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中國天
China Zenith

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

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

(1) SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2021 AND (2) DISCLOSEABLE AND CONNECTED TRANSACTION

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2021

In addition to the information provided in the 2021 Annual Results Announcement and the 2021 Annual Report, the Board would like to provide further information in relation to (i) the Audit Qualification; (ii) the acquisition and disposal of the Deconsolidated Subsidiary by the Group; and (iii) details of the impairment in relation to prepayment, deposit and other receivables.

DISCLOSEABLE AND CONNECTED TRANSACTION

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.

Listing Rules implications

On the date of the Share Transfer Agreement, 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, the Disposal was subject to the reporting and announcement requirements, and was exempt from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in relation to the Disposal exceeded 5% but are less than 25%, the Disposal constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Due to an oversight, the Disposal was not disclosed by the Company in accordance with the Listing Rules, and the Company inadvertently breached Chapter 14 and Chapter 14A of the Listing Rules.

Reference is made to the 2021 Annual Results Announcement and the 2021 Annual Report. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the 2021 Annual Results Announcement and the 2021 Annual Report.

In addition to the information provided in the 2021Annual Results Announcement and the 2021 Annual Report, the Board would like to provide further information in relation to (i) the Audit Qualification; (ii) the acquisition and disposal of the Deconsolidated Subsidiary by the Group; and (iii) details of the impairment in relation to prepayment, deposit and other receivables.

DETAILS OF THE AUDIT QUALIFICATION AND VIEWS OF THE MANAGEMENT AND THE AUDIT COMMITTEE ON THE AUDIT QUALIFICATION

As disclosed in the Independent Auditor's Report, the Auditor expressed a disclaimer of opinion on the consolidated financial statements of the Company for the year ended 30 June 2021 due to the significance of the matters described in the section headed "Basis for Disclaimer of Opinion" in the Independent Auditor's Report regarding the uncertainties relating to going concern and the deconsolidation of the Deconsolidated Subsidiary.

1. Uncertainties relating to going concern

As stated in Note 2 to the consolidated financial statements of the Company for the year ended 30 June 2021 as set out in the 2021 Annual Report, and the section headed "Uncertainties relating to going concern and deconsolidation of a Subsidiary" in the corporate governance report contained in the 2021 Annual Report, in preparing the consolidated financial statements of the Company for the year ended 30 June 2021, 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 30 June 2022 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 took the Going Concern Measures prior to the publication of the 2021 Annual Results Announcement, details of which are set out in the corporate governance report in the 2021 Annual Report.

The directors of the Company are of the opinion that the Group has sufficient working capital for its present requirements, that is for 18 months ending 31 December 2022, on the assumption that the Company would (i) reach an extension agreement regarding the bonds of HK$100 million due to the bondholders; (ii) complete the sales of land use rights of certain lands in the PRC shortly; (iii) reach an extension or waiver agreement regarding the HK$71 million provision for a litigation case; and (iv) successfully implement the cost cutting measures to reduce administrative expenses and cash outflows.

Since the Auditors were unable to obtain sufficient evidence from the management of the Group for the above underlying assumptions on going concern, the Auditors issued a disclaimer of opinion in relation to limitation of scope of the adoption of going concern basis in preparing the consolidated financial statements for the year ended 30 June 2021.

The Audit Committee has discussed with the Board, reviewed the 2021 Financial Statements, and agreed with the going concern basis of preparation of the consolidated financial statements as well as the necessity to implement the Going Concern Measures and to finalise and implement the Action Plans for addressing the Audit Qualification. The Audit Committee has also discussed with the Auditors and reviewed the Audit Qualification and basis of the qualification.

As mentioned in the 2021 Annual Report, the Auditor considered that, in respect of the going concern assumptions as set out in Note 2 to the consolidated financial statements of the Company for the year ended 30 June 2021 as set out in the 2021 Annual Report, the uncertainties relating to going concern would be removed in the next year's independent auditor report if:

(i) the Company could successfully obtain extension of the bond payable in the amount of HK$100 million;

(ii) the Company could complete the sale of land use rights of certain lands in the PRC;

(iii) the Company could successfully reach an extension or waiver agreement regarding a provision of HK$71 million in a litigation case; and

(iv) the Company could successfully implement cost cutting measures.

As of the date of this announcement, the Company has reached agreement with several bondholders to extended the maturity dates of the bond payable in the amount of HK$42.5 million. The maturity dates of the relevant bond payables were extended to December 2022, January 2023, July 2023 and November 2023. The Company is in the process of negotiating an extension for the remaining amount of the bond payable. Furthermore, the Company is still in the process of negotiating for the completion of the sale of land use rights of certain lands in the PRC, negotiating for an extension or waiver agreement regarding a provision of HK$71 million in a litigation case, and implementing the cost cutting measures.

On 7 January 2022, the Company completed the allotment and issuance of 886,853,659 new ordinary shares at a subscription price of HK$0.12 per rights share by way of rights issue to the qualifying shareholders of the Company on the basis of one rights share for every two shares held on the record date. The unaudited net proceeds from the rights issue of approximately HK$101.13 million will be used for the repayment of the Group's indebtedness and interest expenses and general working capital of the Group.

The Company expects that the uncertainties relating to going concern would be removed in the next year's independent auditor's report if the Going Concern Measures can be successfully implemented.

Impact of the uncertainties relating to going concern on the Company's financial position

As stated in the 2021 Annual Report, should the Group fail to achieve the Going Concern Measures, it might be unable to operate on a going concern basis, and adjustments would have to be made to write down the carrying amounts of the Group's assets to their net realisable value, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements of the Company for the year ended 30 June 2021.

2. Deconsolidation of a subsidiary

During the year ended 30 June 2021, the Group acquired 70% of the entire issued shares of the Deconsolidated Subsidiary, details of which is set out in the section headed "Acquisition of 70% of the Deconsolidated Subsidiary" below.

Since May 2021, the sole director of the Deconsolidated Subsidiary, being the vendor of 70% of the Deconsolidated Subsidiary and holder of 30% of the entire issued shares of the Deconsolidated Subsidiary, did not cooperate with the management of the Group to maintain the appropriate internal control over the Deconsolidated Subsidiary nor provided all books and records of the Deconsolidated Subsidiary.

In preparing the Group's consolidated financial statements for the year ended 30 June 2021, despite various communications with the sole director of the Deconsolidated Subsidiary, the directors of the Company was unable to obtain sufficient and appropriate books and records regarding the financial statements of the Deconsolidated Subsidiary.

The Directors considered that the Company was unable to exercise effective control over the Deconsolidated Subsidiary despite various efforts made by the directors of the Company to resolve the matters. Accordingly, the Directors resolved that it was impracticable to consolidate the financial information of the Deconsolidated Subsidiary. Under this circumstance, the financial results, assets and liabilities of the Deconsolidated Subsidiary have been deconsolidated from the Group since 30 June 2021. The Deconsolidation had resulted in a loss of approximately HK$4.4 million.

Since the Company was unable to have full access to the books and records of the Deconsolidated Subsidiary, the Auditor was not provided with sufficient documentary evidence of the Deconsolidated Subsidiary and the Auditor was unable to perform satisfactory audit procedures to assess and audit the management accounts as of 30 June 2021 provided by the Deconsolidated Subsidiary. As a result, the Auditor issued a disclaimer of opinion in relation to the consolidated financial statements of the Group for the year ended 30 June 2021. For further details on the disclaimer of opinion and its reason, please refer to the 2021 Annual Report.

It is expected that a qualified opinion regarding the corresponding figures and consequential effect arising from the Deconsolidation will be contained in the consolidated financial statements of the Company for the year ending 30 June 2022 if the disposal of the Deconsolidated Subsidiary is completed in the financial year ending 30 June 2022. The Board has obtained the understanding with the auditor of the Company that the Company considers itself to have addressed the issues giving rise to the disclaimer of opinion in the consolidated financial statement for the year ended 30 June 2021 and barring unforeseen circumstances, a disclaimer of opinion in respect of the same issues should no longer be required to be included in the consolidated financial statements for the year ending 30 June 2022.

Impact of the deconsolidation of a subsidiary on the Company's financial position

As set out in the 2021 Annual Results Announcement and the 2021 Annual Report, any adjustments that might have been found to be necessary in respect of the deconsolidation of a subsidiary would have an effect on the Group's net assets as at 30 June 2021 and the financial performance and cash flows of the Group for the year ended 30 June 2021 and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant non-adjusting subsequent events relating to the Deconsolidated Subsidiary.

Loss incurred by the Deconsolidated Subsidiary

Based on the unaudited management accounts of the Deconsolidated Subsidiary for the year ended 30 June 2021, the Deconsolidated Subsidiary incurred loss of approximately HK$5.7 million for the period from the date of the Acquisition to 30 June 2021.

Based on the information available to the Board, such loss incurred by the Deconsolidated Subsidiary was mainly due to: (i) the increase in impairment loss arising from prepayment of the wine and related accessories by the Deconsolidated Subsidiary; and (ii) the increase in administrative expenses due to the increase in staff costs of the Deconsolidated Subsidiary.

As disclosed in Note 40 to the consolidated financial statements of the Company for the year ended 30 June 2021 as set out in the 2021 Annual Report, the Deconsolidated Subsidiary held prepayments, deposits and other receivables of HK$45.2 million as of 30 June 2021. Based on the management accounts of the Deconsolidated Subsidiary, details of the breakdowns of the prepayments, deposits and other receivables of the Deconsolidated Subsidiary as of 30 June 2021 are as follows:

(i) prepayment of approximately HK$30.3 million to the supplier of the Deconsolidated Subsidiary by the Deconsolidated Subsidiary; and

(ii) advance of approximately HK$14.9 million to Mr. Sze by the Deconsolidated Subsidiary.

DETAILS OF THE IMPAIRMENT IN RELATION TO PREPAYMENT, DEPOSIT AND OTHER RECEIVABLES

The Board would like to clarify that there was a classification mistake in the 2021 Results Announcement between the provision of allowance for trade receivables and the provision of allowance for prepayment, deposit and other receivables. Such classification mistake had been corrected in the 2021 Annual Report. As disclosed in the 2021 Annual Report, the Company recognised a provision of allowance for trade receivables and a provision of allowance for prepayment, deposit and other receivables of approximately HK$5,880,000 and HK$119,043,000 respectively for the year ended 30 June 2021.

Below is a table that sets out the breakdown of the impairment of prepayment, deposit and other receivables that was above HK$500,000 for the year ended 30 June 2021:

Name of debtor	**Relationship with the Company**	**Nature and reason for recognition of impairment loss**	**Amount owed to the Group** *(HK$'000)*	**Impairment recognised during the year ended 30 June 2021** *(HK$'000)*
Mudanjiang Longsheng Real Estate Development Co., Ltd.* (牡丹江龍盛房地產開發有限公司)	Independent Third Party	Materials, wages, lease payment and overhead prepayments for a construction site. The construction commenced in 2018 and suspended in 2019 upon the outbreak of COVID-19. Up to the date of this announcement, the construction had not yet resumed and the Company did not receive any payment for the prepayments, thus full provision had been made.	58,967	58,967

Name of debtor	Relationship with the Company	Nature and reason for recognition of impairment loss	Amount owed to the Group *(HK$'000)*	Impairment recognised during the year ended 30 June 2021 *(HK$'000)*
Mudanjiang Junsheng Real Estate Co., Ltd.* (牡丹江均勝房地產置業有限公司)	Independent Third Party	Materials, wages, lease payment and overhead prepayments for a construction site. The construction commenced in 2018 and suspended in 2019 upon the outbreak of COVID-19. Up to the date of this announcement, the construction had not yet resumed and the Company did not receive any payment for the prepayments, thus full provision had been made.	18,420	18,420
China Railway 14th Bureau Group Construction Engineering Co., Ltd.* (中鐵十四局集團建築工程有限公司)	Independent Third Party	Materials, wages, lease payment and overhead prepayments for a construction site. The construction commenced in 2018 and suspended in 2019 upon the outbreak of COVID-19. Up to the date of this announcement, the construction had not yet resumed and the Company did not receive any payment for the prepayment, thus full provision had been made.	5,382	5,382
Jieyue Building Materials Wholesale Store, Hulan District, Harbin City* (哈爾濱市呼蘭區傑躍建材批發商店)	Independent Third Party	Prepayment for the materials, equipment and services for the upgrading of the existing plant owned by Heihe Longjiang Chemical Company to transform the production lines of the plant from the production of calcium carbide to the production of high ferrochrome in 2020. Since the production of calcium carbide have been resumed in June 2021, the upgrading of the plant had been suspended. As the relevant prepayment aged over 365 days, full provision had been made.	25,950	25,950
VAT receivables for the PRC governmental authorities	Independent Third Party	Provision was made due to expected credit loss in accordance with HKFRS 9. The income from residential heat supply services was VAT free and the income stream is not enough to utilize and offset the VAT receivables, thus provision had been made.	5,009	1,857

Name of debtor	Relationship with the Company	Nature and reason for recognition of impairment loss	Amount owed to the Group *(HK$'000)*	Impairment recognised during the year ended 30 June 2021 *(HK$'000)*
Mudanjiang Tianyi Real Estate Development Co., Ltd.* (牡丹江天一房地產開發有限公司)	Independent Third Party	Receivables in respect of the heat supply services provided by the Group. The customer involves various litigations and may not able to settle the outstanding amount. Full provision had been made.	2,909	2,909
PetroChina Jinhong Petrochemical (Dalian) Co., Ltd.* (中油金泓石化（大連）有限公司)	Independent Third Party	Prepayment for consumables. Provision was made due to expected credit loss in accordance with HKFRS 9.	1,504	848
Tieli Taoshan Xinbaolong Coal Co., Ltd.* (鐵力桃山鑫寶龍煤炭有限公司)	Independent Third Party	Prepayment for coal. Provision was made due to expected credit loss in accordance with HKFRS 9.	790	598
Union Space Group Limited	Independent Third Party	Union Space Group Limited is one of the suppliers of wine to the Deconsolidated Subsidiary and the relevant receivables from Union Space Group Limited are the amount paid to Union Space Group Limited for the prepayment in respect of purchase of wine. Impairment was provided due to expected credit loss in accordance with HKFRS 9.	33,530	3,260

The Board is of the view that the prepayment, deposit and other receivables as disclosed above are not financial assistance provided by the Company and they do not constitute notifiable transactions under Chapter 14 of the Listing Rules.

Recovery actions taken by the Company to recover the prepayment, deposit and other receivables

The Company had taken actions to recover the abovementioned prepayment, deposit and other receivables. In particular, the Company had taken the following actions:

(i) with respect to the prepayment, deposit and other receivables due from Mudanjiang Longsheng Real Estate Development Co., Ltd.* (牡丹江龍盛房地產開發有限公司), Mudanjiang Junsheng Real Estate Co., Ltd.* (牡丹江均勝房地產置業有限公司) and China Railway 14th Bureau Group Construction Engineering Co., Ltd.* (中鐵十四局集團建築工程有限公司):

    (a) made telephone calls to demand for repayment of the relevant receivables;

    (b) issued letter to demand for repayment of the relevant receivables;

    (c) engaged local law firm in the PRC to issue demand notes to demand for repayment of the relevant receivables; and

(ii) the Company had negotiated with Jieyue Building Materials Wholesale Store in Hulan District at Harbin City* (哈爾濱市呼蘭區傑躍建材批發商店) to demand for the repayment of the relevant receivables in full. As of the date of this announcement, the Company is still in the process of negotiation with Jieyue Building Materials Wholesale Store in Hulan District at Harbin City* (哈爾濱市呼蘭區傑躍建材批發商店) to demand for the repayment of the relevant receivables in full.

The Board considers that the above actions taken are sufficient and appropriate to recover the prepayment, deposit and other receivables at this stage.

The above additional information does not affect other information contained in the 2021 Annual Results Announcement or the 2021 Annual Report. Save as stated above, all information in the 2021 Annual Results Announcement and the 2021 Annual Report remains unchanged.

ACQUISITION OF 70% OF THE DECONSOLIDATED SUBSIDIARY

The Acquisition

On 16 October 2020, Prosper Path, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Sze, pursuant to which Prosper Path agreed to acquire 70% of the entire issued shares of the Deconsolidated Subsidiary from Mr. Sze at cash consideration of HK$8,400,000. Completion took place after signing of such sale and purchase agreement. To the best of the knowledge, information and belief of the Company, having made all reasonable enquiries, Mr. Sze was then an Independent Third Party.

The Deconsolidated Subsidiary was then principally engaged in trading and sourcing of wine and related accessories.

Prior to the Acquisition, the Company had performed the following due diligence work for the purpose of reviewing internal control of the Deconsolidated Subsidiary:

(i) assessed the reporting structure and authorisation procedure of the Deconsolidated Subsidiary in respect of sale and purchase cycles by reviewing the sales cycle (including inspection of customer list, delivery notes and sales invoice), purchase cycle (including inspection of supplier list, purchase order and purchase invoice) and inventory cycle (including inspection of the stock list, delivery notes and purchase order);

(ii) assessed the organisation structure and operating structure of the Deconsolidated Subsidiary, including reviewing the staff list and the duties of key employees in the Deconsolidated Subsidiary.

The Executive Directors are of the view that reasonable due diligence has been conducted by the Company.

The consideration of the Acquisition was arrived at after arm's length negotiations between the Purchaser and the Vendor and on normal commercial terms, taking into consideration the following:

(i) the historical financial performance of the Deconsolidated Subsidiary. The Deconsolidated Subsidiary's net liability was HK$3.3 million as of the date of the Acquisition, and the profit of the Deconsolidated Subsidiary was HK$196,000 and HK$112,000 for the years ended 31 March 2019 and 2020 respectively.

(ii) the prospect of the wine trading and related accessories market in Hong Kong, including but not limited to the potential synergies and expansion plan of the Company in the wine industry; and

(iii) the existing and prospective suppliers and customers relationship of the Deconsolidated Subsidiary, which would provide a sustainable stream of income for the Deconsolidated Subsidiary.

On the basis of the above, the Executive Directors are of the view that the consideration of the Acquisition was fair and reasonable and in the interests of the Company and its shareholders as a whole.

Failure to obtain books and records

Subsequent to the Acquisition, the Deconsolidated Subsidiary was continued to be managed by Mr. Sze. Despite numerous requests and demands from the Group to the management of the Deconsolidated Subsidiary (including Mr. Sze and staff from the financial and accounting department of the Deconsolidated Subsidiary), the Group encountered difficulties in obtaining the requisite information and records from the Deconsolidated Subsidiary for the purpose of completing the audit of the Deconsolidated Subsidiary since May 2021. The management of the Deconsolidated Subsidiary claimed that the business details as included in the books and records of the Deconsolidated Subsidiary, including but not limited to, details of suppliers and customers, are trade secrets and refused to provide the relevant books and records to the Company.

The Board considered that the Company had made reasonable attempts to obtain the relevant books and records of the Deconsolidated Subsidiary but the Company had been denied access to such documents due to the uncooperative behaviour of the management of the Deconsolidated Subsidiary.

The Executive Directors believe that reasonable due diligence on the Deconsolidated Subsidiary would be difficult to reveal the behavioural issues and unexpected attitudes of the management of the Deconsolidated Subsidiary (including the uncooperative behaviour and refusal to provide books and records of the Deconsolidated Subsidiary by the management of the Deconsolidated Subsidiary) which took place after completion of the Acquisition. The Executive Directors are of the view that the behavioural issues of the management of the Deconsolidated Subsidiary were out of the Company's expectation and were not expected to be identified during the due diligence conducted by the Company.

Listing Rules implications

As all the applicable percentage ratios (as defined in the Listing Rules) for the Acquisition is less than 5%, the Acquisition did not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules. As Mr. Sze was then an Independent Third Party, the Acquisition did not constitute a connected transaction under Chapter 14A of the Listing Rules.

DISCLOSEABLE AND CONNECTED TRANSACTION

The Disposal

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.

The principal terms of the Disposal are set out as follows:

Date

7 October 2021

Parties

(i) Prosper Path, as vendor; and

(ii) Mr. Sze, as purchaser.

Nature of the transaction

Pursuant to the Share Transfer Agreement, Prosper Path has agreed to sell, and Mr. Sze has agreed to purchase, 70% of the entire issued shares of the Deconsolidated Subsidiary.

Consideration

The consideration for the Disposal was HK$3,800,000 which was settled in cash on 25 November 2021. The consideration of the Disposal was arrived at after arm's length negotiations between Prosper Path and Mr. Sze and on normal commercial terms, taking into consideration: (i) the uncooperative behaviour of the management of the Deconsolidated Subsidiary (including Mr. Sze) since May 2021; (ii) the failure to obtain the requisite information and records from the Deconsolidated Subsidiary for the purpose of completing the audit of the Deconsolidated Subsidiary; (iii) the limited availability of the financial information of the Deconsolidated Subsidiary (only the management account up to 30 June 2021 of the Deconsolidated Subsidiary were available to the Group) which made it impracticable to consolidate the financial information of the Deconsolidated Subsidiary in the Group; (iv) the loss incurred by the Deconsolidated Subsidiary of HK$5.7 million for the period from the date of the Acquisition (i.e. 16 October 2020) to 30 June 2021; and (v) the net asset value of the Deconsolidated Subsidiary of HK$1.7 million as of 30 June 2021.

In light of the uncertainty in exercising control of the Deconsolidated Subsidiary and without full access to the books and records of the Deconsolidated Subsidiary, the Board was of the view that it would be in the interest of the Group not to continue with the investment in the Deconsolidated Subsidiary. The Disposal in October 2021 at a reasonable consideration would minimize the Group's loss and to avoid a disclaimer of opinion in the consolidated financial statements of the Company for the coming financial year ending 30 June 2022.

Taking into account the aforesaid factors, the Board considered the consideration of the Disposal was fair and reasonable and in the interests of the Company and its shareholders as a whole.

Condition precedent

The completion of the Disposal is conditional upon the repayment of the Outstanding Amount by the Deconsolidated Subsidiary to the Company in full. Such condition precedent was waived by Prosper Path.

The completion of the Disposal took place on 13 April 2022 on which 70% of the entire issued shares of the Deconsolidated Subsidiary was transferred by Prosper Path to Mr. Sze. As disclosed in the 2021 Annual Report, the disposal of the Deconsolidated Subsidiary was originally expected to be completed in December 2021. However, due to the temporary suspension of work and business due to the outbreak of the COVID-19 in Hong Kong in early 2022, it has prolonged the negotiation process of the completion of the Disposal which resulted in the delay in completion of the Disposal that eventually took place in April 2022.

Irrevocable Guarantee and repayment of loan

Under the Share Transfer Agreement, Prosper Path and Mr. Sze have further agreed to the following:

(i) Mr. Sze shall provide the Irrevocable Guarantee; and

(ii) the Deconsolidated Subsidiary shall repay the Outstanding Amount in accordance with the payment schedule as set out below:

Date	**Amount** *(HK$)*
7 October 2021 (date of the Share Transfer Agreement)	3,000,000
15 October 2021	4,000,000
15 November 2021	20,000,000
15 December 2021	20,000,000

Advance and Further Advance

On 4 November 2020 and 13 July 2021, respectively, the Company has provided the Advance and the Further Advance to the Deconsolidated Subsidiary as general working capital. No written loan agreement was entered between the Company and the Deconsolidated Subsidiary in respect of the Advance and the Further Advance. Since the Deconsolidated Subsidiary was a subsidiary of the Company at the time of making the Advance and the Further Advance by the Group, the Board was of the view that it was not necessary to enter into a formal agreement for such intra-group loan. Such intra-group loan would normally be recorded as an amount due from the borrowing entity of the Group under the management account of the Group.

As of the date of this announcement, HK$18 million out of the Outstanding Amount has been repaid by the Deconsolidated Subsidiary to the Company. The Company has discussed and negotiated with Mr. Sze to demand for repayment of the balance of the Outstanding Amount of HK$29 million and to formulate a New Payment Schedule. The Company also issued letters to the Deconsolidated Subsidiary and to Mr. Sze to demand for repayment of the balance of the Outstanding Amount and to enforce the Irrevocable Guarantee, respectively.

As of the date of this announcement, the parties are still in the process of negotiating and formulating the New Payment Schedule for the balance of the Outstanding Amount of HK$29 million. Based on the current discussion between the Company and the Deconsolidated Subsidiary, the Company is expecting to receive the repayment of the balance of the Outstanding Amount in full by the end of June 2022.

The Board acknowledged the financial difficulty of the Deconsolidated Subsidiary to pay the Outstanding Amount in accordance with the payment schedule as set out in the Share Transfer Agreement due to the COVID-19 pandemic. The Board further considered that the commencement of legal action against the Deconsolidated Subsidiary at this stage would incur considerable financial cost to the Group and may not improve the recoverability of the Outstanding Amount. Taking into account that positive progress has been achieved between the Company and Mr. Sze to formulate the New Payment Schedule, the Board considered that it is not appropriate to take legal action against the Deconsolidated Subsidiary at this stage.

In the event that (i) the New Payment Schedule could not be agreed between the Company and the Deconsolidated Subsidiary, or (ii) in the case a New Payment Schedule is agreed, any repayment of the balance of the Outstanding Amount is not made in accordance with the New Payment Schedule, the Group will engage its legal adviser to demand the Deconsolidated Subsidiary for repayment of any balance of the Outstanding Amount and take legal actions against the Deconsolidated Subsidiary in respect of the balance of the Outstanding Amount if appropriate.

As of the date of this announcement, the Board is of the view that no impairment should be made in relation to the Outstanding Amount as the Board expects that the Outstanding Amount is collectible based on the discussion with Mr. Sze.

Reasons for and benefits of the Disposal

The Board believes that the Disposal is an opportunity for the Group to exit in view of the uncooperative manner of the management of the Deconsolidated Subsidiary and failure of the financial performance of the Deconsolidated Subsidiary as of the 30 June 2021 to meet the expectation of the Group. The Directors (including the independent non-executive Directors) were of the view that the terms of the Share Transfer Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms and that entering into of the Share Transfer Agreement was in the interest of the Company and the Shareholders as a whole. None of the Directors has any material interest in the Disposal, the Share Transfer Agreement and the transactions contemplated thereunder, therefore none of the Directors has abstained from voting on the board resolution approving the Share Transfer Agreement and the transactions contemplated thereunder.

Financial information of the Deconsolidated Subsidiary

Below financial information of the Deconsolidated Subsidiary based on the unaudited management account of the Deconsolidated Subsidiary:

	For the year ended 30 June 2021	For the year ended 30 June 2020
	HK$'000	*HK$'000*
Net (loss)/profit before tax	**(5,688)**	115
Net (loss)/profit after tax	**(5,723)**	112

The unaudited book value of the Deconsolidated Subsidiary as of 30 June 2021 was approximately HK$9.0 million.

Financial impact of the Disposal

Upon completion of the Disposal on 13 April 2022, the Company ceased to hold any shareholding interest in the Deconsolidated Subsidiary, and thus the Deconsolidated Subsidiary ceased to be a subsidiary of the Company.

Taking into account the consideration of the Acquisition and the Disposal, the Company has recorded a loss from the Disposal of approximately HK$0.6 million. Such loss has already been reflected (i) as loss on deconsolidation of HK$4.4 million in the audited consolidated financial statements of the Company for the year ended 30 June 2021, and (ii) as consideration received from the disposal of the Deconsolidated Subsidiary of HK$3.8 million in the unaudited consolidated financial statements of the Company for the six months ended 31 December 2021.

The original acquisition costs of the 70% of the issued shares of the Deconsolidated Subsidiary was HK$8,400,000.

Information on the Group and Prosper Path

The Group is principally engaged in the manufacturing and sales of coal-related chemical products, the generation and supply of electricity and thermal energy and construction services.

Prosper Path is an investment holding company.

Information on Mr. Sze

On the date of the Share Transfer Agreement, Mr. Sze was the sole director of the Deconsolidated Subsidiary, and owned 30% of the entire issued shares of the Deconsolidated Subsidiary. Therefore Mr. Sze was a connected person of the Company at the subsidiary level.

Information on the Deconsolidated Subsidiary

The Deconsolidated Subsidiary is principally engaged in trading and sourcing of wine and related accessories.

Use of Proceeds of the Disposal

The proceeds from the Disposal of HK$3,800,000 is intended to be used as general working capital of the Group.

Listing Rules implications

On the date of the Share Transfer Agreement, 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 is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Disposal; and (iii) the independent non-executive Directors have 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, the Disposal was subject to the reporting and announcement requirements, and was exempt from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in relation to the Disposal exceeded 5% but are less than 25%, the Disposal constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Due to an oversight, the Disposal was not disclosed by the Company in accordance with the Listing Rules, and the Company inadvertently breached Chapter 14 and Chapter 14A of the Listing Rules.

REMEDIAL ACTIONS

In order to prevent similar non-compliance from occurring and to ensure proper compliance with Chapter 14 and Chapter 14A the Listing Rules in the future, the following remedial actions will be taken by the Group:

(i) the Company will regularly update a list of the connected parties of the Company to identify all the connected transactions at the Company and subsidiaries level;

(ii) the Company will provide regular training on regulatory and legal topics to the employees of the Group including compliance with the Listing Rules, including notifiable and connected transactions requirements under the Listing Rules, and financial reporting requirements under the Listing Rules;

(iii) the Company will seek legal advice, including requiring its external legal counsel to review all future sizeable transactions to ensure timely compliance with the requirements under the relevant Listing Rules including Chapter 14 and Chapter 14A of the Listing Rules as and when necessary;

(iv) the Company will review its internal control system, financial reporting system and existing policies and procedures in monitoring notifiable transactions and connected transactions of the Group under the Listing Rules and report results of the same to the Board periodically;

(v) the Company will strengthen the coordination and reporting arrangements for notifiable transactions and connected transactions among its subsidiaries; and

(vi) the Company will (by its own staff or its advisers) consult the Stock Exchange, if any percentage ratio in respect of any proposed transaction produces an anomalous result or if the Company has any doubt on any procedure or requirement under the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

"2021 Annual Report"	the annual report of the Company for the year ended 30 June 2021
"2021 Annual Results Announcement"	the announcement of the Company dated 31 October 2021 in relation to the annual results of the Company for the year ended 30 June 2021
"Acquisition"	the acquisition of 70% of the entire issued shares of the Deconsolidated Subsidiary by Prosper Path from Mr. Sze at cash consideration of HK$8,400,000

"Advance"	the advance of loan of HK$32 million made by the Company to the Deconsolidated Subsidiary on 4 November 2020
"Audit Qualification(s)"	the disclaimer of opinion issued by the Auditor in relation to the consolidated financial statements of the Company for the year ended 30 June 2021
"Auditor"	the auditor of the Company
"Board"	the board of Directors
"Company"	China Zenith Chemical Group Limited (formerly known as Xinyang Maojian Group Limited), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Deconsolidated Subsidiary"	Table Art Limited (formerly known as Aevitas Wines Limited), a company incorporated in Hong Kong with limited liability, and was owned as to 70% by Prosper Path and 30% by Mr. Sze as of the date of the Share Transfer Agreement
"Directors"	the directors of the Company
"Disposal"	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
"Executive Directors"	the executive directors of the Company
"Further Advance"	the advance of loan of HK$15 million made by the Company to the Deconsolidated Subsidiary on 13 July 2021
"Going Concern Measures"	the measures taken by the Company to address the going concerns of the Group as set out in the corporate governance report in the 2021 Annual Report
"Group"	the Company and its subsidiaries
"Independent Auditor's Report"	the independent auditor's report on the Company's consolidated financial statements for the year ended 30 June 2021 as set out in the 2021 Annual Report
"Independent Third Party(ies)"	third parties independent of and not connected with the Company or any of its connected persons

"Irrevocable Guarantee"	the irrevocable guarantee dated 7 October 2021 given by Mr. Sze in favour of Prosper Path to guarantee the obligations of the Deconsolidated Subsidiary to repay the Outstanding Amount
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Sze"	Mr. Sze Ka Ho, the sole director of the Deconsolidated Subsidiary and holder of 30% of the entire issued shares of the Deconsolidated Subsidiary as of the date of the Share Transfer Agreement
"New Payment Schedule"	the new payment schedule in respect of the Outstanding Amount
"Outstanding Amount"	the outstanding amount in the sum of HK$47 million due to the Company by the Deconsolidated Subsidiary as of the date of the Share Transfer Agreement
"Prosper Path"	Prosper Path Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Share Transfer Agreement"	the share transfer agreement dated 7 October 2021 entered into between Prosper Path and Mr. Sze in respect of the Disposal
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	per cent

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

Hong Kong, 20 April 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 and Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit are the independent non-executive Directors.

* *For identification purposes only*