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

(Formerly known as Daqing Petroleum and Chemical Group Limited)
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 362)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2007

RESULTS

The Board of Directors ("Board" or "Directors") of China Zenith Chemical Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2007 together with the comparative figures for the previous year as follows:

Consolidated Income Statement

For the year ended 30 June 2007

	Note	**2007** **HK$'000**	(Restated) 2006 HK$'000
Continuing operations			
Turnover		**911,507**	469,921
Cost of sales		**(635,377)**	(336,613)
Gross profit		**276,130**	133,308
Other income	*5*	**10,588**	6,910
Selling and distribution costs		**(19,987)**	(8,557)
Administrative expenses		**(56,963)**	(31,892)
Other operating expenses		**(1,830)**	(1,322)
Profit from operations		**207,938**	98,447
Finance costs	*6*	**(4,507)**	–
Profit before tax		**203,431**	98,447
Income tax expense	*7*	**(2,443)**	(2,967)
Profit for the year from continuing operations		**200,988**	95,480
Discontinued operations			
(Loss)/profit for the year from discontinued operations		**(125,962)**	17,814
Profit for the year	*8*	**75,026**	113,294

	Note	2007 HK$'000	(Restated) 2006 HK$'000
Attributable to:			
Equity holders of the Company		**64,256**	84,529
Minority interests		**10,770**	28,765
		75,026	113,294
Earnings per share			
From continuing and discontinued operations			
– Basic	*10(a)*	**HK2.4 cents**	HK4.6 cents
– Diluted	*10(a)*	**HK2.4 cents**	HK4.6 cents
From continuing operations			
– Basic	*10(b)*	**HK6.8 cents**	HK3.7 cents
– Diluted	*10(b)*	**HK6.8 cents**	HK3.7 cents

Consolidated Balance Sheet

At 30 June 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Fixed assets		**1,065,800**	313,787
Land use rights		**150,807**	78,673
Goodwill		**83,292**	–
Other intangible assets		**112,840**	9,699
Deposit paid for the acquisition of subsidiaries		**50,000**	–
Deposit paid for the establishment of a proposed joint venture		**–**	5,206
Deferred tax assets		**2,994**	2,831
		1,465,733	410,196
Current assets			
Inventories		**106,080**	85,161
Trade receivables	*11*	**142,851**	124,736
Prepayments, deposits and other receivables		**263,915**	78,815
Bank and cash balances		**170,047**	501,666
		682,893	790,378
TOTAL ASSETS		**2,148,626**	1,200,574
Capital and reserves			
Issued share capital		**33,778**	21,015
Retained profits		**536,796**	472,200
Other reserves		**932,828**	521,125
Equity attributable to equity holders of the Company		**1,503,402**	1,014,340
Minority interests		**240,777**	113,673
Total equity		**1,744,179**	1,128,013
Non-current liabilities			
Deferred tax liabilities		**165,943**	1,643
Current liabilities			
Trade payables	*12*	**66,827**	17,831
Other payables and accruals		**141,098**	20,612
Due to a minority shareholder of a subsidiary		**4,108**	–
Bank loan		**25,675**	–
Current tax liabilities		**796**	32,475
		238,504	70,918
Total liabilities		**404,447**	72,561
TOTAL EQUITY AND LIABILITIES		**2,148,626**	1,200,574
Net current assets		**444,389**	719,460
Total assets less current liabilities		**1,910,122**	1,129,656

Notes:

1. Basis of preparation

These 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"), accounting principles generally accepted in Hong Kong and the 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.

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

2. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006 and 1 May 2006. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Turnover

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

4. Segment Information

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The Group's business segments are as follows:

(a) manufacture and sale of polyvinyl-chloride ("Polyvinyl-chloride");

(b) manufacture and sale of vinyl acetate ("Vinyl acetate");

(c) generation and supply of heat and power ("Heat and power");

(d) manufacture and sale of glucose and starch ("Glucose and starch");

(e) manufacture and sale of lubricants ("Lubricants");

(f) manufacture and sale of anti-corrosive coatings ("Anti-corrosive coatings") and

(g) manufacture and sale of additives ("Additives").

(a) Business segments

	Continuing operations						Discontinued operations				
	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Glucose and starch HK$'000	Elimin-ations HK$'000	Sub-total HK$'000	Lubricants HK$'000	Anti-corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Total HK$'000
Year ended 30 June 2007											
Segment revenue	507,647	296,073	48,711	79,941	(20,865)	911,507	60,944	39,831	-	100,775	1,012,282
Segment results	146,993	95,524	3,674	(31,122)	-	215,069	(62,296)	(40,715)	-	(103,011)	112,058
Other income						10,588				3,633	14,221
Unallocated expenses						(17,719)				(26,584)	(44,303)
Consolidated profit/(loss) from operations						207,938				(125,962)	81,976
Finance costs						(4,507)				-	(4,507)
Consolidated profit/(loss) before tax						203,431				(125,962)	77,469
Income tax expense						(2,443)				-	(2,443)
Consolidated profit/(loss) for the year						200,988				(125,962)	75,026

	Continuing operations					Discontinued operations				
	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Glucose and starch HK$'000	Sub-total HK$'000	Lubricants HK$'000	Anti-corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Consolid-ated HK$'000
As at 30 June 2007										
Segment assets	516,000	289,016	330,961	644,363	1,780,340	-	-	-	-	1,780,340
Unallocated assets					368,286					368,286
Total assets					2,148,626					2,148,626
Segment liabilities	21,554	40,332	91,679	66,494	220,059	-	-	-	-	220,059
Unallocated liabilities					184,388					184,388
Total liabilities					404,447					404,447
Year ended 30 June 2007										
Other segment information:										
Depreciation	4,100	5,100	2,938	12,371	24,509	1,560	1,020	-	2,580	27,089
Unallocated depreciation					274					274
					24,783					27,363
Amortisation of intangible assets	-	1,080	2,116	-	3,196	-	-	-	-	3,196
Amortisation of land use rights	603	516	182	729	2,030	275	180	-	455	2,485
Capital expenditure	141,496	97,985	5,999	52,025	297,505	-	-	-	-	297,505
Unallocated capital expenditure					773					773
					298,278					298,278

	Continuing operations						Discontinued operations				
	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Glucose and starch HK$'000	Eliminations HK$'000	Sub-total HK$'000	Lubricants HK$'000	Anti-corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Total HK$'000
Year ended 30 June 2006											
Segment revenue	243,189	226,900	–	–	(168)	469,921	179,014	113,149	5,141	297,304	767,225
Segment results	38,571	71,779	–	–	–	110,350	18,451	12,902	531	31,884	142,234
Other income						6,910				70	6,980
Unallocated expenses						(18,813)				(9,799)	(28,612)
Consolidated profit before tax						98,447				22,155	120,602
Income tax expense						(2,967)				(4,341)	(7,308)
Consolidated profit for the year						95,480				17,814	113,294

	Continuing operations					Discontinued operations				
	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Glucose and starch HK$'000	Sub-total HK$'000	Lubricants HK$'000	Anti-corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Consolid-ated HK$'000
As at 30 June 2006										
Segment assets	200,719	220,460	–	–	421,179	332,574	210,208	9,551	552,333	973,512
Unallocated assets					25,990				201,072	227,062
Total assets					447,169				753,405	1,200,574
Segment liabilities	20,929	11,571	–	–	32,500	3,351	2,118	96	5,565	38,065
Unallocated liabilities					3,348				31,148	34,496
Total liabilities					35,848				36,713	72,561
Year ended 30 June 2006										
Other segment information:										
Depreciation	2,423	4,407	–	–	6,830	2,757	1,743	79	4,579	11,409
Unallocated depreciation					–				259	259
					6,830				4,838	11,668
Amortisation of intangible assets	–	786	–	–	786	–	–	–	–	786
Amortisation of land use rights	439	497	–	–	936	462	292	13	767	1,703
Capital expenditure	91,445	78,947	–	–	170,392	2,338	1,478	67	3,883	174,275
Unallocated capital expenditure					–				1,143	1,143
					170,392				5,026	175,418

(b) *Geographical segments*

All of the Group's revenue and assets are derived from customers and operations based in the People's Republic of China (the "PRC") and accordingly, no further analysis of the Group's geographical segments is disclosed.

5. Other income

	Group 2007 HK$'000	2006 HK$'000
Gain on disposal of financial assets at fair value through profit and loss	**1,470**	957
Gain on disposal of fixed assets	**262**	–
Government grants *(note)*	**1,564**	458
Interest income	**5,136**	2,707
Rental income	**300**	845
Reversal of revaluation deficit on buildings	**1,973**	1,317
Sundry income	**1,182**	696
Write back of other payables	**2,334**	–
	14,221	6,980
Representing:		
Continuing operations	**10,588**	6,910
Discontinued operations	**3,633**	70
	14,221	6,980

Note: Government grants for the year ended 30 June 2007 were received for refund of value-added tax and government charges. Government grants for the year ended 30 June 2006 were received for refund of value-added tax. There are no unfulfilled conditions or contingencies attached to the grants.

6. Finance costs

	Group 2007 HK$'000	2006 HK$'000
Continuing operations:		
Interest on bank loan	**1,408**	–
Interest on other loans wholly repayable within five years	**1,939**	–
Interest on discounted bills	**1,160**	–
	4,507	–

7. Income tax expense

	Group 2007 HK$'000	2006 HK$'000
Current tax – Overseas		
Provision for the year	**2,443**	6,955
Underprovision in prior years	**–**	1,327
	2,443	8,282
Deferred tax	**–**	(974)
	2,443	7,308
Representing:		
Continuing operations	**2,443**	2,967
Discontinued operations	**–**	4,341
	2,443	7,308

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2006: Nil).

Tax charge on profits assessable elsewhere have 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 relevant laws and regulations in the PRC, Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Dongbei Chemical"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year, i.e., from 1 January 2005 to 31 December 2006, and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years, i.e., from 1 January 2007 to 31 December 2009.

Mudanjiang Dongbei Gaoxin Chemical Company Limited ("Mudanjiang Dongbei Gaoxin"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year, i.e., from 1 January 2006 to 31 December 2007, and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years, i.e., from 1 January 2008 to 31 December 2010.

Mudanjiang Better Day Power Ltd. ("Mudanjiang BD Power"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. Tax exemption period has not yet commenced as Mudanjiang BD Power has tax losses brought forward to set off against current year's assessable profit.

Mudanjiang Gaoke Bio-Chem Co., Ltd. ("Mudanjiang Gaoke"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. Tax exemption period has not yet commenced as Mudanjiang Gaoke has no assessable profit since its date of registration.

The provision for income tax of other subsidiaries operating in the PRC have been calculated at the rate of 33%, based on existing legislation, interpretation and practices in respect thereof.

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law will be effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements will depend on the detailed implementation rules and regulations that have not been issued as of the date of the approval of these consolidated financial statements. Therefore, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

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

Group

	Hong Kong		**The PRC**		**Total**	
	2007 HK$'000	**2007 %**	**2007 HK$'000**	**2007 %**	**2007 HK$'000**	**2007 %**
Profit/(loss) before tax						
Continuing operations	**(10,493)**		**213,924**		**203,431**	
Discontinued operations	**–**		**(99,578)**		**(99,578)**	
	(10,493)		**114,346**		**103,853**	
Tax at the statutory tax rate	**(1,836)**	**(17.5)**	**37,734**	**33.0**	**35,898**	**34.6**
Preferential statutory tax rate offered	**–**	**–**	**(2,443)**	**(2.1)**	**(2,443)**	**(2.4)**
Income tax exempted	**–**	**–**	**(75,042)**	**(65.6)**	**(75,042)**	**(72.3)**
Expenses not deductible for tax	**1,836**	**17.5**	**–**	**–**	**1,836**	**1.8**
Unrecognised temporary differences	**–**	**–**	**(587)**	**(0.5)**	**(587)**	**(0.5)**
Tax losses not recognised	**–**	**–**	**42,781**	**37.3**	**42,781**	**41.2**
Tax charge at the Group's effective tax rate	**–**	**–**	**2,443**	**2.1**	**2,443**	**2.4**

	Hong Kong		The PRC		Total	
	2006 HK$'000	2006 %	2006 HK$'000	2006 %	2006 HK$'000	2006 %
Profit/(loss) before tax						
Continuing operations	(14,907)		113,354		98,447	
Discontinued operations	(3,379)		25,534		22,155	
	(18,286)		138,888		120,602	
Tax at the statutory tax rate	(3,200)	(17.5)	45,833	33.0	42,633	35.3
Preferential statutory tax rate offered	–	–	(4,610)	(3.3)	(4,610)	(3.8)
Income tax exempted	–	–	(35,744)	(25.7)	(35,744)	(29.6)
Expenses not deductible for tax	3,200	17.5	–	–	3,200	2.7
Unrecognised temporary differences	–	–	502	0.4	502	0.4
Underprovision in prior years	–	–	1,327	0.9	1,327	1.1
Tax charge at the Group's effective tax rate	–	–	7,308	5.3	7,308	6.1

8. Profit for the year

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

	Continuing operations		Discontinued operations		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Auditor's remuneration	**980**	365	**–**	485	**980**	850
Allowance for receivables	**808**	–	**18,978**	–	**19,786**	–
Allowance for inventories (included in cost of inventories sold)	**80**	–	**2,481**	12,465	**2,561**	12,465
Write off of fixed assets	**1,198**	–	**47,624**	–	**48,822**	–
Write off of land use rights	**–**	–	**13,420**	–	**13,420**	–
Write off of other intangible assets	**–**	–	**–**	5,146	**–**	5,146
Loss on disposal of fixed assets	**–**	30	**–**	–	**–**	30
Amortisation of other intangible assets (included in administrative expenses)	**3,196**	786	**–**	–	**3,196**	786
Cost of inventories sold	**519,365**	269,190	**112,009**	245,869	**631,374**	515,059
Depreciation	**24,783**	6,830	**2,580**	4,838	**27,363**	11,668
Minimum lease payments under operating leases for land and buildings	**4,073**	936	**1,055**	2,385	**5,128**	3,321
Research and development costs expensed for the year	**–**	971	**55**	789	**55**	1,760
Staff costs (excluding directors' remuneration):						
Wages, salaries and benefits in kind	**21,209**	8,066	**633**	3,161	**21,842**	11,227
Employee share option benefits	**–**	9,261	**–**	–	**–**	9,261
Retirement benefits scheme contributions	**48**	–	**–**	33	**48**	33

Cost of inventories sold includes staff costs and depreciation of approximately HK$12,647,000 (2006: HK$4,616,000) and HK$13,300,000 (2006: HK$5,986,000), respectively, which are included in the amounts disclosed separately in the continuing operations.

Cost of inventories sold includes staff costs and depreciation of approximately HK$332,000 (2006: HK$710,000) and HK$1,003,000 (2006: HK$1,568,000), respectively, which are included in the amounts disclosed separately in the discontinued operations.

9. Dividend

The directors do not recommend the payment of dividend for the year ended 30 June 2007 (2006: Nil).

10. Earnings per share

(a) *From continuing and discontinued operations*

Basic earnings per share

The calculation of basic earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$64,256,000 (2006: HK$84,529,000) and the weighted average number of ordinary shares of 2,663,794,684 (2006: 1,839,310,720, as adjusted to reflect the open offer on 9 January 2007) in issue during the year.

Diluted earnings per share

The calculation of diluted earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$64,256,000 (2006: HK$84,529,000) and the weighted average number of ordinary shares of 2,666,152,668 (2006: 1,840,937,892, as adjusted to reflect the open offer on 9 January 2007), being the weighted average number of ordinary shares of 2,663,794,684 (2006: 1,839,310,720, as adjusted to reflect the open offer on 9 January 2007) in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 2,357,984 (2006: 1,627,172) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

(b) *From continuing operations*

Basic earnings per share

The calculation of basic earnings per share from continuing operations attributable to equity holders of the Company is based on the profit for the year from continuing operations attributable to equity holders of the Company of approximately HK$180,084,000 (2006 (restated): HK$68,834,000) and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

Diluted earnings per share

The calculation of diluted earnings per share from continuing operations attributable to equity holders of the Company is based on the profit for the year from continuing operations attributable to equity holders of the Company of approximately HK$180,084,000 (2006 (restated): HK$68,834,000) and the denominator used is the same as that detailed above for diluted earnings per share from continuing and discontinued operations.

(c) *Earnings/(loss) per share from discontinued operations*

Basic loss per share from the discontinued operations for the year ended 30 June 2007 is HK4.4 cents, based on the loss for the year from discontinued operations attributable to the equity holders of the Company of approximately HK$115,828,000 and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

The effects of all potential ordinary shares are anti-dilutive for the year ended 30 June 2007.

Basic earnings per share from the discontinued operations for the year ended 30 June 2006 is HK0.9 cent, and diluted earnings per share from the discontinued operations is HK0.9 cent, based on the profit for the year from discontinued operations attributable to the equity holders of the Company of approximately HK$15,695,000 (restated) and the denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

11. Trade receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 150 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:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 30 days	**59,066**	51,527
31 to 60 days	**48,259**	37,201
61 to 90 days	**19,602**	19,369
91 to 120 days	**5,576**	11,030
121 to 365 days	**10,348**	5,609
	142,851	124,736

12. Trade payables

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within 30 days	**34,649**	12,771
31 to 60 days	**11,266**	458
61 to 90 days	**5,438**	3,279
91 to 120 days	**509**	1,323
121 to 365 days	**10,535**	–
Over 1 year	**4,430**	–
	66,827	17,831

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

The growth of profit from operating activities of the Group was mainly attributed to an increase in the sales volume and the reduced average cost of production of coal related chemical products including both PVC raw materials and vinyl acetate. During the year, as the macro-economic environment was healthy and the GDP of people in the PRC increased, the demand in PVC consumption also increased which enabled the Group to achieve satisfactory financial results. Moreover, the enhancement of quality and service standard of vinyl acetate business enables the Group to maintain the relationship with the loyal customers and attain optimisation of production facilities to lower the cost of production aiming at increasing its competitiveness.

For the year ended 30 June 2007, the Group recorded net profit attributable to shareholders of HK$64.3 million. Excluding the loss contributed from the discontinued petroleum refined products business attributable to shareholders of HK$89.4 million and the loss on the disposal of such business of HK$48.4 million (before release of exchange reserve of HK$22.0 million), the adjusted net profit attributable to shareholders amounted to HK$180.1 million.

During the year under review, excluding the loss contributed from the discontinued petroleum refined products business, the Group attained a significant growth of net profit attributable to shareholders of 162% over the corresponding period of the previous year. The net profit attributable to shareholders, excluding the profit contributed from the discontinued petroleum refined products business, for last year was HK$68.8 million.

Business Review

Coal related chemical products division

The high contribution to the growth of profit of the Group of both PVC and vinyl acetate were mainly the result of the competitive advantage of using coal related production methodology other than using the petroleum related production methodology during high crude oil price period, the effective cost control over material consumption in production cycles and the appealing cutback in bulk purchase of main raw materials.

PVC

Since September 2005, the Group has been operating the PVC production. During the year under review, the PVC segment recorded a turnover of approximately HK$507,647,000 representing a significant increase of 56.6% (based on monthly proportional adjustment: nine months in last year and twelve months in this year) over the corresponding period of the previous year. Operating profit of approximately HK$146,993,000 represented a significant increase of 185.8% (based on monthly proportional adjustment: nine months in last year and twelve months in this year) over the corresponding period of the previous year. The increase in turnover is mainly due to the increase in production quantities by 50% through proper stock management, striking the balance between bulk purchase of raw materials for better price and keeping minimum safety stock for production. The growth in operating profit is owing to both of the better economy of scale and efficient stock management.

Vinyl acetate

The Group commenced the development of coal related chemical sector since 2004, with vinyl acetate being its first coal related chemical project. During the financial year, turnover was approximately HK$296,073,000, representing a significant increase of 30.5% over approximately HK$226,900,000 in last year. Operating profit was approximately HK$95,524,000, representing a significant increase of 33.1% over approximately HK$71,779,000 in last year. The increase in turnover and operating profit was the result of the fact that the production facility was running at full capacities to fulfill sales orders received from institutional manufacturers.

Bio-chemical products division

The Group successfully acquired Better Day Bio-Chem Technology Ltd., which is the owner of 60% of the equity interest in the Mudanjiang Gaoke Bio-Chem Co., Ltd. ("Mudanjiang Gaoke") by entering into a share purchase agreement on 18 May 2006. The business scope of Mudanjiang Gaoke is the production and sale of glucose and starch. On 16 August 2006, the Group formally took over the assets and related operations of Mudanjiang Gaoke. The refurbishment of glucose and starch production lines was successfully completed in August 2006 and November 2006, respectively. The production of glucose and starch is at trial-run stage. During the year under review, the glucose and starch segment recorded a turnover of approximately HK$79,941,000 and an operating loss of approximately HK$31,122,000, respectively. The Group has planned to operate the existing plants at design capacities by the end of year 2007 and the division will start to generate profits to the Group.

Heat and Power division

The Group has completed the acquisition of Mudanjiang Better Day Power Ltd. ("Mudanjiang BD Power") on 8 January 2007. Mudanjiang BD Power is engaged in the generation and supply of power and steam in Mudanjiang, Heilongjiang Province, the PRC. During the year under review, the heat and power segment recorded a turnover of approximately HK$48,711,000 and an operating profit of approximately HK$3,674,000. The objective of the acquisition of Mudanjiang BD Power is to secure a supply of the key input to the production process of the Group. Furthermore, this also enables the Group to lower its cost of production and in turn maintains its competitive advantage in the region.

Petroleum refined products division (discontinued operations)

During the year under review, lubricants and anti-corrosive coating segments achieved turnover of a total of approximately HK$100,775,000 representing a decrease of 65.5% over approximately HK$292,163,000 in last year. Operating loss for the aforesaid segments was approximately HK$103,011,000 during the year under review, while there was a profit of approximately HK$31,353,000 in last year. The financial results were incorporated in the consolidated income statement up to the date of disposal.

Prospects

PVC

The Group has formulated plans to dynamically expand capacity of production of PVC raw materials to pursue a better economy scale of production. The whole expansion project has been approved by the relevant provincial government in respect of production safety and environmental protection. The Group has employed chemical industry design house's expert to work on the detailed design of the aforesaid expansion. The Group has acquired a single piece of industrial land with a site area of approximately 400,000 square metres through the completion of acquisition of Daytech Group Limited on 17 August 2007. The acquired piece of land is planned to house the new production facilities for emulsified PVC, suspension PVC and calcium carbide.

Calcium carbide

The production of vinyl acetate and PVC consumes large amount of calcium carbide as major raw material. The Group has planned to build its own calcium carbide production facilities for internal consumption. It is the target of the Group that approximately 90% of calcium carbide consumption for the production of vinyl acetate and PVC (after expansion) will be fulfilled. This will secure the key raw material and lower the cost for the coal related chemical products division.

Heat and Power

The increase in production capacities of vinyl acetate, PVC, and calcium carbide will in turn provide an opportunity for the heat and power division to expand. Plans have been formulated to build another two new sets of coal powered generation facilities to house the increased aforesaid demand. Provincial government approval has been obtained for such expansion plan. The Group is now working on the detailed design of such expansion. Moreover, application on the preferential tariff on electricity generated and supplied for new PVC and calcium carbide expansion project of the Group have been filed and common view has been reached.

After the completion of the PVC, calcium carbide and heat and power expansion, the Board believes that such move will certainly enhance the profit contribution to the Group and benefit the shareholders as a whole.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Capital Structure

The Group maintained a strong financial position throughout the year under review. The Group financed its operations and business development with internally generated resources and equity funding.

Equity funding

The net proceeds raised by the placement of existing shares and subscription of new shares of the Company by a substantial shareholder announced on 6 April 2006 was approximately HK$118 million. At the date of this announcement, the whole amount was utilised by the Group. At the date of this announcement, approximately HK$72 million was utilised to acquire the glucose and starch business, approximately HK$20 million was utilised to acquire the heat and power business, approximately HK$18 million was utilised as working capital of the Group and approximately HK$8 million was utilised for the acquisition to expand the coal related chemical sector in August 2007.

The net proceeds raised by the placement of existing shares and subscription of new shares of the Company by a substantial shareholder announced on 3 May 2006 was about HK$43 million. At the date of this announcement, the whole amount was utilised by the Group as working capital.

During this financial year, the Company raised funds from the issuance of a total of 1,276,289,000 new shares of which 1,050,770,000 new shares through an open offer of share on the basis of one offer share for every two existing shares; 72,590,000 new shares through the exercise of share options by option holders; and approximately 152,929,000 new shares through the exercise of bonus warrants.

The net proceeds raised by the open offer by issuing 1,050,770,000 offer shares announced on 23 November 2006 was approximately HK$307 million. At the date of this announcement, approximately HK$252 million was utilised by the Group. Among which, approximately HK$145 million was utilised for the establishment of a calcium carbide production facilities, approximately HK$50 million was injected into Mudanjiang Dongbei Gaoxin Chemical Company Limited for the expansion of the production facilities of the PVC business and approximately HK$57 million was utilised as working capital of the Group. At the date of this announcement, approximately HK$55 million for the intended establishment of a calcium carbide production facilities was not yet utilised by the Group.

During this year under review, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$35 million. Subsequent to the year end and before the date of this announcement, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$48 million. At the date of this announcement, the whole amount of approximately HK$83 million for working capital was not yet utilised by the Group.

During this year under review, the net proceeds raised from the exercise of bonus warrants announced on 22 March 2007 was approximately HK$66 million. Subsequent to the year end and before the date of this announcement, the net proceeds raised from the exercise of bonus warrants announced on 22 March 2007 was approximately HK$75 million. At the date of this announcement, the whole amount of HK$141 million for working capital was not yet utilised by the Group.

Internally generated resources

The disposal of Earlsmead Enterprises Limited ("Earlsmead"), a wholly-owned subsidiary of the Company, was announced by the Company on 17 January 2007 and properly approved by its extraordinary general meeting held on 27 February 2007. The estimated net proceeds from the disposal was approximately HK$350 million. At the date of this announcement, approximately HK$347 million was utilised by the Group. Among which, approximately HK$180 million was utilised to acquire the heat and power business and approximately HK$167 million was utilised as working capital of the Group. At the date of this announcement, approximately HK$3 million was not yet utilised by the Group.

Liquidity and Financial Ratios

At 30 June 2007, the Group had total assets of approximately HK$2,148.6 million (30 June 2006: HK$1,200.6 million) which were financed by current liabilities of approximately HK$238.5 million (30 June 2006: HK$70.9 million), non-current liabilities of approximately HK$165.9 million (30 June 2006: HK$1.6 million), minority interests of approximately HK$240.8 million (30 June 2006: HK$113.7 million) and shareholders' equity of approximately HK$1,503.4 million (30 June 2006: HK$1,014.3 million).

At 30 June 2007, the current assets of the Group amounted to approximately HK$682.9 million (30 June 2006: HK$790.4 million) comprising inventories of approximately HK$106.1 million (30 June 2006: HK$85.2 million), trade receivables of approximately HK$142.9 million (30 June 2006: HK$124.7 million), prepayments, deposits and other receivables of approximately HK$263.9 million (30 June 2006: HK$78.8 million), cash and cash equivalents of approximately HK$170.0 million (30 June 2006: HK$501.7 million).

At 30 June 2007, 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 2.9 (30 June 2006: 11.1), 2.4 (30 June 2006: 9.9), 18.8% (30 June 2006: 6.0%) and 26.9% (30 June 2006: 7.2%), respectively.

The financial health of the Group has been maintained at a satisfactory status throughout the year as indicated by the above figures.

Foreign exchange exposure

Although most of the operations were carried out in the PRC in which transactions were denominated in RMB, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of RMB in recent years. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2007.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2007, the Group had 2,110 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.

At 30 June 2007, no share options were outstanding. All the share options granted before year end were either exercised or cancelled during the year.

Subsequent to the balance sheet date, there were 337.0 million share options granted to senior management of the PRC subsidiaries of the Group, out of which 82.4 million share options were exercised in August 2007. As a result, 82.4 million additional ordinary shares of the Company were issued and additional working capital of HK$48.0 million was received.

At the date of this announcement, 254.6 million share options are outstanding. This comprises 86.1 million share options with exercisable period up to 23 July 2010 at the exercise price of HK$0.582 per share and 168.5 million share options with exercisable period up to 23 August 2010 at the exercise price of HK$0.42 per share.

DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2007.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company had reviewed the audited consolidated results of the Group for the year ended 30 June 2007.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has during the year complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, except for the following aspect:

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, both roles are being performed by Ms. Chan Yuk Foebe, the Chairman. In the opinion of Directors, given the scale of operation and the size of the Group, the present arrangement is beneficial to the Company and the shareholders as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

APPRECIATION

I would like to thank our customers, suppliers, bankers, shareholders and others who have extended their invaluable support to the Group, and my fellow Directors, managers and all staff for their considerable contributions to the Group.

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

Hong Kong, 5 October 2007

As at the date of this announcement, Ms. Chan Yuk Foebe, Mr. Chiau Che Kong and Mr. Peng Zhanrong are the executive Directors and Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong, and Mr. Tam Ching Ho are the independent non-executive Directors.