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China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 362)

PROFIT WARNING AND PRICE SENSITIVE INFORMATION

This announcement is made by China Zenith Chemical Group Limited (the “**Company**”) together with its subsidiaries (the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The board of directors of the Company (the “**Board**”) wishes to inform the shareholders and potential investors that the unaudited interim results of the Group for the six months ending 31 December 2012 (the “**Interim Results**”) is expected to record a substantial loss.

In addition, the Board would like to present to the shareholders and potential investors a brief update on the operation of the Group.

Furthermore, the Board would like to inform the shareholders and potential investors a material litigation faced by an indirect wholly owned subsidiary of the Company.

As the Company is still in the process of finalizing its Interim Results, the information contained in this announcement is only based on a preliminary assessment of the information available by the management of the Company.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules.

The Board wishes to inform the Shareholders and potential investors that the unaudited Interim Results is expected to record a substantial loss. The estimated loss is mainly derived from (i) the challenging operating environment of the chemical manufacturing industry segments and further increase in the cost of production which resulted in lower profit margins for all of our coal-related chemical products and bio-chemical products in Mudanjiang, the People's Republic of China (the “**PRC**”); (ii) the idle operating cost and labour layoff cost resulted from the temporary suspension of the production of all coal-related chemical divisions and the bio-chemical division in Mudanjiang, the PRC; and (iii) impairment of fixed assets of the heat and power generating facilities due to termination of construction and installation work for the expansion of production capacities of the production facilities in Mudanjiang; and (iv) impairment of long-outstanding receivables.

UPDATE ON THE OPERATION OF PRODUCTION FACILITIES IN MUDANJIANG

During the financial period under review, the cost of electricity and other cost of conversion of certain raw materials in Mudanjiang were relatively high when compared with those in Heihe, the PRC. Therefore, the management decided on 28 November 2012 to temporarily shut down the vertically integrated product chain from calcium carbide to Polyvinyl-chloride (“**PVC**”). Approximately five months of production and sales of calcium carbide and PVC is expected to be recorded in the Interim Results.

During the financial period under review, the production of both vinyl acetate and vitamin C was suspended since all the calcium carbide produced was used to further produce PVC and the market selling price of vitamin C was not able to cover its cost of production. No production and sales of vinyl acetate and vitamin C is expected to be recorded for the six months ending 31 December 2012.

The heat and power generating facilities were temporarily shut down in July 2012 and were then resumed to operate again from October 2012 to meet the targeted demand of heat supplied to residential areas. The local management had closely monitored the operation to reduce the coal or energy consumption and avoid wastage so as to minimize the loss from operating our heat and power generating facilities. Currently, the local management has also reviewed the progress of constructing the first new coal-powered electricity generating facilities which had started in 2007. The management had decided to suspend the expansion project due to (i) the continuous increase in the prices of coal and other raw materials for production and (ii) the lack of supportive government policy at the moment. The management had estimated that impairment of the construction in progress for such project will be substantial. Approximately four months of operation and sales of electricity and heat is expected to be recorded in the Interim Results.

UPDATE ON THE OPERATION OF PRODUCTION FACILITIES IN HEIHE

The trial run production of calcium carbide at the calcium carbide production facilities in Heihe had started near the end of October 2012. The local management is confident that the production will gradually be running smoothly in three to four months and the designed annual production capacity of 100,000 tonnes of calcium carbide will be attained during the first quarter of 2013. Only two months of operation is expected to be included in the Interim Results.

MATERIAL LITIGATION

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 against Mudanjiang Better Day Power Limited (牡丹江佳日熱電有限公司) (“MDJ Better Day”), an indirect wholly-owned subsidiary of the Company.

MDJ Better Day had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of MDJ Better Day (the “Contract”).

Owing to the delay in the progress of the construction, the Plaintiff claimed (i) the payment of the contract sum in the amount of RMB42.7 million and the interest thereof; (ii) the grant of the first priority right to receive payment from MDJ Better Day in respect of the subject construction project under the Contract; (iii) damages in the sum of RMB13.3 million for alleged termination of the Contract; and (iv) the legal fees arising from this legal case.

The Company is currently seeking legal advice in respect of the Writ on the dispute in the payment for the Contract. Per management of MDJ Better Day, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since year 2009. To handle the claim from the Plaintiff, the local management will appoint an independent professional valuer to ascertain both of the percentage of completion of the subject construction project and the quality of the construction work done in respect of the subject Contract early next year. Thereafter, the management will then have sufficient information to deal with the claims from the Plaintiff and will not rule out the possibility of filing a counterclaim.

As the Company is still in the process of finalizing its Interim Results, the information contained in this announcement is only based on a preliminary assessment of the information available by the management of the Company. The results announcement of the Company for the six months ending 31 December 2012 is expected to be released before the end of February 2013. Shareholders and potential investors are advised to read the results announcement carefully.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 31 December 2012

As at the date hereof, Ms. Chan Yuk Foebe, Mr. Chiau Che Kong, Mr. Peng Zhanrong and Mr. Wu Jianwei are the executive Directors and Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho, Dato' Wong Sin Just and Mr. Wong Sin Lai are the independent non-executive Directors.