.

The audit committee of the Company has reviewed the unaudited consolidated results of the Group for the Year.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will make further announcement(s) relating to, among others, (i) the audited consolidated results of the Group for the Year as agreed by the Auditors and material differences (if any) as compared with the unaudited consolidated results contained herein; and (ii) the date of the forthcoming annual general meeting of the Company and the closure of register of members to determine the entitlement of shareholders of the Company to attend and vote at that meeting. In addition, the Company will make further announcement(s) when there are any material updates in the auditing process, if necessary.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The 2022 Annual Report of the Company containing all the financial and other related information of the Company required by the Listing Rules will be available on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.chinazenith.com.hk and will be despatched to the shareholders of the Company and available on the above websites in due course.

The financial information contained herein in respect of the final results of the Group has not been audited and has not been agreed with the Auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
China Zenith Chemical Group Limited
Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong, 29 September 2022

As at the date of this announcement, Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Law Tze Ping Eric are the executive Directors; Mr. Liu Yangyang is the non-executive Director; and Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit are the independent non-executive Directors.